



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

March 31, 2011

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Application of UGI Penn Natural Gas, Inc. for Expedited Review and Approval of the Transfer By Sale of a 9.0 Mile Natural Gas Pipeline, Appurtenant Facilities and Right of Way, located in Mehoopany, PA, and a Related Affiliated Interest Agreement

Docket Nos. A-2010-2213893 &
G-2010-2213894

Dear Secretary Chiavetta:

I am sending the enclosed copy of the **Statement in Support of Joint Petition for Settlement**. Should you have any questions or need additional information, please contact me at (717) 783-6151.

Sincerely,

Charles Daniel Shields
Senior Prosecutor
Office of Trial Staff
PA Attorney I.D. #29363

Enclosure
CDS/edc

cc: Parties of Record
Hon. Dennis Buckley

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2011 MAR 31 AM 10:17
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SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Application of UGI Penn Natural Gas Inc. for approval of the Transfer by Sale of a 9.0 Mile Natural Gas Pipeline, Appurtenant Facilities Right of Way located in Mehoopany, Pennsylvania	:	:	Docket No. A-2010-2213893
Affiliated Interest Filing of UGI Penn Natural Gas, Inc.	:	:	Docket No. G-2010-2213894

**OFFICE OF TRIAL STAFF
STATEMENT IN SUPPORT OF
JOINT STIPULATION IN SETTLEMENT
AMONG OFFICE OF TRIAL STAFF,
OFFICE OF CONSUMER ADVOCATE, AND
UGI PENN NATURAL GAS, INC.**

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TO ADMINISTRATIVE LAW JUDGE DENNIS J. BUCKLEY:

The Office of Trial Staff ("OTS") of the Pennsylvania Public Utility Commission, ("Commission") by and through Senior Prosecutor Charles Daniel Shields and Chief Prosecutor Johnnie E. Simms hereby respectfully submits that the terms and conditions of the foregoing Joint Stipulation in Settlement Among Office of Trial Staff, Office of Consumer Advocate, and UGI Penn Natural Gas, Inc. ("Stipulation") are in the public interest and represent a fair, just, reasonable and equitable balance of the interests of UGI Penn Natural Gas, Inc. ("UGI PNG" or "Company") and its customers. OTS fully supports the Stipulation as being in the public interest and respectfully requests that Administrative Law Judge Dennis J. Buckley ("ALJ Buckley" or "the ALJ") recommend, and the

Commission subsequently approve without modification, the proposed terms and conditions set forth in the Stipulation.¹

1. The parties engaged in lengthy and extensive settlement discussions and as result, UGI PNG, OTS and the Office of Consumer Advocate (“OCA”) have agreed upon the terms embodied in the foregoing Stipulation. The remaining active party, the Office of Small Business Advocate (“OSBA”) is not a signatory to this Stipulation.

2. The Office of Trial Staff is charged with the representation of the public interest in proceedings relating to rates, rate-related services and application proceedings affecting the public interest held before the Commission. Consequently, in negotiated settlements, it is incumbent upon OTS to ensure that the public interest is served and to quantify to what extent amicable resolution of any such proceeding will benefit the public interest. OTS has met that responsibility here and has vigorously represented the public interest at all times during this proceeding.

3. Prior to agreeing to the instant Stipulation, OTS conducted a thorough review of the two subject applications and supporting information, conducted discovery and analyzed the provided responses, produced and distributed direct and surrebuttal testimony, and participated in the settlement discussions among the parties. The provisions of the Stipulation represent a resolution of the major issues raised in this proceeding by OTS and we respectfully submit that its terms and conditions are both just and reasonable. Specifically, the foregoing Stipulation includes important amendments

¹ Of note, the Stipulation does not address any question that may arise regarding whether UGIES has to file an Application for a Certificate of Public Convenience.

to the application for transfer of the pipeline ownership that provide concrete protections and guarantees that benefit UGI PNG's customers and thereby serve the public interest. OTS would also emphasize that the ALJ's and Commission's approval of the foregoing Stipulation would serve to enhance and accelerate the development of the Marcellus shale gas fields to the benefit of the northeastern Pennsylvania's economy.²

4. This proceeding was initiated on December 1, 2010, when UGI PNG filed an Application with the Commission seeking expedited review and approval for the transfer by sale of a 9.0 mile natural gas pipeline, appurtenant facilities and right of way located between Auburn and Mehoopany, Pennsylvania to an affiliated corporate entity, UGI Energy Services, Inc. ("UGIES").³

5. On December 20, 2010, OTS filed a Protest to the Application and accompanying Affiliated Interest Agreement; seeking to have the Commission assign the filing to the Office of Administrative Law Judge. The OTS Protest also provided an identification of a number of issues raised by the proposed ownership transfer that needed

² While noting the inadequacies of the Company's original Application proposal [that did not include the provisions of the foregoing Stipulation], OTS Witness Gruber provided his overall professional opinion that, "OTS is of the firm opinion that the development of the Marcellus shale gas fields is a good idea and that it could benefit the all sectors of the local and state economies." OTS 1-SR, p. 10. The OTS Direct and Surrebuttal Testimony and Exhibit were offered and admitted into the record during the March 16, 2011, hearing in this proceeding. Of further note, the OTS Witness' raised issues that continued safety inspections of the line were of great important and that ratepayers be held harmless from any aspect of the proposal. OTS 1-SR, p. 10. The Stipulation addresses both these matters and provides protections that ensure the safety of the pipeline and financial protection for UGI PNG's customers.

³ As stated in the Application, UGI PNG currently uses the subject pipeline and facilities to transport gas received from Tennessee Gas Pipeline Company and the interconnected gathering system for delivery to a plant owned and operated by Procter and Gamble Paper Products Company and to a number of retail customers. Application, Para. 10.

to be addressed in a formal proceeding in order to ensure that the sale was consistent with and served to benefit the public interest.

6. The OTS Protest noted that while UGI PNG's revenue requirement for the subject pipeline would reduce its rate base and corresponding annual depreciation expense, such reductions would apparently only become effective with the Company's next base rate when such reductions would be incorporated into the ratemaking formula. OTS Protest, page 2.⁴ The OTS Protest also referenced that the proceeds of the sale received by UGI PNG would be offset by the proposed creation of a \$5,000 a month/\$60,000 a year interconnection fee that UGI PNG would be required to pay UGIES. OTS Protest, page 2.⁵ The OTS Protest further raised the possibility that UGIES may impose some future fees on UGI PNG for their use of the pipeline segment. OTS Protest, page 3.⁶

7. On December 21, 2010, the Office of Small Business Advocate ("OSBA") filed an Intervention and Protest to the Application and on January 3, 2011, the Office of Consumer Advocate ("OCA") filed an Intervention and public statement. The matter was assigned to ALJ Buckley on December 29, 2010, and he issued a Prehearing Order on January 4, 2011.

8. In response to the ALJ's Prehearing Order, each party filed a Prehearing Memorandum providing an identification of a number of the issues raised by the filings.

⁴ As noted in this OTS Statement of Support, the Stipulation resolves that OTS issue.

⁵ As noted in this OTS Statement of Support, the Stipulation resolves that OTS issue.

⁶ As noted in this OTS Statement of Support, the Stipulation resolves that OTS issue.

The OTS Prehearing Memorandum reiterated the issues stated in the OTS Protest and further raised the issue of the effect(s) the proposed transfer of ownership would have upon UGI PNG's ratepayers. OTS Prehearing Memorandum, p. 3.

9. Presiding ALJ Buckley conducted the Prehearing Conference in this matter on January 7, 2011, with counsel for the active parties participating. The ALJ issued his post-prehearing Order on January 14, 2011, establishing the procedural schedule and addressing all other matters raised at the Prehearing Conference.

10. As described in the Stipulation, the parties exchanged direct, rebuttal, surrebuttal and rejoinder testimony pursuant to the established schedule. During and subsequent to that time, lengthy and extensive settlement negotiations were conducted among the parties that resulted in the agreement of UGI PNG, OTS and OCA on the terms and conditions for the Stipulation. An agreement in principle was reached prior to March 16, 2011, the date that ALJ Buckley conducted the evidentiary hearing.

11. It is noteworthy to state that OTS considers Commission approval of the terms and conditions of the Stipulation to the same effect as full and complete litigation.

12. OTS agrees and respectfully submits that the terms and conditions of the Stipulation are in the public interest for a number of reasons, including that the settlement incorporates concrete protections and guarantees benefitting both UGI PNG and its customers. Further, it is neither clear or certain that such provisions as negotiated among the signatory parties here would be incorporated into a sales agreement involving a different purchaser. The Stipulation warrants approval by the ALJ and the Commission given that it:

- (a) contains the extremely important assurance that **Commission gas safety personnel can continue to conduct inspections** of the nine miles of pipeline following approval of the ownership transfer;⁷
- (b) provides for an immediate reduction of UGI PNG's rates at an identified amount to remove the subject pipeline from rate base and to reflect the removal of all associated expenses, including depreciation and operating and maintenance expenses. As such, this condition amends the initial application proposal where any such rate reduction would only have become effective at the conclusion of UGI PNG's next base rate case;⁸
- (c) completely eliminates the \$60,000 interconnection fee that UGI PNG would have been required to pay UGIES on an annual basis without in any way affecting UGIES' clear cut responsibility to provide UGI PNG with all necessary access to the pipeline;
- (d) provides for the clear and unequivocal reversion of ownership of the subject pipeline back to UGI PNG in the event that UGIES operates the line so as to prohibit UGI PNG from continuing to provide distribution service to its jurisdictional customers AND specifically identifies and caps the transfer price upon any such reversion of ownership back to UGI PNG;
- (e) provides a guarantee in no uncertain terms that, upon any such reversion of ownership, UGI PNG cannot recover from ratepayers any costs incurred to alter, reconfigure, reverse, or otherwise change the subject pipeline in response to any alterations made by UGIES;

⁷ The importance of this provision cannot be overstated. The matter of the Commission's jurisdiction to inspect gathering pipelines for Marcellus Shale gas is presently the subject of much public discussion and consideration by the Pennsylvania Legislature. Senate Bill 325, Printers' No. 710 is scheduled for Second Consideration on April 5, 2011, and provides, inter alia, that: "The commission shall have the following duties: (1) To investigate a service, act, practice, policy or omission by a pipeline operator to determine compliance with this act. (2) To investigate a pipeline transportation facility to determine if it is hazardous to life or property. (3) To investigate the existence or report of a safety-related condition that involves a pipeline transportation facility. See: Senate Bill 325, PN 710, proposing the creation of Gas and Hazardous Liquids Pipelines Act, at Section 501(a)(1-3).

⁸ OTS considers this voluntary reduction in rates by UGI PNG (as an agreed upon term and condition of a settlement) to raise no "single issue ratemaking" concerns.

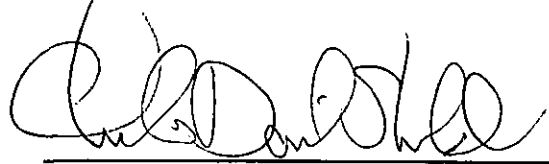
- (f) contains no provision or authorization for UGIES to impose any future fees upon UGI PNG for their use of the pipeline segment, and thus by implication, allows for no such fees;
- (g) serves to enhance and expedite development of the Marcellus shale gas fields in northeastern Pennsylvania to the benefit of the local and state economies by the conversion of an existing pipeline rather than the incurrance of higher expense, lengthy time and extensive effort to construct a new line to transport gas from existing and future wells.

13. It is important to reiterate that it is the express terms and conditions negotiated by OTS and OCA that have been agreed to by UGI PNG and embodied in the foregoing Stipulation, that now justify OTS's support for approval of the Stipulation as being in the public interest. These important OTS & OCA amendments have taken into consideration, and have protected and advanced the interests of not only UGI's large industrial customer Proctor & Gambol, but have also represented the interests of the residential retail customers by ensuring that their continued service is proper, safe and assured; and that their rates will continue to be fair and reasonable per the guarantees and protections found in the Stipulation.

14. In conclusion, the Office of Trial Staff has been thoroughly involved in all aspects of this interesting and challenging proceeding. Any issues raised in the OTS Protest and Prehearing Memorandum or in testimony that have not been specifically addressed in the foregoing Stipulation have been satisfactorily resolved through discovery and/or the results of the settlement discussions with the signatory parties. OTS reiterates that it fully supports the Stipulation as being in the public interest and respectfully requests that Administrative Law Judge Dennis J. Buckley recommend, and the Commission

subsequently approve without modification, the terms and conditions set forth in the foregoing Joint Stipulation in Settlement Among Office of Trial Staff, Office of Consumer Advocate, and UGI Penn Natural Gas, Inc.

Respectfully submitted,



Charles Daniel Shields
Senior Prosecutor
Pa. Attorney I.D. No. 29363

Johnnie E. Simms
Chief Prosecutor
Pa. Attorney I.D. No. 33911

Office of Trial Staff
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Dated: March 30, 2011

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of UGI Penn Natural Gas, :
Inc. for Expedited Review and Approval :
of the Transfer By Sale of a 9.0 Mile : Docket Nos. A-2010-2213893 &
Natural Gas Pipeline, Appurtenant : G-2010-2213894
Facilities and Right of Way, located in :
Mehoopany, PA, and a Related Affiliated :
Interest Agreement :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Statement in Support of Joint Petition for Settlement** dated March 31, 2011, either personally, by first class mail, electronic mail, express mail and/or by fax upon the persons listed below, in accordance with the requirements of § 1.54 (relating to service by a party):

James A. Mullins, Esquire
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