

**OTS Statement No. 1  
Witness: Michael Gruber**

**APPLICATION OF UGI PENN NATURAL GAS, INC. FOR APPROVAL OF  
THE TRANSFER BY SALE OF A 9.0 MILE NATURAL GAS PIPELINE,  
APPURTENANT FACILITIES AND RIGHT OF WAY, LOCATED IN  
MEHOOPANY, PA**

**Docket No. A-2010-2213893**

**AFFILIATED INTEREST FILING OF UGI PENN NATURAL GAS, INC.**

**Docket No. G-2010-2213894**

**Direct Testimony**

**of**

**Michael Gruber**

**Office of Trial Staff**

**RECEIVED**  
MAR 22 2011  
PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

**Concerning:**

**OTS POSITION REGARDING PROPOSED PIPELINE SALE**

*A.H.*  
OTS Statement No. 1  
3-16-2011  
Harrisburg, PA  
Docket Nos.  
A.2010-2213893  
G-2010-2213894

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Michael Gruber. My business address is Pennsylvania Public Utility  
3 Commission, P.O. Box 3265, Harrisburg PA 17105-3265.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by the Pennsylvania Public Utility Commission in the Office of  
7 Trial Staff (OTS) as a Fixed Utility Valuation Engineer.

8

9 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?**

10 A. An outline of my education and employment experience is attached as Appendix  
11 A.

12

13 **Q. PLEASE DESCRIBE THE ROLE OF OTS IN RATE PROCEEDINGS.**

14 A. OTS is responsible for protecting the public interest in rate proceedings. The OTS  
15 analysis in this proceeding is based on its responsibility to represent the public  
16 interest. This responsibility requires the balancing of the interests of ratepayers  
17 and the Company.

18

19 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

20 A. My testimony presents the OTS position in the present proceeding, captioned as  
21 the Transfer By Sale of a 9.0 Mile Natural Gas Pipeline (Auburn Line),  
22 Appurtenant Facilities and Right of Way located in Mehoopany, Pennsylvania to

1 an affiliated company, UGI Energy Services, Inc. (UGIES) by UGI Penn Natural  
2 Gas, Inc. (Company).

3  
4 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSAL**  
5 **IN THIS PROCEEDING?**

6 A. The Company is proposing to sell to an affiliate a 9 mile long gas distribution  
7 service line called the Auburn pipeline, which is actively serving 15 customers, for  
8 the value of its unrecovered investment. The Company also proposes to enter into  
9 an interconnection contract with an affiliate, UGIES for the purpose of supplying  
10 gas to its current customers. (Application pp. 5-6, paragraph 20)

11  
12 **Q. WHAT IS THE STATED PURPOSE OF THE COMPANY'S PROPOSAL?**

13 A. The Company is proposing to transfer the Auburn pipeline to UGIES to facilitate  
14 UGIES's ability to transport local Marcellus Shale natural gas to the interstate  
15 pipeline network at the northern end of the pipeline.

16  
17 **Q. CAN YOU DESCRIBE YOUR UNDERSTANDING OF THE BUSINESS**  
18 **OPERATIONS OF UGI ENERGY SERVICES INC.?**

19 A. While not specifically described in either the Application or PNG Statement No. 1,  
20 a Press Release issued by UGI Corporation on September 21, 2010 and available  
21 online, entitled, "UGI Energy Services Agrees to Gather Gas for producer in  
22 Marcellus Shale Region" and which is specifically related to the proposed

1 transaction in this proceeding, states that UGIES is a midstream and energy  
2 marketing subsidiary of UGI Corporation. UGIES markets natural gas, electricity,  
3 and fuel oil to over 8,000 commercial and industrial customers at over 25,000  
4 locations throughout the mid-Atlantic region. It also owns and operates natural  
5 gas storage in the Marcellus Shale region and peaking plants for utility clients. It  
6 owns 112 megawatts of electric generation capacity and it has another 125  
7 megawatts of gas fired generation under construction.

8  
9 **Q. WHAT IS YOUR UNDERSTANDING OF HOW THE TRANSFER OF**  
10 **THIS PIPELINE WILL AFFECT ITS USE?**

11 A. It is my understanding that the Auburn line is currently used to supply natural gas  
12 to 15 customers with an average use of 26,623 Mcf a day. Upon the granting of  
13 Commission approval and after capital investments by UGIES to increase the  
14 operating pressure and reverse the direction of the gas flow, UGIES would then  
15 use the Auburn line to move local Marcellus Shale gas to a Tennessee Gas  
16 interstate pipeline while reserving a portion of the local gas for use by the  
17 Company's 15 customers. (PNG St. 1, p. 6)

18  
19 **Q. HOW DOES THE COMPANY PROPOSE TO SUPPLY GAS TO**  
20 **CURRENT CUSTOMERS ON THIS LINE IF THIS TRANSACTION IS**  
21 **APPROVED?**

1 A. After the completion of the transfer of the Auburn line, local gas would then be  
2 delivered to each current customer on the system. This new arrangement will be  
3 governed by an interconnection agreement between UGIES and the Company.  
4 Under the agreement, UGIES will be obligated to deliver locally produced gas  
5 produced from suppliers on the Auburn line to the Company's connected load on a  
6 firm, first priority basis. If there is a shortage of locally produced gas UGIES will  
7 accept natural gas delivered from Tennessee interstate pipeline through the  
8 Company's Auburn Station I. (PNG St. 1, p. 6)

9

10 **Q. DOES THE COMPANY PROPOSE TO INCUR ANY ADDITIONAL**  
11 **EXPENSES AS A RESULT OF THE PROPOSED TRANSFER?**

12 A. Yes. At a minimum the Company proposes to incur an annual charge of \$60,000  
13 payable to UGIES for the ability to receive and supply gas to the current  
14 customers who receive gas from this line. This proposal is part of the Application  
15 requiring approval by the Commission. (PNG St. 1, p. 9)

16

17 **Q. WHO WILL ULTIMATELY PAY THIS PROPOSED \$60,000 ANNUAL**  
18 **CHARGE?**

19 A. This charge will be passed on to customers as a purchased gas cost in each of the  
20 Company's annual Section 1307(f) gas cost rate proceeding.

1 **Q. HAS THE COMPANY IDENTIFIED ANY COST SAVINGS AS A RESULT**  
2 **OF THIS TRANSACTION?**

3 A. The Company response to OSBA interrogatory I-16 claims an approximate annual  
4 cost savings for the Company of \$153,618. (OTS Ex. 1, Sch. 1)

5  
6 **Q. WILL THE COMPANY'S CUSTOMERS BENEFIT FROM THIS COST**  
7 **SAVINGS?**

8 A. Not for the foreseeable future. Until the Company files for and receives new  
9 distribution rates from the Commission, the cost savings will accrue to the  
10 Company. In fact, until the cost savings are reflected in a future base rate case,  
11 customers will experience at a minimum an annual increase of \$60,000 in gas  
12 costs.

13  
14 **Q. WILL THERE BE ANY GAS COST SAVINGS BENEFITING**  
15 **CUSTOMERS AS A RESULT OF THE AVAILABILITY OF MARCELLUS**  
16 **SHALE GAS?**

17 A. The possibility of such gas cost savings is presently unknown. Whether such  
18 savings materialize or not, I would emphasize that it is incumbent on the Company  
19 as part of least cost purchasing to attempt to purchase the lowest price gas  
20 available for all its non-transportation service customers. Therefore any gas cost  
21 savings that may exist due to the availability of Marcellus Shale gas can and  
22 should accrue to the customer's benefit as a matter of course.

1 **Q. HAS THE COMPANY STATED WHETHER THEY HAVE EXAMINED**  
2 **THE POSSIBILITY OF MAINTAINING OWNERSHIP OF THE LINE**  
3 **AND PROVIDING THE GATHERING SERVICE ITSELF?**

4 A. Company Witness Beard on pages 7 and 8 of his testimony claims that due to the  
5 significant incremental investment in plant unrelated to its primary function and  
6 the risk involved, the Company's operation of a gathering service is not consistent  
7 with its risk profile. (PNG St. 1, pp. 7-8) Little detail was provided to support that  
8 assertion.

9  
10 **Q. HAS THE COMPANY CLAIMED ANY SPECIFIC BENEFITS TO ITS**  
11 **CUSTOMERS AS A RESULT OF THIS TRANSFER?**

12 A. On page 13 of PNG Statement No. 1, the Company witness states that this transfer  
13 will allow the continued service to customers who supply more than \$800,000 in  
14 base rate revenue. He further points out that it will have net savings of \$94,000  
15 (\$154,000-\$60,000) in overall costs. The witness also implies that other savings  
16 may be available as a result of negotiations with the local gas producers.

17  
18 **Q. WHAT DOES THE COMPANY CLAIM REGARDING WHETHER THIS**  
19 **TRANSACTION PREVENTS OR LIMITS THE COMPANY'S ABILITY**  
20 **TO SERVE ITS CUSTOMERS?**

21 A. The Company claims little effect upon its present customers. The interconnection  
22 agreement the Company proposes to sign with UGIES will contractually obligate

1 UGIES to provide natural gas to the affected customers. Further, if UGIES  
2 defaults the proposed interconnection agreement gives the Company the right to  
3 reacquire the possession and ownership of the line at the prevailing net book  
4 value, subject to the necessary approvals. (PNG St. 1, pp. 12)

5 The Company's witness also claims that having this line as an outlet to ship  
6 local Marcellus Shale gas to the interstate markets will enhance competition and  
7 thereby lower gas cost on the interstate market. He also claims that the customers  
8 on this line will somehow still have the ability to shop for gas on the competitive  
9 market. (PNG St. 1, p. 16)

10 The witness also claims that the reconfiguration of this line will lead to an  
11 enhanced economic value for Proctor and Gamble, the largest single customer on  
12 the Company's system, thereby insuring its continued operation and continued  
13 contribution to the Company's base rates. (PNG St. 1, p. 17)

14  
15 **Q. DO YOU HAVE A RECOMMENDATION AS TO WHETHER THE**  
16 **COMMISSION SHOULD APPROVE THIS PIPELINE TRANSFER?**

17 A. Yes. It is my professional opinion and recommendation that the Commission  
18 should not approve this Application.

19  
20 **Q. WHY HAVE YOU CONCLUDED THAT THIS PIPELINE TRANSFER**  
21 **SHOULD NOT BE MADE?**

1 A. First and foremost, it is the function and responsibility of utilities to operate their  
2 system to supply their customers with the best service at a reasonable and least  
3 possible cost. Every utility should operate with this consideration as its first duty.  
4 The public interest is not served when a utility seeks to benefit affiliated  
5 companies at the expense of their customers. Such is the case here.

6 With this application, the Company is proposing to enter into a contract  
7 with an affiliate that will likely allow the affiliate to make a great deal of money  
8 while the customers of the Company pay more for service than they did before the  
9 transaction took place.

10  
11 **Q. PREVIOUSLY YOU MENTIONED THAT THE COMPANY IS**  
12 **CLAIMING IT WOULD SAVE APPROXIMATELY \$94,000. ASSUMING**  
13 **THIS IS TRUE, WHY DO YOU CONTEND THAT CUSTOMERS WILL**  
14 **PAY MORE AFTER THE TRANSACTION THAN BEFORE?**

15 A. Even assuming that the Company will save approximately \$153,617 in base rate  
16 costs and pay only an additional \$60,000, this does nothing to benefit the  
17 Company's customers. As noted, customers will be assessed for an additional  
18 \$60,000 in gas costs assessed in each of the Company's Section 1307(f) gas cost  
19 rate proceedings, while the \$153,617 in base rate savings will only benefit  
20 customers at some future date when the Company files for a base rate increase.  
21 Therefore there will be no immediate savings to the Company's ratepayers as  
22 claimed by the Company.

1 **Q. WILL THE COMPANY'S PROPOSAL INCREASE THE AVAILABILITY**  
2 **OF LOWER PRICED GAS THEREBY ENHANCING COMPETITION?**

3 A. The Company claim of increased competition at the interstate level may occur if  
4 the local Marcellus Shale gas is cheaper than the interstate gas. However, with no  
5 other access to natural gas, this presently proposed transfer will surely limit  
6 current customers' access to other competitive suppliers. Approval of the present  
7 application will have the gas flowing from the customers locations to the interstate  
8 pipeline, not from the interstate pipeline to the customers. Under these  
9 circumstances, it is logistically unclear how the customers would be able to  
10 acquire gas from anyone other than the local Marcellus Shale producers.

11  
12 **Q. WILL THE CUSTOMERS OF THE AUBURN LINE CONTINUE TO**  
13 **RECEIVE FIRM SUPPLY OF GAS UNDER THE COMPANY'S**  
14 **PROPOSAL?**

15 A. Under the proposed interconnection agreement offered as a part of the application  
16 before the Commission, UGIES is contractually obligated to see that the Company  
17 receives sufficient gas to serve these customers and it appears that the supply will  
18 come from local sources that will be shipping on this line. It is unclear whether  
19 any customer of this line will have any competitive gas supply options.

20 The interconnection agreement the Company proposes provides that if  
21 UGIES defaults on the proposed interconnection agreement, the Company has the

1 right to reacquire the possession and ownership of the pipeline at the prevailing  
2 net book value, subject to the necessary approvals. (PNG St. 1, p. 12)

3 However, neither the Application nor the Company witness's testimony  
4 identifies whether the "prevailing book value" would include the \$15 million  
5 worth of improvements UGIES is planning to make, which the Company will have  
6 no use for if it reacquired ownership of the pipeline. As such, the provision is only  
7 a contractual safeguard for UGIES. If we are to accept the Company's statement  
8 that this type of investment does not fit its risk profile, it is patently inconsistent  
9 for the Company to assume the risk of failure if UGIES does not profit from  
10 owning this pipeline and defaults on the agreement.

11  
12 **Q. HAS THE COMPANY SUPPLIED ANY INFORMATION ON THE SHORT**  
13 **AND LONG TERM FINANCIAL VALUE OF THE LINE TO WHOEVER**  
14 **ULTIMATELY MAINTAINS AND OPERATES IT?**

15 A. No. In response to OTS Interrogatory OTS-8, the Company states that it does not  
16 possess any estimates of the short or long term financial value of the pipeline in  
17 the event the proposed ownership transfer is approved. (OTS Ex. 1, Sch. 2)

18  
19 **Q. IN YOUR OPINION, SHOULD THE COMPANY HAVE SOME**  
20 **KNOWLEDGE OF THE VALUE OF THE LINE AFTER THE PROPOSED**  
21 **TRANSFER?**

1 A. Yes. The Company should have some knowledge as to the value, if only to ensure  
2 that its customers will not be financially disadvantaged from the transfer of the  
3 Auburn line to another entity.  
4

5 **Q. IS IT REASONABLE TO CONCLUDE THAT THE AUBURN LINE WILL**  
6 **MAKE A PROFIT FOR THE COMPANY'S CORPORATE AFFILIATE**  
7 **UGIES IF IT IS RECONFIGURED AS A LOCAL TRANSPORT LINE FOR**  
8 **MARCELLUS SHALE GAS?**

9 A. Yes, it is. The Company states that the Auburn line would operate as a gas  
10 gathering line for up to 120,000 dekatherms per day of locally produced natural  
11 gas. Since a dekatherm is equal to approximately one MCF of gas that means that  
12 the Company will use this line to transport 120,000 MCF of gas per day or  
13 approximately up to 43,800,000 MCF of gas annually. An examination of other  
14 proposals before this Commission shows that at least one other company is  
15 proposing a line for the purpose of gathering and shipping Marcellus Shale gas to  
16 the interstate pipeline for the price per Mcf of \$0.75 delivery charge, \$0.10  
17 compression service and \$0.03 dehydration charge. This total of \$0.88 per Mcf  
18 (\$0.75+\$0.10+\$0.03) would allow whoever owns the pipeline to earn up to  
19 approximately \$38,544,000 (43,800,000x\$0.88) a year.

20 There is no guarantee that the operator of this line will collect \$38,544,000  
21 a year. However, with a capital investment of \$15,000,000, it is reasonable to

1 predict that over the life of this line, it is likely to be very profitable to anyone who  
2 owns and operates it.

3  
4 **Q. WILL THE COMMISSION HAVE THE SAME AUTHORITY TO**  
5 **REGULATE THE OPERATION AND SAFETY OF THE LINE IF THE**  
6 **PROPOSED TRANSFER OF OWNERSHIP FROM PNG TO UGIES IS**  
7 **APPROVED?**

8 A. No. I have been advised by counsel that the express Commission authority to  
9 regulate the operation and safety of the 9 miles of pipeline while it is owned and  
10 operated by PNG, a jurisdictional gas distribution company will no longer be  
11 applicable if the ownership transfers to UGIES, a non-regulated entity is approved.

12  
13 **Q. DOES THE COMPANY'S WITNESS SEEK TO ADDRESS THE ISSUE OF**  
14 **THE SCOPE OF THE COMMISSION'S AUTHORITY TO REGULATE**  
15 **THE 9 MILES OF THE PIPELINE IF THE SOUGHT AFTER**  
16 **OWNERSHIP TRANSFER OCCURS?**

17 A. Not directly. However, Company Witness Beard does make a blanket statement at  
18 page 11 of his direct testimony that appears, at first glance, to suggest that the  
19 Commission's authority over the line will remain unchanged, where he states:  
20 "First, under the PNG-UGIES Interconnection Agreement, UGIES is obligated to  
21 operate and maintain the Auburn Line in accordance with applicable federal and  
22 state laws and regulation designed to ensure the safety, integrity and continuous

1 operation of the Line, as PNG is required to operate and maintain the Line today.”  
2 (PNG St. 1, p. 6) While such a generalization is technically accurate, what it fails  
3 to address is the fact that certain “state laws and regulations” enforced by the  
4 Commission upon the operation of pipelines owned and operated by a  
5 jurisdictional gas distribution company like PNG would no longer be “applicable”  
6 upon the transfer of ownership to UGIES. The resultant lack of Commission  
7 authority to regulate the line at that point, particularly as it relates to inspections  
8 and safety, is an important consideration that OTS has a responsibility to bring to  
9 the attention of the Commission in this proceeding.

10  
11 **Q. WHAT IS YOUR OPINION AND CONCLUSION REGARDING THE**  
12 **COMPANY’S PROPOSAL?**

13 A. I have concluded that this proposal should be construed as a transaction that would  
14 simply allow an affiliated company to make money at the expense of the  
15 Company’s customers.

16  
17 **Q. WHAT ACTION DO YOU RECOMMEND THE COMMISSION TAKE ON**  
18 **THE APPLICATION BY THE COMPANY?**

19 A. It is my professional opinion that even though the Company has shown no reason  
20 why this present proposal is beneficial to its customers, a properly constructed  
21 proposal to potentially upgrade this pipeline to transmit Marcellus Shale gas has  
22 merit and should be further explored. At present, for the reasons stated in this

1 testimony, it is my recommendation that the Commission deny the Application for  
2 the inadequacies of the proposal as currently constructed.

3  
4 **Q. IS YOUR RECOMMENDATION TO THE COMMISSION TO DENY THE**  
5 **APPLICATION BASED SOLELY UPON THE MANNER IN WHICH THE**  
6 **PRESENT PROPOSAL IS STRUCTURED?**

7 A. Yes. There may indeed be circumstances where the upgrade and use of the 9.0  
8 mile natural gas pipeline for the transportation of Marcellus Shale gas is both  
9 warranted and appropriate. My recommendation for denial of the Application is  
10 based on the lack of demonstrated customer benefit in the present Application.

11 There may be other scenarios which are appropriate for this endeavor to be  
12 considered and approved by the Commission. The Company should perhaps  
13 develop a new proposal that demonstrates and details clear cut benefits to its  
14 customers to meet the statutory requirements for such a transfer of ownership of  
15 utility facilities. Two other scenarios may be considered by OTS to be appropriate  
16 if properly structured:

- 17 1.) UGI PNG solicits bids from other entities with the capabilities of  
18 upgrading and operating the enhanced pipeline to ensure that the  
19 purchase price reflects the true value of such a transaction and  
20 thereby provides benefits to present customers from the likely higher  
21 sale proceeds.

1           2.) UGI PNG retains ownership of the pipeline, makes the necessary  
2           upgrades, and secures the employment of qualified personnel to  
3           operate and profit from the pipeline to the financial benefit of both  
4           the Company and its customers.

5

6   **Q.    DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

7   **A.    Yes.**

# MICHAEL J. GRUBER

## Appendix A

### **Education and Professional Background**

In May 1976, I received a B. S. in Civil Engineering from The Pennsylvania State University. After graduation, I was hired by the Pennsylvania Public Utility Commission and worked in the Valuation Section of the Bureau of Rates and Research in the area of electric and telephone valuation and depreciation. When the Bureau was realigned into Divisions, I specialized in telephone valuation and depreciation. Later, I was transferred to the Engineering Section of the Electric Division to work on electric company valuation and depreciation.

In October 1977, I participated in a special depreciation training program sponsored by Western Michigan University in Kalamazoo, Michigan, entitled "Fundamentals of Service Life Forecasting".

In the fall of 1977 and spring of 1979, I successfully completed accounting courses at the Harrisburg University Center, which were sponsored by Elizabethtown College.

From 1977 through early 1987, I was a Fixed Utility Valuation Engineer responsible for review and evaluation of claims for depreciation, original and trended original cost valuations, construction work in progress, plant held for future use, materials and supplies, and extraordinary property loss claim in many electric and telephone rate proceedings before this Commission.

In July 1978, I participated in a special depreciation training program sponsored by Western Michigan University at Calvin College in Grand Rapids, Michigan, entitled "Dynamics of Life Estimation".

I took part in the early stages of the "*1979 Triennial Review of The Bell Telephone Company of Pennsylvania Depreciation Review*", which was submitted to this Commission and the Federal Communications Commission (FCC) for review and comment prior to the FCC's prescribing of annual depreciation rates for the next three-year period.

Under the Commission's reorganization in 1987, I was assigned to the Office of Trial Staff, Engineering Section, and Analysis Division. In May of 1987, I was appointed as Supervisor of the Engineering Section, Engineering and Rate Design Division of the Office of Trial Staff, and was responsible for all rate-base, engineering and depreciation issues.

When the Office of Trial Staff reorganized in February of 1994, I was assigned the position of Assistant to the Division Chief, (of the newly formed) Telecommunications/Water Division of the Office of Trial Staff.

My duties, as Assistant to the Division Chief of the Telecommunications/Water Division of the Office of Trial Staff, involved informal training of entry level engineers and work on unusual issues which occur in the various rate proceedings before the Commission in which the Office of Trial Staff becomes involved.

I currently work as a Fixed Utility Valuation Engineer III working on a variety of utility filings.

Early in my time at the Public Utility Commission, I was a Fixed Utility Valuation Engineer in the following major rate proceedings before the Pennsylvania Public Utility Commission:

- 1) The Duquesne Light Company at Docket No. R.I.D 373
- 2) The Pennsylvania Electric Company at Docket No. R.I.D 392
- 3) The Metropolitan Edison Company at Docket No. R.I.D 434
- 4) The Bell Telephone Company of Pennsylvania at Docket  
Nos. R.I.D 367 and R-79060719
- 5) The Bethel and Mt. Actna Telephone and Telegraph Co. at Docket  
No. R-77090452
- 6) The Mid-Penn Telephone Corporation at Docket No. R-77090462
- 7) The Commonwealth Telephone Company at Docket No. R-77090482

In addition, I have been a Fixed Utility Valuation Engineer in various other informal rate investigations.

I have testified in the following cases:

General Telephone Company of Pennsylvania at R-7910062  
West Penn Power Company at R-80021082, F-842632, and R-850220  
Pennsylvania Power & Light Company at R-8003114, R-822169,  
R-842651, and R-00973954  
Philadelphia Electric Company at R-80061225, and R-842590  
Metropolitan Edison Company at R-80051196, R-811601, and R-842770  
Pennsylvania Electric Company at R-80051197, R-811602, and R-842771  
Pennsylvania Power Company at R-811510, R-832409, R-850267, and  
R-870732  
UGI Gas at R-821899, and R-870602  
Duquesne Light Company at R-850021, R-860378, and R-870651  
Shickshinny Water Company at R-870764  
Marion Height Water Company at R-870774  
National Fuel Gas Distribution Company at R-881125, R-891218,  
R-00942991, and R-00963779  
Arrowhead Public Service Corporation at R-891557  
Duquesne Light Company at P-900485  
General Public Utilities at P-910502, and G-900240  
LP Water & Sewer at G-910255, A-230242, A-211770  
Sunshine Hills Water Company at R-912023  
West Penn Power at R-00922378  
MPW Utilities Inc. at A-230026  
Public Service Water Company at A-210025F002  
UGI Utilities Inc., (Electric) at R-00932862, and R-00973975  
Pennsylvania American Water Company at R-00932670  
National Utilities Inc. at R-00932670  
Newtown Artesian Water Company at R-00943157  
IntraLATA Interconnection Investigation at I-00940034  
MFS Intelenet of PA at A-310203  
Alltel at P-981423  
Equitable Gas Co., 1307(f), Docket Nos. R-00016132, and R-00005067  
Pike County Power & Light, Docket No. R-00011872  
UGI Utilities, Inc. – Gas Division, Docket No. R-00016376  
Wellsboro Electric Company, Docket No. R-00016356  
T. W. Phillips Gas and Oil Company, Docket No. R-0005807  
Equitable Gas Co. Restructuring Filing, Docket No. R-00099784  
P.F.G. Gas, Inc. and North Penn Gas Companies, Docket No. R-0005277  
T. W. Phillips Gas and Oil Company – Restructuring Filing, R-994790  
T. W. Phillips Gas & Oil Company, R-00016898  
The Peoples Natural Gas Company d/b/a Dominion Peoples, R-00027134;  
The Peoples Natural Gas Company, P-00021952

Philadelphia Gas Works – Restructuring Filing, M-00021612  
Duquesne Light Company - POLR, P-00032071  
Penn Estates Utilities-Water, R-00038429  
Penn Estates Utilities-Sewer, R-00038498  
National Fuel Gas Distribution, R-00049108  
Equitable Gas Company, R-00049154  
PPL Electric Utilities Corporation, R-00049255  
Valley Energy, Inc., R-00049345  
UGI Utilities, Inc., R-00049422  
Township of Falls - Sewer, R-00049557  
National Fuel Gas Distribution Corp., R-00049656  
National Fuel Gas Distribution Corp., R-00050216  
Equitable Gas Company, R-00050272  
UGI Utilities Inc., A-120011F2000

Some of the issues I have testified on include:

- 1) Depreciation and Service Life Analysis
- 2) Customer Contributions In Aid of Construction
- 3) Customer Advances for Construction
- 4) Construction Work in Progress
- 5) Material and Supplies
- 6) Post Test Year Plant Additions
- 7) Loan Financing and Repayment
- 8) Utility Plant Used and Useful in the Public Service
- 9) Cost of Gas
- 10) Take or Pay Obligations of Gas Utilities
- 11) Rules and Regulations for New Telecommunications Services
- 12) Contractual Obligations Between Utilities
- 13) Rate Structure and Tariff Issue
- 14) Excess Utility Plant Investment
- 15) Cost of Service and
- 16) General Prudence Issues
- 17) 1307(f) Gas Purchase Issues
- 18) Stranded Electric Costs
- 19) Chapter 30 Issues

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**the**

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

Responses of UGI Penn Natural Gas, Inc.  
to Interrogatories Set I of the  
Office of Small Business Advocate  
(CORRECTED)

16. Reference Exhibit E, page 10:
- a. Please provide the complete basis for the \$5,000 monthly interconnection fee.
  - b. Please provide the annual costs avoided by PNG associated with the sale of the assets, with supporting calculations and workpapers.

Response:

- a. See Attachment OSBA-I-16 (CORRECTED).
- b. See Attachment OSBA-I-16 (CORRECTED).

Responsible Witness: Anthony Cox

Attachment OSBA I-16  
 (CORRECTED)

a. Please provide the complete basis for the \$5,000 monthly interconnection fee. The fee resulted from negotiations between PNG and UGIES. However, based on our assumptions of the costs which are listed below, UGI PNG believes the fee is reasonable.

<u>Category</u>	<u>TOTAL</u>
Gas Quality Inspection	\$ 6,100.00
Odorization	\$ 8,300.00
Valve Maintenance	\$ 1,000.00
Transmitter Calibration	\$ 1,000.00
PA One Call	\$ 3,800.00
ROW Clearing	\$ 6,000.00
Leak Survey	\$ 1,500.00
Cathodic Protection	\$ 2,500.00
Pipeline Integrity	\$ 6,300.00
SCADA Monitoring & Response	\$ 5,000.00
Station Inspections	\$ 6,000.00
Materials (odorant, RTU parts, transmitters, etc.)	\$ 15,000.00
<b>Total</b>	<b>\$ 62,500.00</b>

b. Please provide the annual costs avoided by PNG associated with the sale of the assets, with supporting calculations and workpapers.

The estimated costs avoided to own, operate and maintain the Auburn line are listed below.

<u>Category</u>	<u>Approximate Total Dollars</u>
Gas Quality Inspection	\$6,048.00
Odorant Maintenance	\$22,780.00
Valve Maintenance	\$1,008.00
Transmitter Calibration	\$1,008.00
Line Locating	\$3,780.00
Right of Way Clearing	\$6,000.00
Leak Survey	\$1,512.00
Corrosion Periodic Survey	\$504.00
Rectifier Reads	\$2,288.00
Transmission Pipeline Integrity	\$6,288.00
SCADA Monitoring & Response	\$5,040.00
Station Inspections	\$6,048.00
Depreciation Expense	
Line and appurtenant facilities	\$5,143.63
Interconnect	\$7,361.47
Auburn Heater Fuel	\$5,074.00
Estimated Cost of Capital	<u>\$73,756.52</u>
<b>Total</b>	<b>\$153,617.61</b>

**Responses of UGI Penn Natural Gas, Inc.  
to Interrogatories of the  
Office of Trial Staff**

**OTS Exhibit No. 1  
Schedule 2**

**OTS-8** Provide any and all current estimates of the short and long term financial value of the pipeline in the event the proposed ownership transfer is approved.

**Response:**

UGI PNG does not possess any estimates of the short and long term financial values of the pipeline in the event the proposed ownership transfer is approved. UGI PNG believes, however, that the value likely would not exceed the reproduction cost of the line as a separate gathering enterprise that would bypass the Auburn Line by building a similar line. See Confidential Attachment to OSBA-I-2.

**Responsible Witness: Robert F. Beard, Jr., P.E.**

**OTS Statement No. 1-SR  
Witness: Michael Gruber**

**APPLICATION OF UGI PENN NATURAL GAS, INC. FOR APPROVAL OF  
THE TRANSFER BY SALE OF A 9.0 MILE NATURAL GAS PIPELINE,  
APPURTENANT FACILITIES AND RIGHT OF WAY, LOCATED IN  
MEHOOPANY, PA**

**Docket No. A-2010-2213893**

**AFFILIATED INTEREST FILING OF UGI PENN NATURAL GAS, INC.**

**Docket No. G-2010-2213894**

**Surrebuttal Testimony**

**of**

**Michael Gruber**

**Office of Trial Staff**

**RECEIVED**

**MAR 22 2011**

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S OFFICE**

**Concerning:**

**OTS POSITION REGARDING PROPOSED PIPELINE SALE**

*A.G.W.* OTS Statement No. 1-SR  
3-16-2011  
Harrisburg, PA  
Docket Nos.  
A-2010-2213893  
G-2010-2213894

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Michael Gruber. My business address is Pennsylvania Public Utility  
3 Commission, P.O. Box 3265, Harrisburg PA 17105-3265.

4

5 **Q. ARE YOU THE SAME MICHAEL GRUBER WHO PREVIOUSLY**  
6 **PRESENTED TESTIMONY TITLED OTS STATEMENT NO. 1?**

7 A. Yes.

8

9 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

10 A. My surrebuttal testimony will address the rebuttal testimony of Company witness  
11 Robert F. Beard.

12

13 **Q. HAVE YOU READ MR. BEARD'S REBUTTAL TESTIMONY?**

14 A. Yes.

15

16 **Q. DO YOU HAVE ANY GENERAL COMMENTS CONCERNING MR.**  
17 **BEARD'S REBUTTAL TESTIMONY?**

18 A. Yes. In his rebuttal testimony Mr. Beard restates the supposed benefits of the  
19 transaction. However, it fails to address any of the real issues I have with the  
20 Company's proposal. No analysis has been presented to show the extent to which  
21 the service to the Auburn Line's customers will be affected. He appears to exhibit  
22 a degree of unfamiliarity with how the Commission regulates utilities under its

1 charge. He expresses ideas which indicate that he believes the Commission  
2 should regulate parts of a utility system in a vacuum considering the needs of one  
3 large customer without regard to other affected customers. Further his defense of  
4 this proposal continues to support the idea that the utility (UGI-PNG) should be  
5 run to benefit the affiliate (UGIES). While I do not object to the basic idea behind  
6 the proposal made by the Company, it is my opinion that the proposal should be  
7 structured to benefit the UGI-PNG distribution customers rather than UGIES.  
8 Nothing in his testimony has changed my opinion that the Company management  
9 has failed to examine this proposal with any due diligence and to structure the  
10 proposal to provide a reasonable benefit to all its customers and not its affiliate.

11  
12 **Q. WHAT HAS LED YOU TO FORM THIS OPINION?**

13 **A.** It is my understanding that in this state a utility has a statutory obligation to serve  
14 its customers and to do so at a lowest reasonable cost consistent with the safe  
15 operation of its distribution system. In this case, it is the responsibility of the  
16 Company to insure service to all 15 customers currently taking distribution service  
17 off of the Auburn Line at the lowest reasonable cost. Yet in its proposal the  
18 Company has primarily shown concern for only one of these customers. It has not  
19 shown any analysis on what effect this proposal will have on the cost to serve to  
20 the remaining 14 customers. In the Company's proposal the 15 customers on this  
21 line will be served from the Marcellus shale gas being transported to the interstate  
22 market.

1 To show how little forethought went into the Company's position, when  
2 responding to criticism about limiting these customers competitive market, Mr.  
3 Beard stated on page 17 of his rebuttal testimony, that the customers on this line  
4 will still be able to shop for an alternate supplier if they desire. As I understand  
5 this part of the deal, if a customer finds a cheaper supplier than the Company's  
6 proposed Marcellus shale gas, then this supply will be handled by a displacement  
7 of supply with the new cheaper supply being delivered to Company somewhere  
8 else and the Company supplying Marcellus Shale gas to the customer. If this is  
9 true then presumably the supply being bought by one of these customers costs less  
10 than the Marcellus shale gas being purchased to supply the customer. Will the  
11 difference in cost be added to the gas cost the Company will recover in its 1307(f)  
12 or will the company absorb this cost? Has the Company even considered where  
13 this difference in cost will show up in its 1307(f) filing?

14  
15 **Q. WHY ARE YOU OF THE OPINION THAT THE COMPANY IS**  
16 **PROPOSING THIS FOR ONLY ONE CUSTOMER AND WHAT**  
17 **HAPPENS TO THE OTHER 14 IS SIMPLY FALLOUT?**

18 **A.** On page 5 of his rebuttal Mr. Beard refers to the line as being a dedicated line  
19 serving a single customer, P & G thus reinforcing the idea that this transfer and  
20 realignment of the line's purpose is being done for the benefit of only one  
21 customer. Nowhere in the proposal or any of the responses to interrogatories has  
22 the Company shown or provided any actual cost analysis which delineates the

1 costs and potential benefits inherent in the proposal. In fact the only information  
2 the Company has provided is the \$60,000 annual fee which will begin as soon as  
3 the line is realigned, an approximate \$15 million dollar investment to realign the  
4 purpose of the line, an approximate \$10,500,000 to build a new line, and a  
5 decrease in base rates of \$154,000 which may occur at some future but unknown  
6 point in time. But nowhere is there any cost analysis for serving the remaining 14  
7 customers who are apparently being served off another customer's dedicated line.  
8 The Company appears to be relying on its affiliate, UGIES, a non regulated  
9 company, to serve the affected customers at a reasonable cost. The Company has  
10 preformed no analysis as to what will be the future cost to serve these customers.

11  
12 **Q. HAS THE COMPANY ADDRESSED THE LIKELYHOOD OF NOT**  
13 **BEING ABLE TO SERVE THE CURRENT CUSTOMERS OF THIS LINE?**

14 **A.** Yes. On page 15 of his rebuttal testimony, Mr. Beard addresses what could  
15 happen if the Emergency Service Agreement is terminated for non performance.  
16 The agreement gives PNG the option to re-acquire the Auburn Line to assure the  
17 continuity of distribution service to its customers. The cost to PNG would be the  
18 net book value for the portion of the line necessary to provide distribution service.  
19 This cost would include any unidentified necessary improvements made to the line  
20 which enhance delivery service. However, no explanation of the costs involved or  
21 what the necessary improvement are is included. Again the Company is relying

1 on its affiliate, UGIES, to provide the necessary information as to what the  
2 acquisition price will be without the benefit of any independent analysis.

3  
4 **Q. DO YOU BELIEVE THAT THERE IS A RISK OF NON-PERFORMANCE?**

5 **A.** The Company has not provided any definition for “Risk of Non performance”.

6 The Company has provided two different opinions about the reliability of the  
7 Marcellus shale gas. In its original position the Company stated that, it is too risky  
8 for PNG to undertake this realignment because of the risk associated with  
9 Marcellus shale gas supply, however now it is relying on UGIES to use this  
10 potentially risky Marcellus shale gas to supply its customers. (See pages 7-10 of  
11 Mr. Beard’s rebuttal testimony) If the project fails, Mr. Beard is of the opinion  
12 that PNG will have the ability to reacquire the pipeline property. However, what  
13 Mr. Beard failed to recognize is that PNG will be under an obligation to reacquire  
14 the pipeline in order to fulfill its obligation to provide service to these 15  
15 customers.

16  
17 **Q. DO YOU HAVE ANY DIRECT COMMENTS ON MR. BEARDS**  
18 **REBUTTAL TESTIMONY?**

19 **A.** Yes. On pages 2 and 3 of Mr. Beard’s rebuttal he reiterates the Company’s  
20 proposal and lists the alleged benefits to the customers from this transfer and  
21 realignment of this pipeline. These benefits which customers are supposed to  
22 receive are a reduction in rates of \$154,000 at some indeterminate point in the

1 future. Of course this reduction comes with an annual cost of only \$60,000 a year  
2 which will start when this proposal is approved.

3 A second benefit listed is that Procter and Gamble Paper Products  
4 Company (P&G) will sign a 20 year contract to receive distribution service from  
5 the Company insuring a significant revenue source into the future and thereby  
6 removing the threat of P&G building its own pipeline to access the interstate  
7 transportation network. This concession by P&G to sign a service contract may be  
8 valuable but it supports my position that P & G is interested in service not about  
9 the ownership of the pipeline. If P&G is considering building its own line at a  
10 cost of approximately \$25,000,000 (\$10,500,000 for a new line and 15,000,000 for  
11 the necessary equipment to operate it as a transportation line) clearly the Company  
12 should be looking at facilitating this realignment itself. Of course this pipeline  
13 construction presupposes that P&G or anyone can acquire the proper permission  
14 and right of ways to actually build its own pipeline.

15 Finally he states that the ultimate benefit will be to the local economy for  
16 opening the area to Marcellus shale production. I agree that this benefit is the  
17 important. That is why all 1307(f) LDCs have been requested to inquire about  
18 purchasing Marcellus shale gas in the annual 1307(f) filings. While the interest of  
19 the local economy should be considered, I am of the opinion that any arrangement  
20 not harm the utility's customers.

1           The way this transaction has been described, the Utility's customers are  
2           being used as a safety net if the gathering venture for UGIES does not succeed or  
3           if UGIES defaults on the agreement.

4  
5 **Q.   HOW ARE THE UTILITY'S CUSTOMERS BEING USED AS A SAFETY**  
6 **NET?**

7 **A.**   Prior to this Agreement and if this Agreement fails, the utility has an obligation to  
8       serve these customers. If the Agreement fails the Utility is under an obligation to  
9       reacquire the pipeline in order to fulfill its obligation to maintain service to these  
10      customers.

11  
12 **Q.   DO YOU HAVE ANY SPECIFIC INSTANCES WHERE THE COMPANY'S**  
13 **ARGUMENTS ARE SUSPECT?**

14 **A.**   Yes. For one example is on page 4 of Mr. Beard's rebuttal testimony, the  
15       Company argues that it is not possible to change the deal without recasting the  
16       entire transaction. Why? The Company apparently wants us to believe that P&G  
17       may not want to deal with anyone but UGIES. The same agreements could be  
18       made if someone else is operating the Pipeline or even if UGIES is operating the  
19       line as an agent for UGI-PNG. Statements like this make me wonder why it  
20       should matter to P&G who operates the line. I note that P & G will have a 20 year  
21       contract for services, so if UGIES defaults on the agreement, PNG must honor the  
22       20 year contract.

1           On page 10 of his testimony, Mr. Beard states that the Company has  
2 presented some information as to the replacement value of the line. But nowhere  
3 does it give any idea of what this value is or the extent to which UGIES will profit  
4 by owning this line. I still have seen no actual calculation or demonstration that  
5 this line will not harm the customers of the Company. Additionally on page 11,  
6 Mr. Beard states that additional information as to the value of the line is not  
7 relevant to this proceeding. I personally fail to see how the value or profitability  
8 of this line is nor relevant to this proceeding when the first consideration of  
9 Company management should be how to best serve their customers and not an  
10 affiliate. How can the Company make a decision on what to do with the line  
11 without knowing what the line is worth both before and after the transaction?  
12 How can the Company make a decision that it is not able to realign and operate  
13 this line without any information on which to base its decision on.

14           Another argument made by the Company on page 12 states that there are  
15 aspects of the transaction which will not be attractive to an independent,  
16 unregulated producer or midstream operator. Also it states that it is unclear why a  
17 third party would want to agree to any additional conditions. The confusion  
18 begins with the fact that in this proposal, UGIES is operating as an independent,  
19 unregulated producer or midstream operator. Which brings up the point of why is  
20 UGIES willing to be a part of this transaction? What special information does  
21 UGIES have that makes them willing to enter into this transaction? Is this an  
22 arm's length transaction with UGIES getting no special information or treatment

1 than any other third party would get as it is supposed to be? Or is it something  
2 else?

3  
4 **Q. DO YOU HAVE ANYTHING FURTHER TO ADD AT THIS TIME?**

5 **A.** Yes. I presented a calculation in my direct testimony which used the charges  
6 proposed by another company who wishes to ship Marcellus Shale gas to the  
7 Interstate pipeline network and the Company's projected capacity of gas which  
8 could be shipped to develop a estimated income of \$38,000,000. This calculation  
9 was only intended to demonstrate that possible profitability of the line. It was not  
10 intended to be a definite calculation of what will occur only what could occur.

11 Further, I would note that the response the Company witness is waiting for  
12 was sent via email two days before his testimony went out. If he has not received  
13 it he should talk to his attorney.

14  
15 **Q. HAS MR. BEARD ADDRESSED YOUR CONCERNS ABOUT THE  
16 FUTURE SAFETY INSPECTIONS OF THE PIPELINE?**

17 **A.** Yes. On page 18 on his rebuttal testimony Mr. Beard references Senate Bill 325  
18 and House Bill 344 which would transfer inspection authority for intrastate  
19 gathering pipelines in Pennsylvania from PHMSA to the Commission.

20  
21 **Q. DOES THIS AFFECT YOUR CONCERNS ABOUT FUTURE SAFETY  
22 INSPECTIONS?**

1 A. No. It is my understanding that both of these bill are still under discussion and  
2 that neither has been passed.

3

4 **Q. HAS YOUR OPINION OF THIS PROPOSAL CHANGED AS A RESULT**  
5 **OF THE COMPANY'S REBUTTAL TESTIMONY?**

6 A. No. OTS is of the firm opinion that the development of the Marcellus shale gas  
7 fields is a good idea and that it could benefit the all sectors of the local and state  
8 economies. However the Company has done nothing to show that this proposal is  
9 the best way to go. In addition the Company has failed to adequately address the  
10 continued safety inspections of the line and to show that the ratepayers will be  
11 held harmless as a result of this proposal.

12

13 **Q. DOES THIS CONCLUDE YOU TESTIMONY?**

14 A. Yes. However if the Company ever does present any additional information I will  
15 look at it and give it due consideration.