



Four Penn Center
1600 John F Kennedy Blvd.
Philadelphia, PA 19103
215-587-1000 Main
215-587-1444 Fax
www.postschell.com

David B. MacGregor

dmacgregor@postschell.com
215-587-1197 Direct
215-320-4879 Fax
File #: 2270/151134

January 3, 2013

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

**RE: Pennsylvania Public Utility Commission, Bureau of Investigation and Enforcement
v. UGI Utilities, Inc.
Docket No. C-2012-2308997**

Dear Secretary Chiavetta:

This letter responds to the letter filed by Hon. Ed Palowski, Mayor of the City of Allentown (the "City of Allentown"), to "join" the Exceptions filed by Intervenor Manuel E. Cruz, as Administrator of the Estates of Katherine Cruz and Ofelia A. Ben, and Manuel E. Cruz, Individually (hereinafter, collectively "Intervenor"), in the above-captioned proceeding. Through its letter, the City of Allentown seeks to "join" Intervenor's effort to oppose the 14-year cast iron main replacement program agreed to in the Settlement agreement between UGI Utilities, Inc. – Gas Division ("UGI" or the "Company"), UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. (collectively, the "UGI Companies") and the Pennsylvania Public Utility Commission's ("Commission") Bureau of Investigation and Enforcement ("I&E").

In its letter, the City of Allentown recommends that UGI be required to adopt a 10-year cast iron main replacement program. For the reasons discussed below, as well as those previously explained in the Replies to Exceptions, Answers to Intervenor's Petition for Remand, and Answers to Intervenor's Request for Oral Argument filed by both UGI and I&E, the City of Allentown's proposal should not be adopted and the Initial Decision of Administrative Law Judge David A. Salapa approving the Settlement should be approved.

The February 9, 2011 incident was a traumatic event for the victims and their families, neighborhood residents, first responders, and the entire City of Allentown. UGI realizes that it is incumbent on the Company to strive to enhance its system to ensure that it continues to provide safe and reliable service to customers. UGI remains deeply saddened that injuries and loss of life

occurred, and continues to offer its sincere sympathies and support to all those impacted by this tragic event.

I&E and UGI have undertaken an extensive investigation of the events related to the February 9, 2011 incident, as well as the history of incidents on UGI's cast iron mains. As a result of this investigation, I&E and UGI reached a Settlement designed to help the UGI Companies enhance the safety and reliability of service and to satisfy the commitments that I&E has required in the settlement process. The Settlement provides significant public benefits to all customers and communities within the service territories of the UGI Companies, including significant acceleration of the UGI Companies' pipeline replacement programs, enhanced odorant testing programs, and the installation of fixed odorant level monitoring equipment and fixed odorizers, as well as a 24-month stay-out period under the Distribution System Improvement Charge rate mechanism. The City of Allentown has focused on only a single element of this comprehensive Settlement and advocates that the Commission require UGI to implement a 10-year cast iron replacement program rather than the 14-year program contemplated by the Settlement.

In making its argument for acceleration of the replacement program, the City of Allentown relies on a Safety Recommendation issued in 1992 by the National Transportation Safety Board ("NTSB") related to the explosion that occurred in 1990 at 421-423 North Fifth Street, Allentown, Pennsylvania. Such reliance is misplaced for a number of reasons. First, the Safety Recommendation issued in 1992 was not the final recommendation adopted by the NTSB. In response to the Pipeline Accident Brief (No. DCA90FP001) for the explosion that occurred in 1990 at 421-423 North Fifth Street, UGI proposed modifications to its cast iron main replacement program. This program was accepted by the National Transportation Safety Board in 1997 and the matter was marked closed at that time. Second, the City of Allentown overlooks that since 1997, when the NTSB accepted UGI's cast iron main replacement program, UGI experienced only 1 reportable incident attributable to material failure on its cast iron system prior to the February 9, 2011 incident. Finally, the City of Allentown fails to recognize that, as demonstrated by the allegations set forth in its Complaint, I&E had full knowledge of the reports and findings of the NTSB when it entered into the Settlement with UGI. (*See* I&E Complaint, ¶¶ 32-39.)

Moreover, to the extent such request is made only for the Allentown portion of UGI's service territory, establishment of a separate, shorter cast iron main replacement is simply not consistent with good public policy. Differentiation based on anything other than engineering judgment and experience, supported by technical requirements, would undermine basic principles of safety within a service territory and subject both the Commission and the utility to communities "lobbying" for a particular outcome for their portions of UGI's service territory, to the potential detriment of other communities. Indeed, under such a scenario, any reassignment of the limited resources available to replace cast iron mains could delay the replacement of higher priority projects in other parts of UGI's service territory. It is difficult to understand how such a deviation from established risk criteria applicable to the Company's entire service territory could be justified.

Any settlement represents a balancing of interests and must be considered as a whole. Here, the City's position disregards all of the other concessions made by the UGI Companies in this proceeding that benefit their customers, the City of Allentown, and the general public. The 14-year replacement period agreed to in the Settlement reflects a very substantial acceleration in main replacement. As discussed in the UGI Companies' Statement in Support, the 14-year program substantially shortens the approximate historic replacement trend for UGI cast iron by 36 years, or by approximately 72 percent. As compared to UGI's more recent 20-year pace of cast iron replacement, the 14-year program will even more materially accelerate the replacement of aging cast iron mains. It also reflects a substantially faster replacement schedule than other similarly situated gas utilities.

Further, the City of Allentown fails to recognize that the timing of main replacements is a complex issue involving significant and important policy considerations. The risk criteria for maintenance and replacement of cast iron pipelines are set forth in UGI's Gas Operations Manual. (*See* UGI Answer to Complaint, Appendix A.) As set forth therein, the UGI Companies utilize engineering judgment and experience assisted by, among other tools, its current main replacement program, OPTIMAIN. OPTIMAIN is programmed to consider a variety of factors for maintenance and replacement of cast iron pipelines, including, but not limited to, the size of the main, changing environmental variables, and proximity of the pipe to excavation activity. As further explained in UGI Companies' Statement in Support, the time frames for cast iron main replacement set forth in the Settlement should also be considered in the context of the current infrastructure construction environment, including existing heightened demand for qualified resources. From a planning perspective, both the UGI Companies and the construction community must have sufficient time to bring on and train additional resources necessary to execute the accelerated main replacement with high quality and consistency. The UGI Companies believe that the accelerated, well-considered time frames set forth in the Settlement are appropriate to enable the UGI Companies and necessary contractors to obtain and properly train and coordinate the resources required to replace the infrastructure in a safe and efficient manner.

Finally, it must be remembered that the 14-year cast iron main replacement program set forth in the Settlement is a maximum replacement period. UGI will effectuate its cast iron main replacement program in accordance with sound engineering judgment, as supplemented by the risk assessment prioritization methodology within the UGI Companies' OPTIMAIN program. It is possible that this prioritization will result in completion of cast iron main replacement in the City of Allentown in a period less than the 14 year maximum; in any event the Company's program is intended to protect all customers and communities by focusing attention on replacement of the highest priority mains throughout the applicable service territory. Therefore, the UGI Companies urge the Commission not to adopt the City of Allentown's proposal as a requirement.

A fair and reasonable compromise has been achieved in this case. The Settlement, if approved, provides significant public benefits to all customers and communities within the service territories of the three UGI Companies. Both I&E and the UGI Companies fully support the

Secretary Chiavetta
January 3, 2013
Page 4

Settlement, including the 14-year replacement of all cast iron mains, and the important public benefits the replacement program will provide.

For the reasons explained above, as well as those previously explained in the Replies to Exceptions, Answers to Intervenor's Petition for Remand, and Answers to Intervenor's Request for Oral Argument, the UGI Companies respectfully request that the Commission reject the City of Allentown's proposal and approve the Settlement in its entirety, without modification.

Respectfully submitted,



David B. MacGregor

DBM/skr

cc: Honorable David A. Salapa
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).

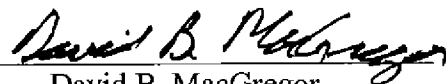
VIA EMAIL AND FIRST CLASS MAIL

Christian M. Perrucci
Florio Perrucci Steinhardt & Fader
60 West Broad Street, Suite 102
Bethlehem, PA 18018

Adam D. Young
Stephanie Wimer
PA Public Utility Commission
Law Bureau
Commonwealth Keystone Building
400 North Street, 3rd Floor West
P.O. Box 3265
Harrisburg, PA 17105-3265

Ed Pawlowski, Mayor
City of Allentown
435 Hamilton Street
Allentown, PA 18101-1699

Date: January 3, 2013



David B. MacGregor