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August 16, 2012

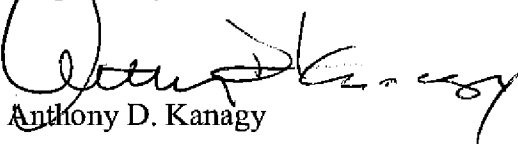
Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
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RE: Pennsylvania Public Utility Commission v. UGI Penn Natural Gas, Inc.
Docket No. R-2012-2302221

Dear Secretary Chiavetta:

Enclosed please find UGI Penn Natural Gas, Inc.'s Reply Brief in the above-referenced proceeding. Copies have been served on all parties as indicated on the Certificate of Service.

Respectfully Submitted,



Anthony D. Kanagy

ADK/skr

Enclosures

cc: Honorable Kandace F. Melillo
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

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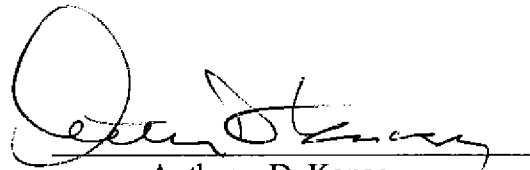
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, ET AL.	:	Docket Nos. R-2012-2302221
	:	C-2012-2304836
v.	:	C-2012-2305783
	:	C-2012-2310661
UGI PENN NATURAL GAS, INC.	:	

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I. INTRODUCTION

Pursuant to the procedural schedule adopted in the proceeding, UGI Penn Natural Gas, Inc. (“PNG”), the Office of Consumer Advocate (“OCA”) and the Office of Small Business Advocate (“OSBA”) filed Main Briefs in this proceeding on August 9, 2012. The Main Briefs addressed the one issue reserved for litigation regarding the sharing of revenues from the release of capacity from Transcontinental Gas Pipe Line Company (“Transco”). PNG hereby files its Reply Brief in response to the OCA and OSBA Main Briefs.

II. SUMMARY OF ARGUMENT

In their Main Briefs, the OCA and OSBA are challenging the application of PNG’s Commission-approved capacity release sharing mechanism to a capacity release transaction that will provide PGC customers with approximately \$1.2 million in savings between now and 2015, even after factoring in the sharing mechanism, and will promote the use of Marcellus gas on the Company’s system. The OCA’s and OSBA’s arguments are contrary to: (1) the plain language of the Company’s Commission-approved tariff which OCA and OSBA agreed in last year’s PNG PGC proceeding to not challenge through November 30, 2016, (2) the Commission’s long-standing practice to encourage natural gas distribution companies (“NGDCs”) to seek out capacity release transactions that will reduce PGC costs, and (3) the Commission’s goals to encourage NGDCs to promote Pennsylvania-produced Marcellus Shale gas.

In its Main Brief, the OSBA argues that PNG’s sharing mechanism should not apply to this transaction because PNG is required to undertake this transaction under its statutory least cost procurement obligation. The OSBA’s argument is contrary to long-standing Commission practice and precedent which holds that capacity release sharing mechanisms are part of, and

fully consistent with, NGDCs' statutory least cost obligations because the mechanisms encourage NGDCs to reduce PGC costs.

In addition, the OSBA argues that the Company's sharing mechanism should not apply to this capacity release transaction because it is not a typical release transaction. According to the OSBA, PNG has retained more capacity than it needs to meet design day demand, and PNG should not be able to apply its sharing mechanism in a situation where it has excess capacity above its design day demand. The OSBA is mischaracterizing this situation. PNG did not seek to have excess capacity so it could simply release excess capacity in the market. Rather, PNG actively sought out ways to reduce PGC costs for customers. Under this transaction, PNG was able to replace 74,000 Dth of existing capacity with a new, substantially less expensive, bundled city gate supply for 40,000 Dth and new, substantially less expensive capacity for the remaining 34,000 Dth that will be less costly for PGC customers than the retention of the pipeline capacity that has or will be released, even after factoring in the effect of the Company's tariff sharing mechanism. It is clear that the Company's capacity release sharing mechanism applies to this transaction.

Moreover, the OSBA's argument that the sharing mechanism does not apply is contrary to the Commission's decision in Equitable Gas Company's ("Equitable") PGC proceeding where, as here, Equitable obtained city gate supplies that displaced higher-cost pipeline capacity, which was then released with Equitable retaining twenty-five percent of the capacity release revenues without any reduction for the commodity charges associated with the replacement supplies. The OCA witness Mierzwa makes the strained argument that Equitable retained twenty-five percent of the net savings because there were no demand charges apparently

associated with the replacement city gate purchases, thereby viewing the entire capacity release revenues as being equivalent to “net savings”. However, this argument makes no sense. Bundled city gate purchases can be priced on a commodity basis, on a demand basis, or some combination of the two. Here in part, PNG happens to be purchasing city gate supplies at a price that includes a demand component, whereas Equitable’s purchases were apparently priced only on a commodity basis, but this is a distinction without a difference. PNG’s city gate purchase could have been cast to be billed on a commodity basis alone. Here, as in Equitable, overall savings result to PGC customers from the purchase of city gate supplies that have a lower cost than the retention of certain pipeline capacity, and when the pipeline capacity is released twenty-five percent of the capacity release revenues, without reduction for commodity or demand costs associated with replacement supplies, is being retained consistent with a Commission-approved tariff revenue sharing incentive mechanism.

In their Main Briefs, the OCA and OSBA also argue that PNG’s sharing methodology is inconsistent with the intent of the sharing mechanisms, which they claim is to provide 75% of the net revenues or profits to PGC customers. The OCA and OSBA’s “intent” arguments cannot be accepted because they are directly contrary to the plain, unambiguous language of the tariff which applies the 75%/25% split to “revenue received” for capacity releases and not to “net revenues” or “profits.” Further, the “net revenues” being sought are not simply “net revenues.” The OCA has argued that “net revenues” as applied to PNG’s transaction are really net demand savings and the 75%/25% split would not apply to commodity savings. The tariff provisions have the force of law and should be interpreted consistent with their plain meaning consistent with statutory interpretation principles. Moreover, even if PNG’s plain tariff language were

considered to be ambiguous, the true intent of the sharing mechanism is to encourage NGDCs to seek out capacity release transactions that save PGC customers costs. Here, PNG sought and found a bundled city gate supply that will replace a higher cost pipeline contract, producing immediate and longer-term savings for PGC customers consistent with the intent of the Commission's policy.

The OCA and OSBA also argue that PNG's revenue sharing methodology is not logical or fair. The OCA and OSBA are incorrect. The OCA and OSBA are attempting to renegotiate a settlement even though PNG sought lower-cost supply alternatives that provide immediate and longer-term savings to PGC customers. The sharing methodology agreed to by the OCA and OSBA in prior PGC settlements (and which they agreed not to challenge through November 30, 2016 in last year's PGC settlement), as applied to this transaction, provides benefits to PGC customers and provides an incentive for PNG to seek out these transactions. This is both logical and fair.

PNG's revenue sharing methodology is consistent with the Commission's precedent in Equitable's 2009 PGC proceeding, fully complies with the Company's Commission-approved tariff mechanism for capacity release and provides the appropriate incentives for NGDCs to seek out these transactions. For the reasons explained herein, in the Company's Main Brief and in the Company's testimony submitted in this proceeding, the Company's revenue sharing methodology for capacity release revenues should be approved.

III. ARGUMENT

A. Burden of Proof

In its Main Brief, the OCA argues that the issue in this proceeding concerns the justness and reasonableness of PNG's rates and, therefore, that PNG bears the burden of proof. OCA MB

at 4. The OCA is mischaracterizing the contested issue in this proceeding. The contested issue in this proceeding is not about rates. Rather the contested issue concerns PNG's Commission-approved tariff provision regarding sharing of capacity release revenues. The OCA further claims that it is challenging the application of the Company's Commission-approved tariff. OCA MB at 10. However, upon a closer review, it is apparent that the OCA is attempting to revise PNG's tariff to require that the 75%/25% split be applied to a new and labored definition of "net revenues" as opposed to "revenue received." In a footnote, the OCA defines the savings as applying to demand charges to the exclusion of commodity savings. In effect, the OCA is arguing that the Company's existing tariff is unreasonable and that it should be modified. Likewise, the OSBA is arguing that the Company's Commission-approved capacity release sharing mechanism should either not apply to this capacity release or be applied to "profits" as opposed to "revenues received."

As explained in the Company's Main Brief, the burden of proving that an existing tariff provision is unreasonable or discriminatory is on the complainant, in this case the OCA and OSBA. *Paul Kossman t/a Kossman Dev. Co. v. Pa. P.U.C.*, 694 A.2d 1147 (Pa. Cmwlth. 1997) ("*Kossman*"). In *Kossman*, the Commonwealth Court further stated as follows:

This burden is very heavy because tariff provisions that have been properly submitted to and approved by the Commission are *prima facie* reasonable. *Shenango Township Board of Supervisors v. Pa. P.U.C.*, 686 A.2d 910, 914 (Pa. Cmwlth. 1996).

Both the OCA and OSBA are proposing to modify the capacity release sharing mechanism in PNG's Commission-approved tariff and have a heavy burden of proving it is unreasonable. The OCA and OSBA have not met their burden of proof.

B. PNG's Sharing Methodology Is Fully Consistent With Its Statutory Least Cost Procurement Obligations.

1. Introduction

In its Main Brief, the OSBA argues that PNG has a least cost procurement obligation under Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318. Further, the OSBA argues that the sharing mechanism should not be applied to this capacity release transaction because PNG is simply meeting its least cost procurement obligation by undertaking the release transactions. OSBA MB at 7. As explained below, the OSBA's argument cannot be accepted. The OSBA misconstrues the least cost procurement obligation under Section 1318 and ignores the Commission's policy to encourage NGDCs to seek out opportunities to reduce PGC costs.

2. The Commission Has Determined That Sharing Mechanisms Are Part Of And Fully Consistent With NGDCs Least Cost Procurement Obligations.

In its Main Brief, the OSBA argues that PNG should not share in the capacity release revenues because PNG is legally obligated to undertake this transaction under its least cost procurement obligation. OSBA MB at 7. The core of OSBA's argument is that NGDCs have an obligation to "engage in all economically profitable transactions to the full benefit of PGC ratepayers" and the Commission should not incentivize these types of transactions. OSBA MB at 8. The OSBA's argument is completely contrary to long-standing Commission precedent. In fact, the Commission has held that capacity release sharing mechanisms are part of an NGDCs least cost procurement obligations because they provide incentives for NGDCs to reduce costs.

In Equitable Gas Company's ("Equitable") 2009 PGC proceeding, the Commission stated as follows:

Our review of the benefits of the TETCO capacity release as described by the ALJs has convinced us that the 75%/25% sharing

mechanism for the release of the TETCO Capacity is part of Equitable's least-cost fuel procurement policy and is just and reasonable. We are specifically persuaded by Equitable's arguments that its proactive fuel procurement plan benefits its customers by approximately \$1.2 million per year. R.D. at 9, Finding of Fact No. 35. Further, Equitable's unneeded capacity on the TETCO line is due to its purchase of less-expensive local gas. *Id.* at 10, Finding of Fact No. 38. This procurement strategy advances the Commission's policy to promote the development of Pennsylvania gas. *See, 52 Pa. Code § 60.1.* Approval of the 75%/25% sharing mechanism is appropriate considering the evidence of this proceeding as the denial of the sharing could serve as a disincentive to our jurisdictional natural gas distribution companies to take advantage of lower cost Pennsylvania gas supplies. This is particularly compelling given the growing development of the Marcellus Shale gas field.

Pa. P.U.C. v. Equitable Gas Company, Docket No. R-2009-2088072, et al., 2010 Pa. P.U.C. LEXIS 1397 *13-*14, Order entered November 4, 2010 ("*Equitable*"). *See also, Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-00943029, et al., 1994 Pa. P.U.C. LEXIS 139, Order entered September 30, 1994 (rejecting the OCA's argument that a capacity release sharing mechanism violates Sections 1307(f) and Section 1318 of the Public Utility Code).

As explained above, the Commission has held that NGDC sharing mechanisms are part of and consistent with an NGDC's least cost procurement obligation.

3. PNG's Sharing Mechanism Applies To This Release Transaction

In its Main Brief, the OSBA argues that the Company's capacity release sharing mechanism should not apply to this transaction because it is fundamentally different than a typical capacity release transaction. OSBA MB at 8. According to the OSBA, PNG is acquiring excess capacity and then attempting to share in the benefits of releasing such capacity. OSBA MB at 8. Further, the OSBA argues that application of sharing mechanism should be limited to

circumstances where an NGDC releases capacity that it has retained to meet design day demand. OSBA MB at 8. For the reasons explained herein, the OSBA's argument should not be accepted.

PNG's tariff does not distinguish between: (1) a capacity release transaction where PNG acquires new, substantially less expensive city gate supplies or capacity and is able to release more expensive capacity into the market, and (2) a capacity release transaction that does not involve the acquisition of new city gate supplies or capacity. Moreover, neither the OSBA nor the OCA have cited to any language in PNG's tariff making this distinction. It is clear that the tariffed sharing mechanism applies to both situations. The only relevant criterion is whether the release transaction produces savings for customers.

The OSBA characterizes this transaction as one where PNG "acquired" excess capacity and then argues that sharing mechanisms were not intended to allow NGDCs to retain excess capacity and share in the benefits. OSBA MB at 8. The OSBA is mischaracterizing this transaction. This is a situation where PNG sought out and found an opportunity to acquire substantially less expensive city gate supplies and capacity to displace more expensive existing pipeline capacity, thereby creating cost savings for PGC customers, even after factoring in PNG's retention of a share of the capacity release revenues consistent with revenue sharing incentive mechanism provisions of PNG's Commission-approved tariff. See PNG St. No. 2, pp. 10-11; PNG Exhibit DCB-3. The OSBA's attempts to characterize this situation as one where PNG simply acquired excess capacity in order to generate sharing revenues is incorrect and should not be accepted.

Moreover, the OSBA's argument that the sharing mechanism should not apply to this release transaction is inconsistent with the Commission's decision in the *Equitable* proceeding.

Therein, Equitable was able to acquire local supply that caused it to have excess capacity above its design day demands. *See Equitable* at *13. In the *Equitable* decision, the Commission approved the application of Equitable's 75%/25% sharing mechanism to the revenues received from the capacity release. PNG St. No. 3-RJ, p. 7. The OSBA's argument that sharing mechanisms do not apply to situations where NGDCs have capacity above that needed to meet design day demand is incorrect and contrary to the *Equitable* decision.

4. This Capacity Release Transaction Meets The Statutory Least Cost Standards.

As noted above, PNG has a least cost fuel procurement obligation under Section 1318, 66 Pa. C.S. § 1318, and the Commission has held that capacity release sharing mechanisms are part of a least cost procurement obligation. There is no doubt that this transaction is fully consistent with PNG's least cost procurement obligations.

As explained in PNG's Main Brief, PNG actively sought alternatives to renewing its existing capacity contracts that will expire in 2015. As a result of its actions, PNG will save PGC customers approximately \$30 million between 2015 and 2020. PNG MB at 7. In addition, due to the purchase of new, substantially less expensive city gate supply and capacity between now and 2015, PNG is also able to save PGC customers an additional \$1.2 million, even after considering the impacts of the sharing mechanism. PNG MB at 7. It is clear that PNG is meeting its statutory least cost obligations, and that this capacity release transaction is consistent with the statutory standards.

C. PNG's Tariff Does Not Contain A Netting Provision For Sharing Capacity Release Revenues.

In its Main Brief, the OCA argues that the Company's revenue sharing mechanism applies to "net" revenues. OCA MB at 7. The OCA argues that the netting should be applied

such that the 75%/25% sharing mechanism is applied to the capacity release revenues minus the cost of replacement capacity. OCA MB at 8. Likewise, the OSBA argues that if the sharing mechanism applies, the Commission should adopt the OCA's "netting" approach. OSBA MB at 9. PNG's tariff does not provide for "netting" of capacity release revenues. PNG MB at 9-11.¹

As explained in the Company's Main Brief, the Company's capacity release sharing mechanism is applied to **revenue received** and there is no tariff language that allows the Company to "net" capacity release revenues against any additional costs or savings. PNG MB at 8-11. The Company's tariff does have a specific netting provision for off-system sales. However, that provision clearly does not apply to capacity release transactions. If the netting provision applied to capacity release transactions, the capacity release provision of PNG's tariff would include specific netting language.

Moreover, the OCA is not proposing a true "netting" proposal where all costs and savings are netted together. Rather, the OCA is proposing a very specific "netting" proposal whereby capacity release revenues are only to be netted against the cost of replacement supplies or capacity that have a demand charge component, without considering other costs or savings. OCA MB at 8, 14. For example, on page 14, in footnote 7, the OCA states:

Mr. Mierzwa's position has always been that the calculation of net savings is only with respect to demand charges, not demand charges *plus* commodity charges.

This demonstrates that the OCA netting proposal is a complex proposal that would require specific tariff language to implement. This language is not included in PNG's current tariff. See PNG MB at 8-11; PNG Exhibit SMH-RJ-1.

¹ PNG addressed the OCA's and OSBA's "netting" argument in the Company's Main Brief and is summarizing its response herein so as to avoid repetition.

D. PNG's Capacity Release Sharing Methodology Is Consistent With The Intent Of The Revenue Sharing Mechanism.

In their Briefs, the OCA and OSBA argue that PNG's revenue sharing methodology is inconsistent with the intent of the revenue sharing mechanism. OCA MB at 8; OSBA MB at 9. According to the OCA and OSBA, the intent is that customers receive 75% of the "net revenues" or "profit" associated with a capacity release transaction. PNG disagrees with these arguments.

The OCA and OSBA argument regarding "intent" is inconsistent with the plain language of PNG's tariff. As explained above, the tariff language is clear that the 75%/25% sharing mechanism is applied to "revenue received" for capacity releases. Exhibit PNG SMH-RJ-1; PNG MB at 8. The tariff does not state that the 75%/25% sharing mechanism is to be applied to "profit" as the OSBA states or to the strained and illogical interpretation of "net revenues" as advocated by the OCA. OSBA MB at 9; OCA MB at 7.

In addition, when the tariff language is clear, there is no reason to look at intent. See, e.g., Rules of Statutory Construction, 1 Pa. C.S. § 1921(b), "when the words of a statute are clear and free from all ambiguity, the letter of it is not to be disregarded under the pretext of pursuing its spirit." In its Main Brief, the OCA further states that to the extent the tariff language is ambiguous, any ambiguity is to be interpreted against the drafter. OCA MB at 11. Contrary to OCA's assertions, the tariff is clear and unambiguous. The tariff clearly states that, with respect to sharing of capacity release revenues, the 75%/25% sharing mechanism is to be applied to "revenue received" and does not provide that it will be applied to "net revenues" or "profits."

Moreover, even if one looked at intent, the true intent of the capacity release sharing mechanism is to encourage PNG to seek out transactions that reduce costs for PGC customers. *See Equitable* at *14. As explained above, PNG has sought out capacity release transactions that

save costs for PGC customers. Further, this transaction will promote the use of Marcellus Shale gas. See PNG MB at 14; OCA MB at 2-3. This transaction is fully consistent with the intent of the capacity release sharing mechanism. See *Equitable* at *13-*14.

E. PNG's Capacity Release Sharing Methodology Is Logical And Fair.

Both the OCA and OSBA argue that PNG's capacity release sharing methodology is not logical or fair because it allows PNG to retain more of the benefit, under certain scenarios, than customers. OCA MB at 16; OSBA MB at 9. PNG disagrees with the OCA and OSBA contention that the capacity release methodology is illogical or unfair.

In this proceeding, PNG's witness, Mr. Hart, explained that the application of the revenue sharing mechanism did not produce an illogical result, stating as follows:

Q. On pages 4 and 5 of his surrebuttal testimony Mr. Mierzwa presents a hypothetical example and claims that the application of a RSIM mechanism results in "an illogical result." Do you agree?

A. No. First, I would note that the hypothetical example is not under review in this proceeding. Under the actual PNG transaction under review, PNG's PGC customers, even after the effects of the RSIM, are receiving the substantial benefits shown on Exhibit Nos. PNG-DCB-3 and PNG-DCB-4 to Mr. Beasten's testimony during the remaining term of the Transco contract being released, as well as substantial savings that will occur after that contract ends and PGC customers no longer have responsibility for demand charges associated with the contract. PNG has worked diligently to reduce gas costs for PGC customers and to increase its reliance on Marcellus supply. This hypothetical does little more than detract from PNG's efforts in this regard.

Nonetheless, under the example posited by Mr. Mierzwa, there would be a net benefit to PGC customers, including the effects of a RSIM, in acquiring a replacement pipeline supply which necessitates the release of an existing contract into the secondary market to offset remaining liabilities for demand charges associated with the higher cost pipeline capacity. The fact that the RSIM would reduce the flow back of capacity release revenues does not make the result "illogical". Instead it reflects the operation of an incentive mechanism designed to ensure that natural gas distribution companies have the proper incentives to seek out capacity

release transactions that reduce PGC rates and save PGC customers money.

The application of the capacity release mechanism to this transaction produces savings to customers while at the same time providing the appropriate incentive for PNG to seek out these types of transactions. The application of the capacity release mechanism to this transaction also honors the terms of the settlement language from PNG's 2011 PGC to which the OCA and OSBA were both parties. This is both logical and fair.

F. PNG's Capacity Release Sharing Methodology Is Consistent With The Equitable Decision.

In its Main Brief, the OCA argues that its "net revenue" sharing methodology is consistent with the Equitable decision. On page 14, in footnote 7, the OCA states as follows:

In the Equitable proceeding, Equitable was entitled to retain 25 percent of the **net reduction** in demand charges attributable to the release of capacity. However, unlike the instant proceeding, there were no incremental demand charges associated with the release of capacity by Equitable.

(Emphasis supplied.)

The OCA incorrectly argues that its "netting" proposal is consistent with Equitable, and it appears that the OCA is attempting to adopt a very strained interpretation of the Equitable decision and PNG's plain tariff language to circumvent its agreement in last years' PNG PGC settlement to not challenge PNG's sharing mechanism before November 30, 2016. As explained in PNG's Main Brief, Equitable did not "net" any costs or savings against the capacity release revenues it received. PNG MB at 12-13. Equitable retained 25% of the actual capacity release revenues it received, and this is consistent with how PNG applied its revenue sharing mechanism. The OCA's argument that Equitable "netted" demand revenues is incorrect and should not be accepted.

G. PNG's Capacity Release Sharing Methodology Provides The Appropriate Incentives For NGDCs To Seek Out Release Transactions That Save Costs For PGC Customers.

To the extent intent is relevant to the interpretation of PNG's unambiguous revenue sharing incentive mechanism tariff provisions, the OCA and OSBA fail to recognize that the primary purpose of a revenue sharing mechanism is to encourage NGDCs to seek out capacity release transactions that save costs for PGC customers. *Equitable* at *13-*14. This is why the Commission has adopted revenue sharing mechanisms for the major NGDCs in Pennsylvania, and why the Commission permitted *Equitable* to retain twenty-five percent of capacity release revenues associated with its release of pipeline capacity.

In its Main Brief, the OCA completely misstates PNG's witness with regard to this issue, stating as follows:

Indeed, the Company itself states that without such incentives, it may "not seek opportunities at all for PGC customers to save," despite the fact that the Company has a statutory least cost gas procurement obligation.

OCA MB at 18.

The OCA has completely mischaracterized PNG's witness, Mr. Hart's, testimony and this mischaracterization should not be accepted. Mr. Hart did not say that PNG may not seek out opportunities but spoke about providing appropriate incentives for NGDCs in general. See PNG St. No. 3-R, p. 6. Providing appropriate incentives to NGDCs is, in fact, one of the policy reasons for adopting capacity release sharing mechanisms. See *Equitable* at *14. NGDCs should have the proper incentive to seek out such transactions.

PNG will continue to seek out ways to reduce costs for PGC customers consistent with its statutory obligations. However, the Commission should continue to provide the appropriate

incentives for NGDCs to reduce PGC costs, consistent with the Commission's long-standing practice, and attempts to subvert this long-established policy through strained re-interpretations of plain and unambiguous tariff provisions should be rejected.

H. The OCA And OSBA Should Not Be Able To Challenge The Company's Commission-Approved Capacity Release Mechanism In This Proceeding.

As explained by the Company's witness, Mr. Hart, PNG proposed its existing tariff capacity release sharing mechanism in its 2011 PGC proceeding. PNG St. No. 3-R, p. 7. Therein, the Company proposed that its sharing mechanism, as is currently set forth in the Company's tariff, would remain in effect through November 30, 2016. This proposal was not opposed by any party, including the OCA and OSBA.

In this proceeding, both the OCA and OSBA are proposing to modify the Company's capacity release sharing mechanism so that it would apply to a contrived interpretation of "net revenues" or "profits" as opposed to "revenue received." This is contrary to the agreement in last year's PGC proceeding, and the OCA and OSBA should not be permitted to propose changes to PNG's capacity release sharing mechanism until November 30, 2016.

I. The OSBA's Hypothetical Example Is Not Under Review In This Proceeding.

In its Main Brief, the OSBA poses a hypothetical example under which it claims that PNG would forego a least cost procurement opportunity. OSBA MB at 10-12. It is important to note that the example cited by the OSBA is a purely hypothetical example with no basis in actual fact, and any issues associated with the hypothetical example are not currently before the Commission and do not need to be decided here.

The actual transaction before the Commission in this proceeding involves a situation where there are real immediate and long-term savings to PGC customers, even considering the

effects of the capacity release revenue sharing incentive mechanism. Moreover, the transaction will result in the enhanced use of Marcellus Shale gas, which is a less expensive alternative to existing pipeline capacity contracts.

IV. CONCLUSION

WHEREFORE, for the foregoing reasons, UGI Penn Natural Gas, Inc. requests that Administrative Law Judge Kandace F. Melillo and the Pennsylvania Public Utility Commission:

1. Deny the Office of Small Business Advocate's argument that the Company's revenue sharing mechanism should not apply to the capacity release transaction at issue in this proceeding.

2. Deny the Office of Consumer Advocate's and Office of Small Business Advocate's attempts to modify the Companies' capacity release sharing mechanism to include a provision for "netting" revenues.

3. Find that UGI Penn Natural Gas, Inc.'s existing capacity release sharing mechanism will continue as it is set forth in the Company's tariff, without modification, through November 30, 2016.

4. Approve the Company's proposed rates in this proceeding to become effective on December 1, 2012, along with the provisions included in the Stipulation in Partial Settlement of Section 1307(f) Rate Investigation.

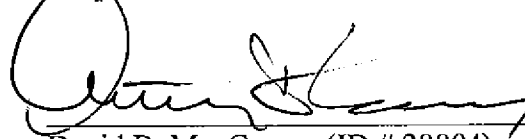
5. Mark the Complaint of the Office of Consumer Advocate, docketed at Docket No. C-2012-2304836, as closed.

6. Mark the Complaint of the Office of Small Business Advocate, docketed at Docket No. C-2012-2305783, as closed.

7. Dismiss the Complaint of George Keener, docketed at Docket No. C-2012-2310661.

8. Mark Docket No. R-2012-2302221 as closed.

Respectfully submitted,



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