



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

IN REPLY PLEASE
REFER TO OUR FILE

August 16, 2013

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

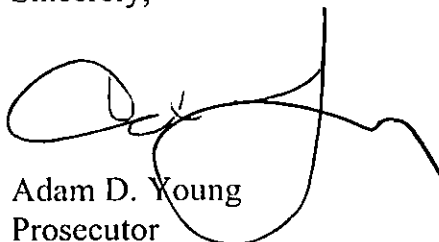
Re: Pennsylvania Public Utility Commission, Bureau of Investigation and
Enforcement v. UGI Penn Natural Gas, Inc.
Docket No. M-2013-2338981

Dear Secretary Chiavetta:

Enclosed for filing please find the original of the Settlement Agreement and accompanying Statements in Support of the Bureau of Investigation and Enforcement (Appendix A) and UGI Penn Natural Gas, Inc. (Appendix B) relative to the above-captioned proceeding. Also enclosed, as Appendix C, is a document that sets forth the scope of an audit, which is addressed in the Settlement Agreement in this proceeding. Copies of this filing have been served in accordance with the attached Certificate of Service.

Should you have any questions, please do not hesitate to contact me.

Sincerely,



Adam D. Young
Prosecutor
PA Attorney ID No. 91822

Enclosures

cc: As per Certificate of Service

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3. Section 501(a) of the Code, 66 Pa.C.S. § 501(a), authorizes and obligates the Commission to execute and enforce the provisions of the Code.

4. The Commission has delegated its authority to initiate proceedings that are prosecutory in nature to I&E and other bureaus with enforcement responsibilities. *Delegation of Prosecutory Authority to Bureaus with Enforcement Responsibilities*, Docket No. M-00940593 (Order entered September 2, 1994), as amended by Act 129 of 2008, 66 Pa.C.S. § 308.2(a)(11).

5. UGI-PNG is a jurisdictional natural gas public utility as defined by 66 Pa.C.S. § 102 and is engaged in, *inter alia*, the provision of public utility service for compensation as a provider of natural gas transmission, distribution and supplier of last resort services throughout its certificated service territory.

6. Section 3301 of the Code, 66 Pa.C.S. § 3301, authorizes the Commission to impose civil penalties on any public utility or on any other person or corporation subject to the Commission's authority for violations of the Code, Commission regulations or both. Section 3301 further allows for the imposition of a separate fine for each violation and each day's continuance of such violation(s).

7. Pursuant to Sections 331(a) and 506 of the Public Utility Code, 66 Pa.C.S. §§ 331(a) and 506 and Section 3.113 of the Commission's Practice and Procedure ("Regulations"), 52 Pa. Code § 3.113, Commission staff has the authority to conduct informal investigations or informal proceedings in order to gather data and/or to substantiate allegations of potential violations of the Commission's regulations.

8. This matter concerns an informal investigation initiated by I&E prosecutory staff at the request of the I&E Gas Safety Division ("GSD"). The GSD's initial investigation of UGI-PNG's Wilkes-Barre Route 309 incident suggested that further

investigation be conducted. The GSD needed to determine if there was a systemic issue with UGI-PNG regarding leak surveys and other documentary deficiencies, as well as deficiencies in management and pipeline repair practices.

9. As a result of negotiations between UGI-PNG and I&E (hereinafter referred to collectively as “Parties”), the Parties have agreed to resolve their differences as encouraged by the Commission’s policy to promote settlements. *See* 52 Pa. Code § 5.231. The duly authorized Parties executing this Agreement agree to the settlement terms set forth herein and urge the Commission to approve the Agreement as submitted as being in the public interest. Statements in Support of the Settlement Agreement have been attached hereto by PUC I&E and UGI-PNG as Appendix A and Appendix B, respectively.

II. BACKGROUND

A. Wilkes-Barre Route 309 Incident:

10. On April 4, 2012, a 911 dispatcher called UGI-PNG to report the odor of gas. UGI-PNG dispatched a first responder to 460 Wilkes-Barre Township Boulevard, also known as Pennsylvania Business Route 309. The responder performed a leak investigation and graded the leak as an “A” leak.¹

11. In grading the leak as “A,” the responder did not provide other information that is requested on UGI-PNG’s leak form, such as the pressure of the main, the time of the leak investigation or other tracking information. On the leak form, the responder indicated that the location of the pipe was “other” and the type of cover was “soil.” The

¹ UGI-PNG procedures define an “A” leak as a leak that is non-hazardous at the time of detection and can be reasonably expected to remain non-hazardous.

precise location of the pipe was later determined to be beneath Wilkes-Barre Township Boulevard and the cover was “asphalt.”

12. On May 12, 2012, an employee of a convenience store/gas station located at 464 Wilkes-Barre Township Boulevard called the UGI-PNG service center to report the odor of gas. A UGI-PNG responder arrived at the location, performed an investigation and concluded that he had located a “C” leak.² The leak record indicated the presence of elevated concentrations of gas in several bar holes along the road and in a sanitary sewer manhole located in the road approximately 20 feet west of the convenience store/gas station parking lot.

13. The pipeline with the leak at 464 Wilkes-Barre Township Boulevard was a 10 inch, unprotected, coated steel, high pressure distribution main operating at 320 Pounds per Square Inch (“PSI”). It was originally installed in 1961. The pipeline was located approximately 15 feet south of the northern edge of the pavement.

14. Later, on May 12, 2012, UGI-PNG obtained a Pennsylvania One Call System, Inc. (“POCS”) emergency ticket, evaluated the equipment, tools, supplies and other resources needed to repair the leak, and mobilized resources to repair the leak. To manage the leak to allow for the welding of a Dresser 220 full encapsulation clamp, UGI-PNG installed three 10 inch diameter, Mueller full seal style 500 clamps side by side along the pipe. However, this repair option was abandoned because the available encapsulation clamp was insufficiently sized to allow for welding onto the pipe. Leak monitoring bar test holes were drilled in the road. It was decided the matter would be referred to UGI-PNG Area Engineering to evaluate replacement options or to provide an alternative repair solution.

15. UGI- PNG determined that the Mueller clamps would be left in place while a permanent solution was designed and implemented. The excavation was backfilled and

² UGI-PNG procedures define a “C” leak as a leak that is an existing or possible hazard to persons or property that requires immediate repair or continuous action until the conditions are no longer hazardous.

two valve boxes were configured to allow for the venting of any gas that might escape through the Mueller band clamps, which are pressure rated at 100PSI, and not considered suitable for a permanent repair on a pipe operating at 320PSI. UGI-PNG did not reduce the pressure on this pipe prior to performing this temporary repair.

16. On May 13, 2012, a UGI-PNG supervisor visited the leak site and resurveyed the bar holes. He determined that no hazardous conditions existed. The supervisor's actions in monitoring the leak were not documented.

17. On May 14, 2012, UGI-PNG generated a list of requisite materials and supplies needed to replace the corroded section of pipe in the leak area. No monitoring activity occurred at the leak site on May 14, 2012.

18. On May 15, 2012, UGI-PNG operations supervisor indicated that he communicated with UGI-PNG's leak survey contractor and requested the contractor to survey the site located at 464 Wilkes-Barre Township Boulevard. No monitoring activity occurred at the leak site on May 15, 2012.

19. On May 16, 2012, at 8:48 AM, the Manager-Area Engineering for UGI-PNG explained in an email that the pipeline at 464 Wilkes-Barre Township Boulevard would need to be replaced and that work would progress at 8 AM on May 18, 2012. According to the Manager-Area Engineering's email, "We're going to need to take a portion of this line out of service through installing pressure control fittings, cut out a length of pipe and install a new segment." He estimated that the work would be completed in approximately two days.

20. At 9 AM on May 16, 2012, UGI-PNG's leak survey contractor rechecked the site and found elevated concentrations of gas in the bar holes from the May 12, 2012 repair site. Based on these findings, a UGI-PNG crew was dispatched to the site. The crew drilled additional bar holes and found gas migrating underneath the concrete island at the convenience store/gas station parking lot apron and into the grass curb line. The

PNG leak survey contractor submitted a “C” leak report. UGI PNG obtained a POCS emergency ticket to repair the leak.

21. From 10:00 until 13:00 on May 16, 2012, pressure was reduced from approximately 300PSI to 200PSI. During this time, UGI-PNG re-excavated the original dig site and tightened one of the three clamps, which exhibited a very slight bubble of natural gas at one end of the clamp. After purging gas from the soil, lesser concentrations of gas were detected by UGI-PNG’s crew. A few hours later, the site was rechecked by the PNG leak survey contractor and, based on the excavation and tightening of the leak clamp above, the contractor submitted a “B” leak³ report based on additional readings still in the bar holes. Purging of residual gas continued throughout this period.

22. Between May 17 and 20, 2012, UGI-PNG monitored the leak site. Initially, lesser concentrations of gas below the lower explosive limit were found in the bar holes tested. UGI-PNG crew members purged the soil and recorded very low and in many cases zero levels of gas in the bar holes tested. On May 19, elevated levels of gas were found in five of the now-10 bar holes and on May 20, elevated levels of gas were found in two of the 10 bar holes. These results were documented in several re-check leak reports. When the levels became elevated, the UGI-PNG crews purged the soil and recorded readings as zero in all 10 bar holes. UGI personnel remained on site continuously from this point forward until the main section with the leak clamps was taken out of service.

23. On May 20, 2012, the GSD received an email from a Pipeline and Hazardous Materials Safety Administration (“PHMSA”) representative regarding National Response Center (“NRC”) report #1011999, dated May 19, 2012. The NRC report stated that a person describing himself as a UGI-PNG employee had alleged that a leak on a high pressure gas distribution line had been discovered and subsequently

³ UGI-PNG procedures define a “B” leak as a non-hazardous leak at the time of detection, but justifies scheduled repair based on probable future hazard.

repaired by the Company using improper clamps on Saturday May 12, 2012, and that “the clamps used for the repair blew out on Tuesday, May 15,” and that “the gas company may be trying to cover up the release.” GSD Manager Metro forwarded the email to UGI’s Manager of Regulatory Compliance and instructed GSD Supervisor Robert S. Biggard to begin an investigation.

24. On May 21, 2012, a UGI-PNG construction contractor proceeded to excavate the roadbed in front of 464 Wilkes-Barre Township Boulevard for the purpose of replacing the main section in question. Later the same day, a UGI-PNG crew arrived on site and began drilling additional bar holes in the road. Varying levels of gas readings were found in front of the convenience store/gas station near the location of the service line to the store. The leak report documented readings ranging from eight to 30 percent gas-in-air in 10 of the bar holes. This additional leak was rated as a “C” leak.

25. On May 22, 2012, UGI-PNG excavated the area at the service line. The repair order indicated corrosion on the service line. Three feet of the service line were renewed with 3/4 inch steel. Elevated levels of gas were found in two bar holes.

26. Over the period May 22-25, 2012, UGI-PNG’s contractor installed the control fittings on the main for the purpose of replacing the main section in question. On the 25th, the affected main section was removed from service by installing the two control fittings and isolating the main in question. UGI monitored the site and continued to purge the leak site until the repair was completed. On May 30, 2012, UGI-PNG completed the repair and activated the line. Leak rechecks showed zero levels of gas after the repair.

27. On May 29, 2012, the retired pipe section was removed at GSD’s request. Subsequent examination of the pipe revealed corrosion pits on approximately five feet of the pipe. The depth and pattern of the pits were indicative of corrosion caused by

electrical interference. Thereafter, field testing concluded that a source of the interference current on the high pressure main was the rectifier used for cathodically protecting equipment at a nearby gasoline filling station located east of the leak site.

28. The pipe in question is part of a 2-mile unprotected steel line that, prior to April 4, 2012, had experienced 12 leaks since 1986. Three of those leaks occurred during the 6-year period after UGI-PNG acquired the gas system in October 2006.

29. UGI-PNG demonstrated that the segment of pipeline at issue had been routinely leak surveyed through mobile and walking surveys.

B. Expanded Investigation of Route 309 Incident:

30. As a result of the Route 309 incident in Wilkes-Barre, the GSD conducted an expanded investigation of UGI-PNG's leak classification, surveys, and management systems, and compliance with state and federal regulations.

31. The GSD reviewed for a one-year period for Wilkes-Barre Township and Borough, UGI-PNG emergency PA One Call tickets, job orders, dispatch records and leak sheets, as well as seven randomly selected leak sites and corresponding leak sheets.

32. I&E alleges that UGI-PNG was not compliant with federal/state regulations in that UGI-PNG inadequately monitored and repaired leaks, incorrectly classified leaks, *inadequately documented, and maintained documentation of, leak survey and dispatch data, and improperly used, and documented its use of, the Emergency One Call System.*

III. ALLEGED VIOLATIONS

33. I&E has reviewed these matters, and had they been litigated, I&E would have alleged that UGI-PNG committed the following acts or omissions in relation to the Wilkes-Barre Route 309 Incident:

- A. UGI-PNG violated its operating procedure GOM 60.50.30 in that on April 4, 2012, UGI-PNG failed to ascertain sufficient information to properly grade the leak, including uncovering the potential hazard, proceeding to the street and checking manholes. There is no indication on the leak form that this action was performed.
- B. UGI-PNG exceeded the main's MAOP in that on May 12, 2012, UGI-PNG installed clamps rated for 100PSI on the main which was operating at 320PSI. There was no pressure reduction prior to attempting this repair.
- C. UGI-PNG failed to properly repair the main on May 12, 2012 in that it back-filled the soil and departed from the scene after installing incorrectly rated band clamps and vents.
- D. UGI-PNG failed to adequately monitor a hazardous condition after backfilling the excavation on May 12, 2012 in that it departed the scene after leaving improperly rated clamps on a hazardous leak. Exceeding MAOP constitutes an emergency condition that warrants monitoring. UGI-PNG failed to perform reasonable safety measures such as continuously monitoring by leaving a technician on-scene.
- E. UGI-PNG violated its procedures in that it failed to document the supervisor's actions when he checked readings from the leak on May 13, 2012. UGI-PNG's procedures state that "All leak survey information shall be recorded, tabulated, and maintained in accordance with Company policy to enable the completion of the Department of Transportation Leak Report (DOT F-7100.1-1 and various other reports for inter-company use." See UGI-PNG Procedures and Methods 5-1 section B, regarding "Documentation."
- F. UGI-PNG failed to cathodically protect the high pressure distribution line at 460 Wilkes Barre Boulevard. This line required cathodic protection in that it was part of a pre-1971, unprotected steel segment that experienced significant leak history due to corrosion. After September 15, 2003, thirteen (13) leaks were found on this section of the main, which indicate

active corrosion as defined by 49 CFR § 192.3. Bare or coated distribution lines installed prior to August 1, 1971 must be cathodically protected when active corrosion exists.

- G. UGI-PNG failed to reevaluate and document the reevaluation of unprotected pipelines every three years, which must be monitored to detect areas of active corrosion.
- H. The leak was determined to be caused by interference current from a gas station rectifier. UGI-PNG failed to employ a program to minimize the effects of interference.
- I. UGI-PNG failed to cathodically protect 24 of the service lines in the unprotected segment. These lines were installed after July 1971.
- J. UGI-PNG returned to service a new segment of pipeline or a segment of pipeline that was relocated or replaced before substantiating the MAOP of that pipeline in that UGI-PNG has records revealing 24 pressure tests at 100PSI or below. The main operated at 320PSI and the service lines would need to be pressure tested to at least 480PSI to meet the pressure testing requirements for the MAOP of the main.
- K. UGI-PNG failed to document the condition of the main, which was exposed after installation of each of the 24 service lines. UGI-PNG cannot produce inspection records that indicate that the main was examined for evidence of external corrosion.
- L. UGI-PNG could not produce any documentation to substantiate the established MAOP of the main.

34. If proven, PUC I&E believes that the alleged UGI-PNG acts and omissions listed above violated provisions of the following state and federal regulations: 66 Pa.C.S. § 1501; 52 Pa. Code § 59.33(a); 49 C.F.R. §§ 192.13, 192.455, 192.457, 192.459, 192.465, 192.473, 192.503, 192.603, 192.605, 192.615, 192:619, 192.702.

35. UGI-PNG has reviewed this matter. Had this matter been litigated, UGI-PNG would have denied or answered and defended against many, if not all of the above stated allegations.

IV. SETTLEMENT TERMS

36. The purpose of this Agreement is to terminate the above-referenced investigations and to resolve these matters without litigation. There has been no fact-finding before any tribunal and no sworn testimony taken.

37. Respondent UGI-PNG has been cooperative and proactive with I&E's recommendations related to identifying these issues, and has already undertaken steps to complete some of the remedies listed below. Based on the Wilkes-Barre Route 309 incident and subsequent expanded investigation, UGI-PNG agrees to perform the following:

- A. Pay a civil penalty in the amount of one million dollars (\$1,000,000.00), pursuant to 66 Pa.C.S. § 3301(c). Payment shall be made by certified check made payable to the "Commonwealth of Pennsylvania" and forwarded to the Commission through the prosecuting attorney within thirty (30) days of the date of entry of the Commission's Order. UGI-PNG shall not include any portion of this civil penalty in any future rate proceeding, nor shall it be tax deductible under Section 162(f) of the Internal Revenue Code, 26 U.S.C.S. § 162(f).
- B. Within ninety (90) days after the date on which a final order approving this Settlement without modification is entered, or by March 31, 2014, whichever date occurs later, UGI-PNG shall implement an automated, computer-based system of recording and tracking the results of leak surveys that will be utilized both by UGI-PNG's employees and outside contractors performing leak surveys, mapping, investigations and repairs. Until such automated system is implemented, outside contractors shall be required by UGI-PNG to maintain records of leak surveys conducted by the contractor for UGI-PNG for a period of no less than two (2) years.
- C. Within ninety (90) days after the date on which a final order approving this Settlement without modification is entered, UGI-PNG shall provide to I&E the results of the 3rd party audit UGI commissioned to evaluate "B" leak classification and repair. The audit encompassed all active recorded PNG "B" leaks as of December 31, 2012 and "C" leaks repaired from October 1

through December 31, 2012. The written report shall address the accuracy of characterization of all “B” leaks, and the quality of repair for all “C” leaks included in the audit. Within one hundred twenty (120) days after the date on which a final order approving this Settlement without modification is entered, UGI-PNG shall provide to I&E the results of the audit or recheck that encompassed all active recorded “A” leaks in Wilkes-Barre Township and Borough, and Scranton discovered in 2012.

- D. By no later than the end of the ninth (9th) full calendar month after the date on which a final order of the Commission approving this Settlement without modification is entered, UGI-PNG shall provide I&E with a completed audit report of UGI-PNG’s gas operations by an outside consultant hired by UGI-PNG. The report shall include the auditor’s findings and recommendations, UGI-PNG’s position on the auditor’s findings and recommendations, and UGI-PNG’s implementation plan. The operational audit shall review all material practices and procedures related to the items identified in the attached document entitled “Scope and Controls for the UGI-PNG Management Audit M-2013-2338981” attached hereto as Appendix C.

- E. Commencing within ninety (90) days after the date on which a final order approving this Settlement without modification is entered, UGI-PNG shall implement a modified leak survey program of its entire inventory of unprotected steel distribution mains and cast iron pipe, which will require two additional leak survey cycles per year, during non-winter months. For a period of two years, the survey results will be submitted to I&E on a quarterly basis within thirty (30) days of completion and will include leak reports/classification sheets. After this two year period, UGI-PNG will assess the value of continuing this program in connection with the annual Distribution Integrity Management Plan review following the end of the two-year period.

- F. Within twelve (12) months following the date on which a final order approving this Settlement without modification is entered, UGI-PNG shall submit to the GSD the following information regarding any high pressure distribution pipeline currently operating at 100PSI or greater within the UGI-PNG service territory:
 - 1. Identify by location and length for each pipeline, the physical characteristics broken down into individual segments defined by pipe material, joining procedure, diameter, wall thickness, grade, protected, unprotected, coasting and year installed.

2. Provide the actual operating pressures listed annually, both low and high, for each segment since calendar year 2000 and the corresponding calculated SMYS for each segment according to 49 CFR § 192.107(b).
 3. Provide the MAOP of each high pressure distribution pipeline. Provide all supporting documents.
 4. Provide the leak history for each pipeline in tabular form and include the documentation in the form of pipe inspection reports.
 5. A plan to establish operating parameters for any distribution main segments for which UGI-PNG cannot adequately confirm the MAOP. Factors to be considered in developing the plan shall include, at a minimum, operating history, location, potential consequences, and estimated cost of confirming MAOP, and any federal initiatives related to the topic. The Commission shall determine the appropriate process for reviewing the reasonableness of UGI-PNG's proposed plan.
- G. Provide a list of all UGI-PNG unprotected pipeline, including its location, to the GSD within thirty (30) days of the approval of this Settlement Agreement.
- H. For a period of one year after the date on which a final order of the Commission approving this Settlement without modification is entered, UGI-PNG shall not be subject to further sanction or non-compliance finding that could be imposed by the Commission or the GSD regarding any or all subject matter covered by this Settlement, except in matters involving an "incident," as defined in 49 C.F.R. § 191.3, or a "safety related condition report," as defined by 49 C.F.R. § 191.23(a).

38. In consideration of UGI-PNG's payment of a civil penalty and implementation of other measures as specified herein, I&E agrees to forbear from prosecuting any formal complaint relating to UGI-PNG's conduct as described in this Settlement Agreement. Nothing contained in this Agreement shall affect the Commission's authority to receive and resolve any formal or informal complaints filed by

any affected party with respect to the incident, except that no further civil penalties may be imposed by the Commission for any actions identified herein.

V. Conditions of Settlement Agreement

39. This document represents the Settlement Agreement in its entirety. No changes to obligations set forth herein may be made unless they are in writing and are expressly accepted by the parties involved. This Agreement shall be construed and interpreted under Pennsylvania law.

40. None of the provisions of the Settlement Agreement or statements herein shall be considered an admission of any fact or culpability. I&E acknowledges that this Agreement is entered into with the express purpose of settling the asserted claims regarding the specific alleged violations of Federal Pipeline Safety Regulations, the Public Utility Code and the regulations promulgated thereunder.

41. This Settlement Agreement resolves with prejudice all issues related to the informal investigation. This Settlement Agreement is entered into without admission against, or prejudice to, any position which any party may assert in subsequent litigation of this proceeding before the Commission in the event that the Commission does not issue a final, non-appealable Order approving this Settlement without modification. This Settlement Agreement is determinative and conclusive of all the issues addressed herein and constitutes a final settlement of the matters thereof as among the parties to the Settlement and the Commission. Provided, however, that this Settlement Agreement makes no findings of fact or conclusions of law, and therefore, it is the intent of the Parties that this document and the related Statements in Support not be admitted as evidence in any potential civil proceeding involving this matter. It is further understood that by entering into this Settlement Agreement and agreeing to pay a civil penalty, UGI

has made no admission of fact or law and disputes all issues of fact and law for all purposes in all proceedings, including but not limited to any civil proceedings, that may arise as a result of the circumstances described in the Settlement documents.

42. The parties agree that the underlying allegations were not the subject of any hearing or formal procedure and that there has been no order or findings of fact rendered in this matter.

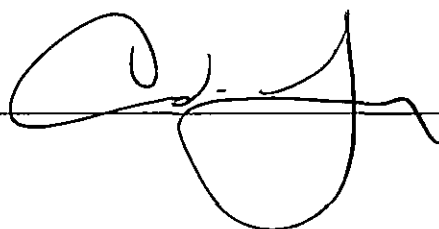
43. This Settlement Agreement is conditioned upon the Commission's approval without modification. The parties agree that the Commission may issue a Tentative Order, prior to reaching a final decision to accept or reject the Settlement Agreement, pursuant to 52 Pa. Code § 3.113.

44. The parties agree to waive the exception period, thereby allowing this Settlement Agreement to be presented directly to the Commission for review, pursuant to 52 Pa. Code § 5.232(e). The parties reserve the right to withdraw from this Settlement Agreement if it is modified in any manner, or if any adverse response is filed.

WHEREFORE, the Bureau of Investigation and Enforcement and UGI Penn Natural Gas, Inc. respectfully request that the Pennsylvania Public Utility Commission approve the terms of the Settlement Agreement.

IN WITNESS WHEREOF, we have hereunto set our hands and seals on this the 16th day of August 2013.

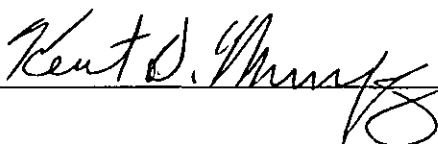
FOR THE PENNSYLVANIA PUBLIC UTILITY COMMISSION, BUREAU OF INVESTIGATION AND ENFORCEMENT:



Prosecutor
Title

8/16/13
Date

FOR UGI PENN NATURAL GAS, INC.:



Group Counsel
Title

8/16/13
Date

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APPENDIX A

the Commission approve the Settlement, including the terms and conditions thereof, without modification.

UGI-PNG fully cooperated and assisted I&E with its investigation of the leak repair on Route 309, and its expanded investigation into UGI-PNG's leak classifications, leak surveys, management practices, and overall compliance with state and federal regulations. UGI-PNG has been cooperative and proactive with I&E staff related to identifying facilities, practices and procedures that can be further improved to help UGI-PNG enhance the safety and reliability of service, and to satisfy the commitments that I&E has required in the settlement process. The Settlement reflects a carefully balanced compromise of the interests of I&E and UGI-PNG in this matter.

I. THE PUBLIC INTEREST

The Settlement, if approved, will provide substantial public benefits. In the Settlement, Paragraphs 37(B)-(H) require UGI-PNG to implement measures responsive to evaluations of its current practices, procedures and records in a variety of operational areas, including leak surveys and repairs, corrosion prevention, and operational pressure regulation. Specifically, UGI-PNG will perform the following: (1) UGI-PNG will implement a computer-based system to record the results of leak surveys, which will allow UGI-PNG employees and outside contractors to be better equipped in tracking, mapping, investigating and repairing leaks; (2) UGI-PNG contracted with a third party to audit and evaluate its system of "B" leak classifications and repairs. The report of this audit will address the accuracy of the classification of "B" leaks and the quality of repair

for “C” leaks, and will be provided to I&E upon its completion. UGI-PNG will also provide to I&E the results of the audit that encompassed all active recorded “A” leaks in Wilkes-Barre Township, Wilkes-Barre Borough and Scranton that were discovered in 2012; (3) UGI-PNG will retain an outside consultant to perform an audit of its gas operations, the scope of which is set forth in greater detail in Appendix C; (4) For at least a two-year period, UGI-PNG will implement a modified and enhanced leak survey program of its entire inventory of unprotected steel distribution mains and cast iron pipe, which will add two leak survey cycles per year during non-winter months; and (5) UGI-PNG will provide I&E with information regarding all high pressure distribution pipelines operating in its service territory, including the physical characteristics and operating pressures of individual segments of the pipe, and the Maximum Allowable Operating Pressure (“MAOP”) and leak history of each pipeline.

These measures are designed to enhance the safety of UGI-PNG’s distribution system, as well as improve the overall performance of its gas operations, and will come at a significant cost to the Company.

The Settlement is in the public interest, in particular, the interest of UGI-PNG customers and the communities they serve. For these reasons and the reasons set forth below, the Settlement is fair, just and reasonable, and therefore, should be approved so that these important public benefits may be realized.

II. TERMS OF SETTLEMENT

I&E alleges that in connection with the GSD’s investigation of the gas leak repair

on Route 309, UGI-PNG committed several violations of the Public Utility Code, Federal Pipeline Safety Standards and Commission Regulations. Based on these allegations, I&E requests that the Commission approve the terms of the Settlement, which include directing UGI-PNG to pay a substantial civil penalty and implement measures that UGI-PNG has agreed to perform. Under the terms of the Settlement, UGI-PNG has agreed as follows:

- A. UGI-PNG will pay a civil penalty in the amount of one million dollars (\$1,000,000.00), pursuant to 66 Pa.C.S. § 3301(c). UGI-PNG will not include any portion of this civil penalty in any future rate proceeding, nor will it be tax-deductible under Section 162(f) of the Internal Revenue Code, 26 U.S.C.S. §162(f).
- B. UGI-PNG will implement an automated, computer-based system of recording and tracking the results of leak surveys that will be utilized both by UGI-PNG's employees and outside contractors performing leak surveys, mapping, investigations and repairs. Until such automated system is implemented, outside contractors will be required by UGI-PNG to maintain records of leak surveys conducted by the contractor for a period of no less than two (2) years.
- C. UGI-PNG will provide to I&E the results of the third party audit UGI-PNG commissioned to evaluate "B" leak classifications and repairs. The audit encompassed all active recorded "B" leaks as of December 31, 2012, and "C" leaks repaired from October 1 through December 31, 2012. The written report will address the accuracy of the characterization of all "B" leaks, and the quality of repair for all "C" leaks included in the audit. In addition, UGI-PNG will provide to I&E the results of the audit or recheck that encompassed all active recorded "A" leaks in Wilkes-Barre Township, Wilkes-Barre Borough and Scranton that were discovered in 2012.
- D. UGI-PNG will provide I&E with a completed audit report of UGI-PNG's gas operations by an outside consultant hired by UGI-PNG. The report will include the auditor's findings and recommendations, UGI-PNG's position on the auditor's findings and recommendations, and UGI-PNG's implementation plan.

- E. UGI-PNG will implement a modified leak survey program of its entire inventory of unprotected steel distribution mains and cast iron pipe, which will require two additional leak survey cycles per year during non-winter months. For a period of two years, the survey results will be submitted to I&E on a quarterly basis. Following the end of this two-year period, UGI-PNG will assess the value of continuing the program in connection with the annual Distribution Integrity Management Plan.
- F. UGI-PNG will provide I&E GSD with various information regarding any high pressure distribution pipeline currently operating at 100 Pounds Per Square Inch (“PSI”), including the physical characteristics and operating pressures of individual segments of each pipeline, and the MAOP and leak history of each pipeline.
- G. UGI-PNG will provide I&E GSD with a list of all unprotected pipeline, including its location.

As noted above, the terms of the Settlement are designed to enhance the safety of UGI-PNG’s distribution system and improve its overall gas operations. Consequently, the terms of the Settlement will benefit UGI-PNG customers and will come at a significant cost to UGI-PNG, beyond the requested civil penalty.

III. FACTORS UNDER THE COMMISSION’S POLICY STATEMENT

Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements lessen the time and expense that the parties must expend litigating a case and, at the same time, conserve precious administrative resources. Settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *See Pennsylvania Public Utility Commission v. Philadelphia Gas Works*, Docket No. M-00031768 (Order entered January 7, 2004).

I&E submits that approval of the Settlement in this matter is consistent with the Commission's Policy for Litigated and Settled Proceedings Involving Violations of the Code and Commission Regulations ("Policy Statement"), 52 Pa. Code § 69.1201; *See also Joseph A. Rosi v. Bell-Atlantic Pennsylvania, Inc.*, Docket No. C-00992409 (Order entered March 16, 2000). The Commission's Policy Statement sets forth ten factors that the Commission may consider in evaluating whether a civil penalty for violating a Commission order, regulation, or statute is appropriate, as well as whether a proposed settlement for a violation is reasonable and in the public interest. 52 Pa. Code § 69.1201.

These factors are: (i) Whether the conduct at issue was of a serious nature; (ii) Whether the resulting consequences of the conduct at issue were of a serious nature; (iii) Whether the conduct at issue was deemed intentional or negligent; (iv) Whether the regulated entity made efforts to modify internal policies and procedures to address the conduct at issue and prevent similar conduct in the future; (v) The number of customers affected and the duration of the violation; (vi) The compliance history of the regulated entity that committed the violation; (vii) Whether the regulated entity cooperated with the Commission's investigation; (viii) The amount of the civil penalty or fine necessary to deter future violations; (ix) Past Commission decisions in similar situations; and (x) other relevant factors. 52 Pa. Code § 69.1201(c).

The Commission will not apply the standards as strictly in settled cases as in litigated cases. 52 Pa. Code § 69.1201(b). While many of the same factors may still be considered, in settled cases, the parties "will be afforded flexibility in reaching amicable

resolutions to complaints and other matters so long as the settlement is in the public interest.” 52 Pa. Code § 69.1201(b).

The first factor considers whether the conduct at issue was of a serious nature and, if so, whether the conduct may warrant a higher penalty. I&E alleges that the conduct in this case is the following: (1) UGI-PNG failed to ascertain sufficient information to properly grade the leak that was discovered on April 4, 2012; (2) UGI-PNG exceeded the MAOP of the main in that it installed clamps rated for 100PSI on the main, which was operating at 320PSI; (3) UGI-PNG improperly repaired the main in that it back-filled the soil and departed from the site after installing incorrectly rated band clamps and vents; (4) UGI-PNG did not adequately monitor a hazardous condition when it departed the site after leaving improperly rated clamps on the pipe; (5) UGI-PNG violated its procedures when a supervisor failed to document the fact that he checked readings from the leak on May 13, 2012; (6) UGI-PNG failed to cathodically protect the high pressure distribution line at 460 Wilkes Barre Boulevard; (7) UGI-PNG failed to evaluate and document the evaluation of unprotected pipelines every three years, which must be monitored to detect areas of active corrosion; (8) UGI-PNG failed to employ a program to minimize the effects of interference; (9) UGI-PNG did not cathodically protect 24 of the service lines in the unprotected segment of the pipeline; (10) UGI-PNG did not substantiate the MAOP of the pipeline before returning to service a new segment of pipeline, or a segment of pipeline that was relocated or replaced; (11) UGI-PNG did not document the condition of the main, which was exposed after installation of each of the 24 service lines; (12) UGI-PNG could not produce any documentation to substantiate the established

MAOP of the main. Although no serious consequences resulted from this incident, the potential for serious consequences to occur was significant. Therefore, I&E submits that UGI-PNG's alleged conduct is of a serious nature and was considered in arriving at the substantial civil penalty in this Settlement.

The second factor considered is whether the resulting consequences of UGI-PNG's alleged conduct were of a serious nature. When consequences of a serious nature are involved, such as *personal injury or property damage*, the consequences may warrant a higher penalty. In this case, no personal injury or property damage resulted from the improper leak repair on Route 309.

The third factor considers whether the conduct at issue was deemed intentional or negligent. This factor is only to be considered when evaluating litigated cases. 52 Pa. Code § 69.1201(c)(3). Therefore, this factor does not apply to the present case because this proceeding is a settled matter.

The fourth factor to be considered is whether UGI-PNG made efforts to modify internal policies and procedures to address the alleged conduct at issue and to prevent similar conduct in the future. As part of this Settlement, UGI-PNG has moved forward to adopt several changes to its policies and practices that should further enhance the safety and reliability of its service. These measures, which are mentioned above, address the alleged conduct at issue and are designed to prevent similar conduct in the future. Moreover, these improvements provide a significant benefit to public safety.

The fifth factor considers the number of customers affected and the duration of the violation. In this matter, service to the convenience store/gas station on Wilkes Barre Boulevard/Route 309 was shut-off for approximately three to seven hours while the service line to store was being replaced. I&E is not aware of any other customers being affected.

The sixth factor considers the compliance history of the Company. Within the past five years, UGI Utilities, Inc. and/or its subsidiary companies have been involved in at least nine cases arising from alleged gas safety violations. The allegations have included the following: improperly marked lines, inadequate training, failure to provide safety equipment to its employees, failure to monitor an odorant sampling program, failure to document procedures for emergency response, and failure to turn off the gas supply before permitting emergency responders, inspectors, utility workers and residents to access the site. Given UGI's compliance history, the substantial civil penalty in this proceeding is warranted.

The seventh factor to be considered is whether the regulated entity cooperated with the Commission's investigation. UGI-PNG has cooperated with Commission staff throughout all phases of this investigation and settlement process. I&E submits that such cooperation demonstrates a commitment consistent with the Commission's public safety goals and objectives.

The eighth factor is the amount of the civil penalty or fine necessary to deter future violations. I&E submits that a civil penalty in the amount of \$1,000,000, which may not be recovered by UGI-PNG through rates regulated by the Commission, together

with the measures that UGI-PNG has agreed to undertake that are mentioned above, are quite substantial and sufficient to deter UGI-PNG from committing future violations. In addition, it is important that the Commission recognize in its Order considering the Settlement in this matter that the civil penalty is not tax-deductible under Section 162(f) of the Internal Revenue Code. 26 U.S.C.S. § 162(f).

The ninth factor examines past Commission decisions in similar situations. The Route 309 incident involved an improper repair to a leak, which led to the pipe exceeding the MAOP. No serious consequences, such as personal injury or property damage, resulted from the incident. There are no past Commission decisions responsive to a similar situation, and for that reason, the UGI-PNG Route 309 incident should be viewed on its own merits. However, looking at the relevant factors that are comparable to other incidents, such as cooperating with the Commission, the alleged regulatory violations, and remedial actions taken, this Settlement is consistent with past Commission actions, and presents a fair and reasonable outcome.

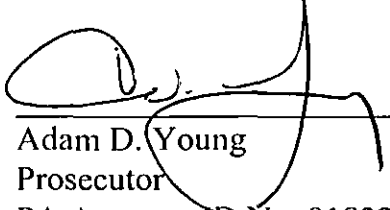
The parties submit that an additional relevant factor – whether the case was settled or litigated – is of pivotal importance to this Settlement Agreement. A settlement avoids the necessity for the prosecuting agency to prove elements of each allegation. In return, the opposing party in a settlement agrees to a lesser fine or penalty. Both parties negotiate from their initial litigation positions. The fines, penalties and other remedial actions resulting from a fully litigated proceeding are difficult to predict and can differ from those that result from a settlement. Reasonable settlement terms can represent economic and programmatic compromise, but allow the parties to move forward and to

focus on implementing the agreed upon remedial actions. Remedial actions are of particular significance in this proceeding, as UGI-PNG has agreed to take several measures towards enhancing its operational performance.

I&E and UGI-PNG fully support the terms and conditions of this Settlement Agreement. The foregoing terms of this Agreement reflect a carefully balanced compromise of the interests of the parties in this proceeding. The parties believe that approval of this Settlement Agreement is in the public interest. Acceptance of this Settlement Agreement avoids the necessity of further administrative and potential appellate proceedings at what would have been a substantial cost to the parties.

WHEREFORE, I&E fully supports the Settlement Agreement and respectfully requests that the Commission approve the Settlement in its entirety, without modification.

Respectfully submitted,



Adam D. Young
Prosecutor
PA Attorney ID No. 91822

Stephanie M. Wimer
Prosecutor
PA Attorney ID No. 207522

Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement
P.O. Box 3265
Harrisburg, PA 17105-3265

Dated: August 16, 2013

APPENDIX B

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility :
Commission, Bureau of Investigation :
and Enforcement :
: Docket No. M-2013-2338981
v. :
: :
UGI PNG Penn Natural Gas, Inc. :
:

**STATEMENT IN SUPPORT
OF SETTLEMENT AGREEMENT
OF
UGI PENN NATURAL GAS, INC.**

TO THE HONORABLE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

UGI Penn Natural Gas, Inc. (“UGI PNG”) hereby files this Statement in Support of the Settlement Agreement (“Settlement Agreement”) entered into by and between UGI PNG and the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”) (hereinafter, collectively “Joint Petitioners”) in the above-captioned proceeding. The Settlement Agreement fully resolves all issues related to an investigation conducted by I&E in 2012 that began with a review of work performed by UGI PNG to repair a hazardous leak on Route 309 in Wilkes-Barre Township but expanded into an investigation of a variety of operational areas, including corrosion prevention, leak detection and repair, and operating pressure of high pressure mains. UGI PNG respectfully requests that the Commission approve the Settlement, including the terms and conditions thereof, without modification.

I. INTRODUCTION

The factual background of this matter is set forth in Paragraphs 10-32 of the Settlement Agreement which are incorporated herein by reference. In the sections which follow here, UGI PNG will explain why it believes the settlement reached with I&E in this matter is reasonable and how that settlement and the many substantial operational enhancements UGI PNG has undertaken since the initial leak was discovered on Route 309 are consistent with the factors the Commission has indicated it will consider in its policy statement for evaluating litigated and settled proceedings at 52 Pa. Code § 69.1201.

UGI PNG recognizes that it and its affiliated companies, UGI Utilities, Inc., and UGI Central Penn Gas, Inc., (altogether "UGI") have had other matters involving questions of gas safety come before the Commission in recent years. Several instances involved third party excavators damaging UGI's lines in violation of the PA One Call Act. Others involved allegations of UGI employees engaging in unsafe workplace and construction practices, failing in their emergency response, and not receiving adequate operator training.

In all instances, UGI cooperated with Commission gas safety and prosecutorial staff and resolved the matters through settlements approved by the Commission. While these matters have settled, UGI understands that these incidents create an unfavorable impression of the Company's *current gas operations with the Commission and the general public*. Importantly, however, UGI has implemented remedial measures, including training, modified practices and procedures, and has allocated substantial incremental resources to enhance its operations in a variety of areas.

The safe and reliable delivery of energy to customers and to the communities served by UGI is of paramount importance. The Commission, in fulfilling its gas safety responsibilities, should expect natural gas distribution companies such as UGI to operate safely and to take

responsibility for their actions. To this end, UGI has been working closely with the Commission's Gas Safety Division to improve its track record related to regulatory compliance and safety in the field. UGI is deeply committed to this goal, as reflected in its earlier commitments to accelerate its cast iron/bare steel main replacement program, more thoughtfully and aggressively implementing its distribution integrity management and transmission integrity management programs, and to improving its safety culture related to natural gas pipeline infrastructure, practices and procedures. UGI is acting aggressively to ensure that its work-force is properly qualified, and devoted to the goal of ensuring public safety and regulatory compliance.

Since the leak repair at issue in this matter took place in May 2012, UGI PNG has undertaken a comprehensive organizational overhaul for the purpose of enhancing the safety and effectiveness of its gas operations, technical and field resources, and the Company's overall commitment to gas safety. This effort involved the hiring of several highly qualified professionals from outside of UGI to lead our engineering, technical, safety and training, and gas distribution and transmission field operations. Also included in the organizational overhaul was movement of several management personnel out of operations functions. These new individuals, along with UGI's existing experts, provide UGI with the technical leadership and field management bench strength needed to limit the potential for future safety incidents such as the one in Wilkes Barre Township and others previously reviewed by the Commission.

As part of this organizational change, UGI is developing plans to hire a substantial number of new employees within the next three years. More than half of the new hires will be brought on board to increase the numbers of employees in the field. A lesser portion of these new employees will be brought on to succeed retiring experienced employees. High on the list

of priorities are increased numbers of construction inspectors, regulatory compliance specialists, training personnel, and additional workers trained in corrosion prevention and other distribution integrity management functions.

This workforce realignment has already benefitted the Scranton/Wilkes-Barre area. Since May 2012, UGI PNG has rotated operations managers and supervisors working in the area into new positions and replaced them with new managers and supervisors with deep gas operations experience. The Company has also hired several engineers to replace several former UGI PNG engineers who left the Company over the past several years to pursue careers with non-regulated Marcellus Shale Gas drilling or transmission firms in the region. UGI has also hired experienced corrosion protection and leak survey and repair personnel to help manage these activities in the Scranton/Wilkes-Barre area. In addition, PNG will be implementing a modern automated leak tracking information system designed to further enhance leak survey and repair activity effectiveness.

Of equal importance, UGI has commenced several other major projects on the high pressure pipelines serving the Scranton/Wilkes-Barre area. These include:

- 1) replacement of more than 4.5 miles of the Uniondale Line, an aging cathodically protected coated steel pipeline, with contemporary pipe;
- 2) implementation weekly leak surveys on the full length of the Uniondale Line and adjacent areas;
- 3) installation of cathodic protection on the 2.2 mile segment of previously unprotected pipeline identified in the Settlement Agreement;
- 4) pressure testing and replacement, where necessary, of more than 30 “farm tap” services receiving gas from a high pressure line; and

- 5) construction on the Olyphant Loop, a 2.5 mile extension of a high pressure lateral that will connect into the Company's Uniondale Line and allow UGI PNG to substantially reduce the operating pressures on high pressure transmission lines presently serving a broad area in and around Scranton/Wilkes-Barre.

These projects alone are estimated to cost UGI PNG more than \$15 million in capital investments in 2013, and are in addition to the Company's commitment in the recent Allentown proceeding, at Docket No. C-2012-2308997 to accelerate the complete elimination of its cast iron and bare steel pipelines over 14- and 30- year periods, respectively.

UGI believes that these substantial capital projects, its organizational realignment, and its workforce expansion demonstrate UGI management's resolve to enhance the safety and reliability of the gas service it provides to the public.

II. COMMISSION POLICY FAVORS SETTLEMENT

Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements lessen the time and expense that the parties must expend litigating a case and, at the same time, conserve administrative resources. Settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. In order to accept a settlement, the Commission must determine that the proposed terms and conditions are in the public interest. *Pennsylvania Public Utility Commission v. Columbia Gas of Pennsylvania, Inc.*, Docket No. C-2010-2071433, 2012 Pa. PUC LEXIS 1377 at *6 (August 31, 2012).

The Commission has promulgated a Policy Statement that sets forth ten factors that the Commission may consider in evaluating whether a civil penalty for violating a Commission order, regulation, or statute is appropriate, as well as whether a proposed settlement for a violation is reasonable and in the public interest. 52 Pa. Code § 69.1201. These factors are: (i)

whether the conduct at issue was of a serious nature; (ii) whether the resulting consequences of the conduct at issue were of a serious nature; (iii) whether the conduct at issue was deemed intentional or negligent; (iv) whether the regulated entity made efforts to modify internal policies and procedures to address the conduct at issue and prevent similar conduct in the future; (v) the number of customers affected and the duration of the violation; (vi) The compliance history of the regulated entity that committed the violation; (vii) whether the regulated entity cooperated with the Commission’s investigation; (viii) the amount of the civil penalty or fine necessary to deter future violations; (ix) past Commission decisions in similar situations; and (x) other relevant factors. 52 Pa. Code § 69.1201(c). The Commission will not apply the standards as strictly in settled cases as in litigated cases. 52 Pa. Code § 69.1201(b). While many of the same factors may still be considered, in settled cases the parties “will be afforded flexibility in reaching amicable resolutions to complaints and other matters so long as the settlement is in the public interest.” 52 Pa. Code § 69.1201(b).

For the reasons explained below, the Settlement is in the public interest and should be approved.

III. THE SETTLEMENT

UGI PNG has been cooperative and proactive with I&E and its gas safety personnel in identifying practices and procedures, policies, and training that can further improve gas safety. Under the terms of the Settlement, UGI PNG will pay a substantial civil penalty. UGI PNG and I&E have also identified a number of important gas operations focus areas that will be studied for the purpose of further refinement and improvement of UGI PNG’s performance once the study results are evaluated. See paragraphs 37.B-37.H of the Settlement Agreement.

A. PUBLIC BENEFITS

The settlement provides substantial public benefits beyond the substantial measures UGI has already undertaken to enhance the safety of its gas distribution system. While the magnitude of the civil penalty acts as an incentive to further improve its safety record, the other provisions of the settlement (subparagraphs 37.B – 37.H) require UGI PNG to study and implement measures responsive to internal and independent evaluations of its current practices, procedures and records in a variety of operational areas, including leak survey and repair, corrosion prevention, and operational pressure regulation. These provisions provide assurance that the operating concerns that were investigated by I&E will be corrected, as necessary, within a reasonable period of time. The organizational and field staffing changes already underway, the other safety enhancing measures UGI PNG has already begun to undertake, and the areas of study, evaluation, and implementation agreed upon in this Settlement, provide substantial public safety benefits that are real and substantial.

B. FACTORS UNDER COMMISSION’S POLICY STATEMENT

Set forth below are the standards set forth in 52 Pa. Code § 69.1201(c), and UGI’s view as to how the Settlement terms should be considered under each standard:

(1) Whether the conduct at issue was of a serious nature. When conduct of a serious nature is involved, such as willful fraud or misrepresentation, the conduct may warrant a higher penalty. When the conduct is less egregious, such as administrative filing or technical errors, it may warrant a lower penalty.

At the onset, **it should be noted that no damage to property or personal injury resulted from the set of facts underlying the violations alleged by I&E.** Moreover, this matter does not present allegations of willful fraud or misrepresentations. However, I&E identified a number of areas within UGI PNG’s gas operations that, it believes, are reflective of unsatisfactory operational performance on the part of UGI PNG, in technical violation of a number of federal and state regulations. Given its commitment to the Settlement Agreement,

UGI PNG believes, and without making any concessions as to whether any violations indeed occurred, that the amount of the penalty agreed upon in the Settlement Agreement is justified when viewed in the context of the nature of the alleged behavior.

(2) Whether the resulting consequences of the conduct at issue were of a serious nature. When consequences of a serious nature are involved, such as personal injury or property damage, the consequences may warrant a higher penalty.

UGI PNG does not believe that the actual consequences or the potential consequences of the actions, while significant, were of a nature that warrant a higher penalty than the one agreed upon. **No damage to property or person resulted from any of the alleged infractions.**

When the factual allegations were presented to UGI, UGI investigated the issues, cooperated with I&E, proactively developed plans to rectify any gas safety issues, in an effort to ensure that possibly gas safety issues were mitigated.

(3) Whether the conduct at issue was deemed intentional or negligent. This factor may only be considered in evaluating litigated cases. When conduct has been deemed intentional, the conduct may result in a higher penalty.

This factor does not apply as this matter is not being litigated.

(4) Whether the regulated entity made efforts to modify internal practices and procedures to address the conduct at issue and prevent similar conduct in the future. These modifications may include activities such as training and improving company techniques and supervision. The amount of time it took the utility to correct the conduct once it was discovered and the involvement of top-level management in correcting the conduct may be considered.

UGI-PNG has undergone a top-to-bottom review of its performance in the gas safety areas subject to the I&E investigation. As discussed in Section I above, and as reflected in subparagraph 36.B-36.H of the Settlement Agreement, UGI PNG has reorganized the management of its gas operations in a number of areas, including the areas subject to the I&E investigation into this matters (leak detection, repair, corrosion, etc.) and has developed a field staffing plan that will increase the number of resources in the field. In addition, on its own, UGI

will soon implement a new automated leak database that should rectify some of the leak record concerns expressed by I&E. Moreover, as part of the Settlement Agreement, UGI PNG will be evaluating its MAOP records for high pressure distributions mains and has agreed to subject itself to an extensive audit of operational areas within the scope of the I&E investigation and to develop a plan to implement recommendations from that audit.

(5) The number of customers affected and the duration of the violation.

UGI PNG is unaware of any customers that were directly affected by the alleged violations.

(6) The compliance history of the regulated entity which committed the violation. An isolated incident from an otherwise compliant utility may result in a lower penalty, whereas frequent, recurrent violations by a utility may result in a higher penalty.

UGI PNG does not have a significant history of prior violations. UGI PNG would also note that it has agreed to a substantial civil penalty in this proceeding and has undertaken several actions to enhance its gas operations.

(7) Whether the regulated entity cooperated with the Commission's investigation. Facts establishing bad faith, active concealment of violations, or attempts to interfere with Commission investigations may result in a higher penalty.

UGI PNG fully cooperated with the investigation of this incident.

(8) The amount of the civil penalty or fine necessary to deter future violations. The size of the utility may be considered to determine an appropriate penalty amount.

Given the nature of the alleged violations by UGI PNG, and UGI PNG's commitment to enhance the overall performance of its gas operations and its full cooperation with Commission staff, there is no reason to believe that a larger civil penalty is necessary to ensure future cooperation and compliance.

(9) Past Commission decisions in similar situations.

UGI PNG is unaware of past Commission decisions in similar situations not involving damage to property or personal injury.

(10) Other relevant factors.

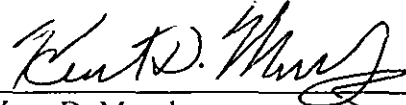
None.

IV. CONCLUSION

UGI PNG knows that it is the Company's responsibility to safely and reliably deliver natural gas to its customers and to the communities it serves. UGI PNG takes this responsibility seriously, is moving aggressively to enhance its operational performance, and is working cooperatively with the Commission to constructively address gas safety issues. Through these efforts and the open exchange of information, the Joint Petitioners have arrived at a settlement that resolves all issues in this proceeding in a fair and equitable manner. This Settlement resolves all issues related to the I&E investigation into the matters addressed by the Settlement. The other substantial measures that UGI PNG has undertaken will, in both the short- and long-term, provide significant public benefits to all customers served by UGI PNG, the communities it serves, and UGI PNG's employees.

A fair and reasonable compromise has been achieved in this case. UGI PNG fully supports the Settlement and respectfully requests that it be approved by the Commission in its entirety, without modification.

Respectfully submitted,



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610.337.1000
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Counsel for UGI Penn Natural Gas, Inc.

Dated: August 16, 2013

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LAW BUREAU

VERIFICATION

I, Hans G. Bell, being Vice President Engineering and Operations Support of UGI Penn Natural Gas, Inc., hereby state that the facts above set forth are true and correct to the best of my knowledge, information and belief and that I expect that UGI Penn Natural Gas, Inc., to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.

Date: August 16, 2013

Hans G. Bell
Hans G. Bell,
Vice President - Engineering and Operations Support
UGI Utilities, Inc.

APPENDIX C

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**Scope and Controls for the UGI PNG Gas Operations Audit
M-2013-2338981**

1. Audit Report

- a. By no later than the end of the ninth (9th) full calendar month after the date of which a final order of the PUC approving this settlement is entered, UGI PNG shall provide PUC I&E with a confidential completed audit report of UGI PNG's operations by an outside consultant.
 - i. This report will remain confidential between UGI PNG and the PUC.
 - ii. The report shall include the auditor's findings and recommendations, a description of UGI-PNG's operations as ascertained during fieldwork, and all other information, data or conditions relevant to any finding or recommendation.
 - iii. Upon completion of the Audit Report, UGI PNG shall create an implementation plan within forty-five (45) days of the final report. This implementation plan shall remain confidential as between PUC I&E and UGI-PNG.
- b. UGI-PNG shall have primary responsibility for managing the activities of the Consultant, including but not limited to scheduling interviews, responding to data requests, and scheduling bi-weekly meetings among Consultant, PUC I&E and UGI-PNG. Drafts reports prepared by the Consultant shall be submitted to UGI-PNG and PUC I&E for review.

2. Hiring of Consultant/Project Controls

- a. UGI-PNG shall create the Request-for-Proposal and shall consult with PUC I&E to review and modify, if necessary, prior to issuance of the RFP.
- b. Consultants or contractors currently doing work for UGI Corporation or any of its subsidiaries, or the Pennsylvania Public Utility Commission shall not be eligible to perform this audit and the winning consultant/contractors are not permitted to perform other work for the Pennsylvania Public Utility Commission, for UGI Corporation or for UGI-PNG affiliates during this audit.
 - i. Any work performed by the Consultant/contractor for the Commonwealth of Pennsylvania, in any capacity, or for UGI Corporation or its affiliates in the last 18 months prior to the issuance of the RFP shall be disclosed within the proposal.
- c. UGI-PNG shall issue the RFP and evaluate proposals. Before selection of the winning bidder, UGI PNG shall provide the PUC I&E with its evaluation and scoring of all proposals as well as a copy of the UGI PNG's selected winning proposal.
 1. The PUC I&E may reject UGI PNG's selection if the proposed selection does not satisfy the requirements of the RFP.
 2. PUC I&E's right to object to UGI-PNG's selection is limited to a period of 15 days after UGI-PNG provides the information required under paragraph 2.c.

- d. The PUC I&E will select a Project Officer from the Commission for the audit. The Project Officer shall be the PUC I&E's primary point of contact for UGI PNG and Consultant
 - i. On a weekly basis, Consultant shall provide a schedule of all interviews and site visits for the following two weeks; report on any problems encountered during the audit; and highlight potential findings and recommendations to the PUC's Project Officer and UGI-PNG.
 - ii. PUC I&E and UGI-PNG may make suggestions as to the direction of the Consultant's work, including its potential findings and recommendations.
 - iii. At least once every two weeks, the Consultant shall conduct status update meetings with PUC I&E and UGI-PNG detailing its progress, identified findings and recommendations, and all other relevant audit information.
3. The audit shall review and assess the field operations of UGI PNG and include the following:
- a. A review and analysis of UGI PNG's Staffing levels for both union and exempt positions, with focused attention on the following:
 - i. Overtime utilization by all classifications
 - ii. Integration of the bonus and Compensation program for operation employees
 - b. A review of workforce management system and general work flow, with focused attention on the following:
 - i. Review of separation of duties pertaining to authorization of overtime, work scheduling, compliance activities
 - ii. Review of processes and procedures for scheduling work both planned and unplanned
 - iii. Review of automated systems or automatic triggers for inspection, maintenance, or operation activities
 - iv. Review of emergency call out procedures and processes
 - v. Identify opportunities to improve in review of items i-iv above.
 - c. Adequacy of UGI PNG's employee safety, skills training and productivity improvement/work management programs, with focused attention on the following:
 - i. Review of UGI PNG's operator qualification program
 - ii. Detailed review of integration of work procedures between UGI PNG, UGI CPG, and UGI
 - iii. Trend and analysis of reportable pipeline safety incidents.
 - d. A detailed review of gas operation and maintenance activities to determine their overall appropriateness, adherence to internal specifications, and applicable regulatory requirements, with focused attention on the following:
 - i. Perform field verification, data trending and analysis of processes and procedures for the following tasks/activities:

1. Leak Management – UGI-PNG’s leak survey, leak investigation, leak classification, and leak repair, workforce management, record keeping, field operations, and management reporting;
2. Corrosion Management – UGI-PNG’s corrosion and cathodic protection organization, workforce management, record keeping, field operations, and management reporting;
3. UGI-PNG’s Transmission Integrity Management Program;
4. UGI-PNG’s Emergency Response Practices and Procedures;
5. Planned and unplanned work processes and procedures relative to numbers 1-4 above;
6. The role of staffing, field supervisors, and compliance specialists relative to numbers 1-4 above; and
7. The role of automation relative to numbers 1-4 above.

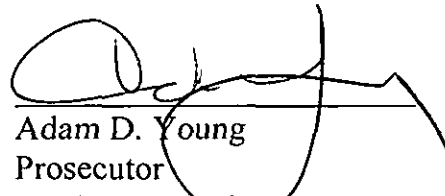
CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document, Settlement Agreement, upon the persons listed below, in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a party).

Notification by First Class Mail and Electronic Mail:

Kent D. Murphy, Esquire
UGI Corporation
460 North Gulph Road
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Prosecutor
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PA Attorney I.D. No. 207522

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P.O. Box 3265
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Dated: August 16, 2013

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