

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

Docket No. A-2010-2213893

DIRECT TESTIMONY

OF

JEROME D. MIERZWA

RECEIVED

MAR 22 2011

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

FEBRUARY 18, 2011

EXETER

ASSOCIATES, INC.
10480 Little Patuxent Parkway
Suite 300
Columbia, Maryland 21044

AMM
OCA Statement No. 1
3-16-2011
Harrisburg, PA
Docket Nos.
A-2010-2213893
G-2010-2213894

1 **I. INTRODUCTION**

2 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

3 A. My name is Jerome D. Mierzwa. I am a principal and President of Exeter Associates,
4 Inc. My business address is 10480 Patuxent Parkway, Suite 300, Columbia, Maryland
5 21044. Exeter specializes in providing public utility-related consulting services.

6 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
7 EXPERIENCE. .

8 A. I graduated from Canisius College in Buffalo, New York, in 1981 with a Bachelor of
9 Science Degree in Marketing. In 1985, I received a Masters Degree in Business
10 Administration with a concentration in finance, also from Canisius College. In July 1986,
11 I joined National Fuel Gas Distribution Corporation ("NFGD") as a Management Trainee
12 in the Research and Statistical Services Department ("RSS"). I was promoted to
13 Supervisor RSS in January 1987. While employed with NFGD, I conducted various
14 financial and statistical analyses related to the company's market research activity and
15 state regulatory affairs. In April 1987, as part of a corporate reorganization, I was
16 transferred to National Fuel Gas Supply Corporation's ("NFG Supply's") rate department
17 where my responsibilities included utility cost of service and rate design analysis,
18 expense and revenue requirement forecasting and activities related to federal regulation. I
19 was also responsible for preparing NFG Supply's Purchased Gas Adjustment ("PGA")
20 filings and developing interstate pipeline and spot market supply gas price projections.
21 These forecasts were utilized for internal planning purposes as well as in NFGD's
22 1307(f) proceedings.

23 In April 1990, I accepted a position as a Utility Analyst with Exeter Associates,
24 Inc. In December 1992, I was promoted to Senior Regulatory Analyst. Effect April
25 1996, I became a principal of Exeter Associates. Since joining Exeter Associates, I have

1 specialized in evaluating the gas purchasing practices and policies of natural gas utilities,
2 utility class cost of service and rate design analysis, sales and rate forecasting,
3 performance-based incentive regulation, revenue requirement analysis, the unbundling of
4 utility services and evaluation of customer choice natural gas transportation programs.

5 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS
6 ON UTILITY RATES?

7 A. Yes. I have provided testimony on more than 100 occasions in proceedings before the
8 Federal Energy Regulatory Commission ("FERC"), utility regulatory commissions in
9 Delaware, Georgia, Illinois, Indiana, Louisiana, Montana, Nevada, New Jersey, Ohio,
10 Rhode Island, Texas and Virginia, as well as before this Commission.

11 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

12 A. On December 1, 2010, UGI Penn Natural Gas, Inc. ("PNG" or "the Company") filed an
13 application requesting that the Commission approve the transfer by sale of a nine-mile
14 natural gas pipeline, appurtenant facilities and right of way located between Auburn and
15 Mehoopany, Pennsylvania (collectively "Auburn Line"), to an affiliated company, UGI
16 Energy Services, Inc. ("UGIES"). The application also requested approval of an
17 Interconnect Agreement between PNG and UGIES. Exeter Associates, Inc. ("Exeter")
18 was retained by the Pennsylvania Office of Consumer Advocate ("OCA") to review
19 PNG's application.

20 Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

21 A. My findings and recommendations are as follows:

- 22 • PNG's application should not be approved until a purchased gas agreement is
23 in place for PNG's retail customers that are currently served from the Auburn
24 Line;
- 25 • PNG should adjust its current rates to reflect the savings it will realize from
26 the transfer of the Auburn Line to UGIES; and

- 1 • The Commission should condition the approval of PNG's application to
2 ensure that costs to ratepayers will not increase as a result of termination of
3 the proposed Interconnect Agreement with UGIES.

4 **II. OVERVIEW OF THE PROPOSED AUBURN LINE**
5 **TRANSACTIONS AND OPERATIONS**

6 Q. BRIEFLY DESCRIBE THE AUBURN LINE AND ITS CURRENT
7 OPERATIONS.

8 A. The Auburn Line is a nine-mile long transmission line which extends southward from
9 PNG's citygate station interconnect with Tennessee Gas Pipeline in Auburn Township,
10 Susquehanna County to a Procter & Gamble facility located near Mehoopany,
11 Pennsylvania. Just north of the Procter & Gamble facility the Auburn Line is
12 interconnected with a pipeline system owned and operated by PVR Marcellus Gas
13 Gathering, LLC ("PVR").

14 Gas currently flows through the Auburn Line in a southerly direction from
15 Tennessee to Procter & Gamble. Along the way, PNG provides natural gas distribution
16 service to 14 other customers. At the PVR interconnect, Marcellus Shale gas produced
17 by Citrus Energy Corporation ("Citrus") is delivered to the Auburn Line. Deliveries by
18 Citrus represent approximately 15 percent of total volumes delivered on the Auburn Line.
19 Citrus' gas supply is comprised of Marcellus Shale gas produced on and around Procter
20 & Gamble's property. Daily deliveries on the Auburn Line currently average 27,000 Dth.

21 Q. BRIEFLY SUMMARIZE PNG'S PROPOSAL IN THIS CASE.

22 A. PNG is proposing to transfer to UGIES, by sale: (1) the Auburn Line; (2) the PVR
23 interconnection facilities owned by PNG; and (3) PNG's rights and obligations under its
24 interconnection agreement with PVR. UGIES will pay PNG an amount equal to the
25 depreciated original cost of the facilities to be transferred. Pursuant to an Interconnect
26 Agreement between PNG and UGIES, UGIES will be responsible for: (1) operating and

1 maintaining the transferred facilities; and (2) delivering gas to Procter & Gamble and the
2 14 other PNG customers currently served from the Auburn Line.

3 Q. HOW WILL THE AUBURN LINE OPERATE AFTER THE TRANSFER OF
4 THE FACILITIES TO UGIES?

5 A. UGIES plans to reverse the direction of flow on the Auburn Line and significantly
6 expand its capacity. The Auburn Line will gather significantly greater quantities of
7 locally produced natural gas (up to 120,000 Dth per day) which will be delivered into the
8 Auburn Line at the PVR interconnection. This gas will then be delivered to: (1) PNG
9 facilities connected to the Auburn Line and subsequently by PNG to its current (and
10 future) customers that are served from the Auburn Line, including Procter & Gamble; and
11 (2) into Tennessee for further delivery into the interstate natural gas market. UGIES will
12 establish a second interconnect with Tennessee to compress the local gas to interstate
13 pipeline operating pressures. The estimated capital investment by UGIES required for
14 this project is \$15 million.

15 **III. EVALUATION OF APPLICATION**

16 Q. DO YOU HAVE ANY CONCERNS WITH PNG'S PROPOSAL TO
17 TRANSFER THE AUBURN LINE?

18 A. Yes. I have concerns related to:

- 19 • The reasonableness of the prices paid for the gas which will be purchased by PNG
20 for retail sales customers served from the Auburn Line;
- 21 • PNG's failure to adjust current rates to reflect the savings from the transfer of the
22 Auburn Line to UGIES; and
- 23 • Adoption of appropriate protections for PNG ratepayers in the event the project is
24 terminated, or UGIES otherwise defaults under the Interconnection Agreement.

1 Q. PLEASE ELABORATE ON YOUR CONCERN REGARDING THE
2 REASONABLENESS OF THE PRICES PAID FOR THE GAS WHICH WILL
3 BE PURCHASED BY PNG FOR RETAIL CUSTOMERS SERVED FROM
4 THE AUBURN LINE.

5 A. PNG's witness in this proceeding, Robert F. Beard, testifies that PNG is currently
6 negotiating with Citrus for the purchase of gas to meet the demands of the PNG retail
7 sales customers served from the Auburn Line. Before PNG's application is approved, the
8 gas purchase agreement with Citrus must be deemed reasonable. PNG's application
9 should not be approved until the gas purchase agreement with Citrus has been finalized
10 and deemed reasonable.

11 Q. PLEASE ELABORATE UPON YOUR CONCERN THAT PNG HAS NOT
12 PROPOSED TO ADJUST CURRENT RATES TO REFLECT THE SAVINGS
13 IT WILL REALIZE FROM THE TRANSFER OF THE AUBURN LINE TO
14 UGIES.

15 A. Witness Beard estimates that PNG will avoid \$153,617 in annual costs due to the transfer
16 of the Auburn Line. However, the Interconnection Agreement between PNG and UGIES
17 requires PNG to pay UGIES a monthly fee of \$5,000, or \$60,000 on an annual basis.
18 Therefore, the expected annual savings to PNG are approximately \$94,000. PNG has
19 indicated that this savings will be reflected in its next base rate case. Given that the
20 proposed transaction was initiated by the Company and is a one-time, non-recurring
21 transaction, rates to PNG's customers should be adjusted at this time, not in PNG's next
22 base rate case, whenever that may be. Alternatively, these savings should be deferred,
23 accumulated and reflected in PNG's next rate case.

24

1 Q. WHAT IS YOUR CONCERN THAT APPROPRIATE RATEPAYER
2 PROTECTIONS BE ADOPTED IF THE FACILITIES ARE TRANSFERRED?

3 A. The Interconnection Agreement between PNG and UGIES does not include a term or
4 termination date. However, it provides both parties a number of options to terminate the
5 Interconnection Agreement. If the Interconnection Agreement is terminated, PNG's
6 ratepayers may experience additional costs. It would be inappropriate for regulated
7 ratepayers to experience additional costs as a result of an unregulated, non-jurisdictional
8 venture initiated by the Company. The Commission should condition the approval of
9 PNG's application to, among other things, ensure that costs to ratepayers will not
10 increase as a result of termination of the Interconnect Agreement.

11 Q. DO YOU HAVE AN EXAMPLE AS TO HOW COSTS TO RATEPAYERS
12 COULD INCREASE IN THE EVENT THE INTERCONNECT AGREEMENT
13 IS TERMINATED?

14 A. Yes. Under Article VIII of the Interconnect Agreement, if UGIES defaults on its
15 obligation, PNG has the contractual right to reacquire possession and ownership of the
16 Auburn Line at the prevailing net book value. This book value could be substantially
17 higher than the value of the facilities which are proposed to be transferred to UGIES in
18 the Company's application.

19 Q. WHAT PROTECTIONS DO YOU RECOMMEND?

20 A. I recommend that if the Interconnect Agreement is terminated, PNG's recoverable costs
21 and charges to ratepayers be restated to reflect those which would have existed if the
22 proposed transfer of the Auburn Line to UGIES never occurred.

23 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

24 A. Yes, it does at this time.

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SURREBUTTAL TESTIMONY OF

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MARCH 11, 2011

EXETER

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A.P.M.
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1 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Jerome D. Mierzwa. I am a principal and President of Exeter Associates,
3 Inc. My business address is 10480 Patuxent Parkway, Suite 300, Columbia, Maryland
4 21044.

5 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

6 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of UGI
7 Penn Natural Gas, Inc. ("PNG") witness Robert F. Beard.

8 Q. WITNESS BEARD CLAIMS THAT PNG'S CUSTOMERS WILL NOT BE AT
9 RISK OF PAYING ADDITIONAL COSTS FOR THE AUBURN LINE IF THE
10 PROPERTY IS RETURNED TO PNG AS YOU CLAIM IN YOUR DIRECT
11 TESTIMONY. WHAT IS YOUR RESPONSE?

12 A. Witness Beard testifies that PNG ratepayers will not be asked to pay for any portion of
13 the Auburn Line project that is not required to assure the continuity of retail distribution
14 service. He then claims that to the extent improvements are made to the Auburn Line
15 which enhance distribution service, the costs of those improvements would be
16 appropriately included in the rates paid by PNG customers. He further claims that most
17 of the costs of the Auburn Line would be assigned to Procter& Gamble ("P&G"), the
18 primary customer served by the line.

19 PNG ratepayers should not pay for any improvements which enhance distribution
20 service if those enhancements are unnecessary. In its present state, the Auburn Line is
21 performing satisfactorily, and no improvements have been deemed necessary by the
22 Company to provide safe, reliable and adequate distribution service. Although P&G is
23 the largest customer on the Auburn Line, other PNG customers are served from the line
24 and should not be responsible for additional costs due to the Company's Auburn Line
25 proposal. It is not inconceivable that in the future, P&G may have the opportunity to

1 bypass PNG, or is able to negotiate a discounted rate which could shift a portion of
2 Auburn Line project costs to other PNG customers.

3 Q. WITNESS BEARD DISAGREES WITH YOUR RECOMMENDATION THAT
4 THE COMMISSION NOT APPROVE THE AUBURN LINE TRANSACTION
5 UNTIL PNG HAS COMPLETED A GAS PURCHASE AGREEMENT WITH
6 CITRUS AND THIS AGREEMENT IS FOUND TO BE REASONABLE.
7 WHAT IS YOUR RESPONSE?

8 A. The gas purchase agreement with Citrus is a necessary component of the Auburn Line
9 transaction and may have an impact on PNG's ratepayers. As such, it should be
10 considered in this proceeding along with all other aspects of the project so that the entire
11 impact on ratepayers can be evaluated.

12 Q. WITNESS BEARD DISAGREES WITH YOUR RECOMMENDATION THAT
13 THE SAVINGS PNG WILL REALIZE FROM THIS PROJECT BE
14 RETURNED TO RATEPAYERS. DO YOU HAVE ANY COMMENTS?

15 A. Yes. In my direct testimony I recommended that ratepayers should receive a credit to
16 base rates for these savings immediately, or that the savings be deferred and accumulated
17 and returned to ratepayers in PNG's next base rate case. Witness Beard claims that this is
18 impermissible single issue ratemaking. I disagree. PNG's decision to transfer the
19 Auburn Line is a one-time extraordinary event, and a decision of the Company's own
20 choosing, therefore, I believe a credit to ratepayers is appropriate.

21 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

22 A. Yes, it does.

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