

I.12-01-007, I.11-02-016, I.11-11-009.

PG&E'S REQUEST FOR OFFICIAL NOTICE

EXHIBIT 5

**Joint Settlement Petition, *Pa. Pub. Util. Comm'n, Bureau of Investigation & Enforcement v. UGI
Utils., Inc. (Oct. 3, 2012)***



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File #: 2270/151134

October 3, 2012

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

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

Dear Secretary Chiavetta:

Enclosed please find the Joint Settlement Petition Resolving All Issues Among All Parties for the above-referenced proceeding. Copies will be provided as indicated.

Respectfully Submitted,

David B. MacGregor

DBM/skr

Enclosures

cc: Honorable David A. Salapa
Certificate of Service

CERTIFICATE OF SERVICE

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

VIA EMAIL AND FIRST CLASS MAIL

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

Date: October 3, 2012


David B. MacGregor

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**JOINT SETTLEMENT PETITION RESOLVING
ALL ISSUES AMONG ALL PARTIES**

PRESIDING ADMINISTRATIVE LAW JUDGE
DAVID A. SALAPA:

Pursuant to 52 Pa. Code § 69.1201, the Pennsylvania Public Utility Commission's Bureau of Investigation and Enforcement ("I&E") and UGI Utilities, Inc., UGI Central Penn Gas, Inc. and UGI Penn Natural Gas, Inc. (together, "the UGI Companies") hereby submit this Joint Settlement Petition to resolve all issues related to the I&E complaint involving an explosion and fire on February 9, 2011, in Allentown, Pennsylvania. As part of this Joint Settlement Petition, the parties request that Your Honor issue an initial decision or recommended decision approving the settlement, without modification. Statements in Support of this Joint Settlement Petition expressing the individual views of I&E and the UGI Companies are attached, respectively, hereto as Appendix A and Appendix B.

I. INTRODUCTION

1. The Pennsylvania Public Utility Commission (“Commission”) is a duly constituted agency of the Commonwealth of Pennsylvania empowered to regulate utilities within Pennsylvania pursuant to the Public Utility Code (the “Code”), 66 Pa.C.S. §§ 101, *et seq.*

2. I&E is the entity established by statute to prosecute complaints against public utilities pursuant to 66 Pa.C.S. § 308(b). The Commission has delegated its authority to initiate proceedings that are prosecutory in nature to I&E and other bureaus with enforcement responsibilities. *Implementation of Act 129 of 2008; Organization of Bureaus and Offices*, Docket No. M-2008-2071852 (Order entered August 11, 2011).

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. Section 701 of the Code, 66 Pa.C.S. § 701, authorizes the Commission, *inter alia*, to hear and determine complaints against public utilities for a violation of any law or regulation that the Commission has jurisdiction to administer.

5. Section 3301 of the Code, 66 Pa.C.S. § 3301, authorizes the Commission to impose civil penalties on any public utility or any other person or corporation subject to the Commission’s authority for violations of the Code or 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).

6. Pursuant to the Commission’s regulations at 52 Pa. Code § 59.33(b), the Commission’s Gas Safety Division has the authority to enforce the federal gas pipeline safety regulations, set forth at 49 U.S.C.A. §§ 60101, *et seq.*, and implemented in 49 C.F.R. Parts 191-193 and 199.

7. The Respondent is UGI Utilities, Inc. – Gas Division (“UGI Gas” or the “Company”), a jurisdictional gas utility with corporate offices located at 2525 N. 12th Street, Suite 360, P.O. Box 12677, Reading, PA 19612-2677.

8. UGI Gas is a “public utility” as defined by 66 Pa.C.S. § 102(1)(i), that provides natural gas transmission, distribution, and supplier of last resort services to approximately 354,000 customers throughout its certificated service territory subject to the regulatory jurisdiction of the Commission.

9. UGI Gas is a division of UGI Utilities, Inc. UGI Central Penn Gas, Inc. (“CPG”) and UGI Penn Natural Gas, Inc. (“PNG”) are wholly-owned subsidiaries of UGI Utilities, Inc., which separately provide natural gas services pursuant to their individual Commission-approved tariffs and certificate authority.

10. CPG and PNG have intervened in this proceeding for the sole purpose of being subject to its terms and conditions. The reasonableness, safety and reliability of their regulated operations, facilities and service have not been an issue in this proceeding.

11. The UGI Companies, in providing gas distribution service for compensation, are subject to the power and authority of the Commission pursuant to Section 501(c) of the Code, 66 Pa.C.S. § 501(c), which requires a public utility to comply with Commission orders.

II. BACKGROUND

12. At approximately 10:48 p.m. on February 9, 2011, an explosion and subsequent fire occurred on West Allen Street near 542 and 544 North 13th Street, Allentown, Pennsylvania.

13. After a reasonable investigation, it appears that the source of the gas that led to the explosion and fire was a circumferential fracture on a 12-inch cast iron main discovered on West Allen Street. The 12-inch cast iron main was owned and operated by UGI Gas. The

explosion and subsequent fire took the lives of five individuals and injured one other nearby person and destroyed or significantly damaged eight homes on North 13th Street.

14. UGI Gas promptly arrived at the site of the explosion and initiated steps to locate the source of the suspected gas, without jeopardizing the safety of the public, UGI Gas employees, or emergency and fire personnel working in the area.

15. UGI Gas' response activities were restricted due to barriers that limited access to the incident site, including, but not limited to: The initial safety perimeter established by the fire personnel; the location of the emergency response equipment and vehicles battling the fire; heavy smoke and intense flames; water from firefighting activities and the resulting ice; the significant debris from the explosion that had to be cleared; the presence of downed power lines; the thick layer of frost in the ground; and the reinforced concrete underlying the asphalt. UGI Gas devoted significant resources to monitoring gas leaks, locating the suspected source of the gas, and shutting off the gas flow.

16. UGI Gas began monitoring gas levels at 11:25 p.m. and continued to monitor gas levels at multiple locations for several hours following the incident. UGI Gas' Meter and Regulator employees checked odorant levels within blocks of the incident site.

17. UGI Gas injected foam at the following four different locations: the service tap located at 1301 W. Allen Street, with foam injected at 12:45 a.m.; west of the suspected leak at 1326 W. Allen Street, with foam injected at 1:40 a.m. and 2:45 a.m.; east of the suspected leak at the intersection of North 13th and West Allen Streets, with foam being injected first through a bar hole at 12:15 a.m. and again through excavation at 3:40 a.m.; and west of the suspected leak at the intersection of West Allen and Mercer Streets, with foam injected at 3:30 a.m. The purpose of injecting foam was to stop the flow of gas to the area.

18. The natural gas shutdown of all affected areas was completed by 3:45 a.m.

19. Natural gas is, in its naturally occurring form, essentially odorless. Odorant is added to provide for detection by smell. The applicable federal and state regulations and UGI Gas' Gas Operations Manual ("GOM") require that natural gas possess a distinctive odor allowing its presence to be readily detectable by a person with a normal sense of smell. *See* 49 C.F.R. § 192.625(a). The applicable regulations also require that operators of pipelines must conduct periodic sampling using an instrument capable of determining the percentage of gas-in-air at which the odor becomes readily detectable. *See* 49 C.F.R. § 192.625(f).

20. UGI Gas receives odorized gas from its transmission suppliers. UGI Gas conducts weekly testing at multiple locations on its system. The weekly tests verify whether the odor remains within the accepted range and enables UGI Gas to detect those instances, if any, when odor levels fall outside the required level.

21. With respect to the low pressure system serving the portion of Allentown where the incident occurred, odorant testing at the time of the incident was conducted at the medium-to-low pressure regulator station at the Allentown Plant located at 2nd and Union Streets. This regulator station is the primary source of gas supplied to the portion of UGI Gas' low pressure system in Allentown involved in the incident. The Allentown Plant is located approximately 2 miles from the site of the incident.

22. The 12-inch cast iron main at issue was installed in 1928. At the time of the incident, the 12-inch cast iron main was not a high priority candidate for immediate replacement under the risk criteria used by UGI Gas.

23. On June 11, 2012, I&E filed a Formal Complaint alleging that, in connection with the incident, UGI Gas committed several violations of the Code, the Federal Pipeline Safety

Regulations, and UGI Gas' GOM. Based on these allegations, the Formal Complaint requested, *inter alia*, that the Commission order UGI Gas to pay specified civil penalties, modify its odorant testing procedures, and accelerate its pipeline replacement program.

24. On July 2, 2012, UGI Gas filed an Answer to the Formal Complaint, asserting that the allegations in the Formal Complaint fail to support a finding that UGI Gas violated applicable federal and state regulations or UGI Gas' own GOM.

25. On the same date of the filing of this Joint Settlement Petition, CPG and PNG filed a petition to intervene in this proceeding for the sole purpose of being subject to the terms and conditions of this Settlement.

III. VIOLATIONS

A. POSITION OF I&E

26. I&E has conducted an investigation into this matter. Had this matter been fully litigated, I&E would have submitted evidence to demonstrate that UGI Gas committed the following acts or omissions in relation to this incident:

- A. UGI Gas failed to maintain an odorant sampling program capable of demonstrating that adequate concentrations of odorant are present throughout its distribution system. At the time of the incident, UGI Gas conducted weekly sniff tests at only one location in Allentown - where the gas enters its distribution system. UGI Gas did not test for odorant throughout its distribution system in the event there is odorant fade.

If proven, the above omission would be a violation of 52 Pa. Code § 59.33(a); 66 Pa.C.S. § 1501; and 49 CFR §§ 192.625(a) and (f) for each week that the violation continued for a period of three years.

- B. UGI Gas failed to furnish and maintain adequate, efficient, safe, and reasonable service and facilities in that the company did not adequately and timely respond to ample warning signs regarding the integrity of its cast-iron mains in the Allentown area, including several catastrophic explosions resulting from corroded/graphitized mains, as well as a Class II Priority Action recommendation from the NTSB in 1992 following a fatal explosion.

The NTSB recommended replacing cast-iron mains on which graphitization was found in a planned and timely manner.

If proven, the above omission would be a violation of 52 Pa. Code § 59.33(a); 66 Pa.C.S. § 1501; and 49 CFR § 192.489 for each year since 1992 that UGI Gas failed to timely act.

- C. UGI Gas did not follow GOM 60.50.40 Section 3.1.5 of its emergency procedures, which states that "Odorant tests shall be made in the immediate affected area and at the closest delivery point" in that UGI Gas' Meter & Regulator technicians performed odorant testing at 1202 Allen Street and 1430 Allen Street, which are two test points in the medium pressure system and not in the same low pressure district as the affected 12-inch main.

If proven, the above omission would be a violation of 52 Pa. Code § 59.33(a); 66 Pa.C.S. § 1501; and 49 CFR § 192.605(a).

- D. UGI Gas failed to continually survey its facilities in that it failed to monitor and respond to the forces that detrimentally affected the 12-inch cast-iron main, including, but not limited to, the distressed pavement on Allen Street, the sinking curb, the excavation activity that took place near the pipe, the corrosion that was noted on the pipe, and the pipe's leakage history.

If proven, the above omission would be a violation of 52 Pa. Code § 59.33(a); 66 Pa.C.S. § 1501; 49 CFR § 192.613(a); and 49 CFR § 192.755(a).

- E. UGI Gas failed to comply with its emergency procedures that require making safe any actual or potential hazard to life or property in that UGI Gas did not attempt to close curb valves to the remaining residences, 530 to 540 North 13th Street, even though all but two of those residences were served with gas.

If proven, the above omission would be a violation of 52 Pa. Code § 59.33(a); 66 Pa.C.S. § 1501; 49 CFR § 192.605(a); 49 CFR §§ 192.615(a)(3)(i) and (iii); and 49 CFR §§ 192.615(a)(6) and (7).

- F. UGI Gas failed to comply with its emergency procedures that require prompt and effective response to a notice of gas detected near a building and/or an explosion occurring near or directly involving a pipeline facility in that UGI Gas did not diminish the flow of gas for approximately five hours after the explosion at 3:45 AM on February 10, 2011 because UGI Gas was unable to immediately isolate the suspected source of the gas due to the lack of valves in their low pressure distribution system.

If proven, the above omission would be a violation of 52 Pa. Code § 59.33(a); 66 Pa.C.S. § 1501; 49 CFR § 192.605(a); 49 CFR §§ 192.615(a)(3)(i) and (iii); and 49 CFR §§ 192.615(a)(6) and (7).

27. I&E recognizes that these arguments may or may not have been accepted by the Commission if the matter had been fully litigated.

B. POSITION OF UGI GAS

28. UGI Gas has also extensively investigated this matter. Had this matter been fully litigated, UGI Gas would have submitted evidence to demonstrate that it did not commit any of the alleged violations. Specifically, as summarized in its Answer, UGI Gas believes that it could demonstrate, among other assertions, the following:

- A. UGI Gas would have demonstrated that it maintained an odorant monitoring and sampling program that appropriately demonstrates the concentration of odorant throughout its distribution system, consistent with the applicable federal and state regulations and UGI Gas' GOM.
- B. UGI Gas would have shown that, given the odorant complaint calls received by UGI Gas, both before and after the incident, and the results of UGI's odorant tests immediately following the incident, odorant fade was not a factor in this case.
- C. UGI Gas would have demonstrated that it did not fail to furnish and maintain appropriate, efficient, safe, and reasonable service and facilities. UGI Gas would have shown that there was nothing to suggest that UGI Gas should have known that the 12-inch cast iron main at issue in this case would have a material failure.
- D. UGI Gas would have demonstrated that it followed its GOM emergency procedures when its technicians performed odorant testing at 1202 W. Allen Street and 1430 W. Allen Street and that those readings were within the limit established by federal and state regulations.
- F. UGI Gas would have demonstrated that it properly surveyed its facilities and did not disregard "warning signs" relating to the potential for breakage of the distribution main in question.
- G. UGI Gas would have demonstrated that it complied with its emergency procedures that require prompt and effective response to a notice of gas detected near a building and/or an explosion occurring near or directly involving a pipeline facility.
- H. UGI Gas would have further demonstrated that it devoted significant resources to monitoring gas leaks, locating the suspected source of the gas, and shutting off the gas flow as soon as reasonably and safely practicable.

29. UGI Gas recognizes that these arguments, and others it would have made, may or may not have been accepted by the Commission if the matter had been fully litigated.

IV. SETTLEMENT

A. TERMS

30. The purpose of this Joint Settlement Petition is to terminate the investigation and to resolve this matter without further litigation. While I&E has conducted an extensive investigation, there has been no evidentiary hearing before any tribunal and no sworn testimony taken.

31. Respondent UGI Gas has been cooperative and proactive with I&E related to identifying procedures, policies, and training that can be further improved to help the UGI Companies enhance the safety and reliability of service and to satisfy the commitments that I&E has required in the settlement process.

32. Based on the foregoing, the UGI Companies and I&E agree that the following terms and conditions serve to resolve this matter in a fair and equitable manner:

- A. The UGI Companies shall retire or replace all in-service cast iron mains in its three regulated service territories over the period of 14 years in each case commencing with the beginning of the month following the month in which the Commission enters a final order approving this Joint Settlement Petition, and such period shall not be altered absent a material change in circumstances affecting public safety on the UGI Companies' gas systems or through issuance by the Commission of a final order that generically requires all natural gas distribution companies to replace or retire all in-service cast iron pipeline over a shorter period of time.¹
- B. The UGI Companies will be permitted to continue the pace of their current 30-year bare steel main replacement programs in each of their three regulated service territories, and such period shall not be altered absent a material change in circumstances affecting public safety on the UGI Companies' gas

¹ The remaining 14-year program shortens the approximate 50-year replacement trend for UGI Gas cast iron that pre-existed the incident by 36 years, or by approximately 72 percent.

systems or through issuance by the Commission of a final order that generically requires all natural gas distribution companies to replace or retire all in-service bare steel pipeline over a shorter period of time.^{2, 3}

- C. The UGI Companies will commit to enhance their odorant testing program by additional testing at the extremities of their systems and at random testing locations, and shall record and maintain records of such testing. The UGI Companies shall fully implement the procedures in compliance with this requirement no later than the end of the 6th full calendar month after the date of a final order approving the Joint Settlement Petition.
- D. The UGI Companies will commit to install fixed odorant level monitoring equipment at all third party points of delivery into UGI pipeline systems and shall record and maintain records of the results of such monitoring. The UGI Companies shall phase in the installation of this equipment over the course of the 24 months following the date of the final order approving the Joint Settlement Petition.
- E. The UGI Companies will commit to install fixed odorizers at gate stations serving Allentown, Lancaster, Reading, Harrisburg, and other major population centers, as identified in Attachment 1. The UGI Companies shall phase in the installation of these stations over the course of the 24 months following the date of the final order approving the Joint Settlement Petition.⁴
- F. UGI Gas will commit to pay a civil penalty in the amount of \$386,000, which it will agree not to seek to recover through rates regulated by the Commission. UGI shall pay this amount no later than the end of the first full calendar month after the date of a final order approving this Joint Settlement Petition.
- G. The UGI Companies will be prohibited from seeking recovery of any costs that would otherwise be eligible for recovery through a distribution system improvement charge (DSIC), for a period of 24 months following the month in which the Commission enters a final order approving this Joint Settlement Petition. Following this 24-month restriction, should the UGI Companies seek recovery of any costs through a DSIC, the UGI Companies agree to comply with Act 11 of 2012, 66 Pa. C.S. § 1350 et seq.

² This timeframe represents a substantial shortening of the UGI Gas, CPG, and PNG bare steel replacement programs that, prior to the incident, would have been completed in approximately 58 years.

³ The UGI Companies conservatively estimate that related annual capital expenditures for pipeline replacement during the remaining replacement period for both cast iron and bare steel mains will increase by approximately 50 percent, or to \$55 million per year (nominal 2012 dollars) over the annual capital expenditures for the period immediately preceding the incident.

⁴ The UGI Companies estimate that the capital investment required to implement the requirements of paragraphs 32 D and 32 E will approximate \$2-4 million.

33. In consideration of UGI Gas' payment of a civil penalty and the substantial modifications to the UGI Companies' odorant and pipeline replacement programs as specified herein, I&E agrees to forbear from further prosecuting any formal complaint relating to UGI Gas' conduct as described in this Joint Settlement Petition or in the Formal Complaint referenced herein. Nothing contained in this Joint Settlement Petition 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.

B. THE PUBLIC INTEREST

34. I&E and the UGI Companies jointly acknowledge that approval of this Joint Settlement Petition is in the public interest and fully consistent with the Commission's Policy Statement for Litigated and Settled Proceedings Involving Violations of the Code and Commission Regulations, 52 Pa. Code § 69.1201.

35. The settlement terms and conditions will provide substantial public benefits, including significant acceleration of the UGI Companies pipeline replacement programs, enhanced odorant testing programs, and the installation of fixed odorant level monitoring equipment and fixed odorizers.

36. These important public benefits come at a significant cost to the UGI Companies, individually as well as in combination, for which they have waived any right to seek rate relief through a DSIC mechanism for a term of 24 months. Additionally, the UGI Companies have agreed to comply with Act 11 of 2012, 66 Pa. C.S. § 1350 *et seq.* should they seek recovery of costs under a DSIC.

37. The parties submit that an additional relevant factor -- whether the case was settled or litigated -- is of importance to this Joint Settlement Petition. 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 remedial action. Both parties negotiate from their initial litigation positions. The fines and 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.

38. Attached as Appendices A and B are Statements in Support submitted by I&E and the UGI Companies, respectively, setting forth the bases upon which they believe the settlement is in the public interest. For the reason more fully explained therein, the settlement should be approved so that these important public benefits may be realized expeditiously.

V. CONDITIONS OF SETTLEMENT

39. This document represents the Joint Settlement Petition 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 Joint Settlement Petition shall be construed and interpreted under Pennsylvania law.

40. The Settlement is conditioned upon the Commission's approval of the terms and conditions contained in this Joint Settlement Petition without modification. If the Commission modifies this Joint Settlement Petition, any party may elect to withdraw from this Settlement and may proceed with litigation and, in such event, this Joint Settlement Petition shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all parties within five (5) business days after the entry of an Order modifying the Settlement.

41. In the event that the presiding Administrative Law Judge issues an initial decision or recommended decision approving this Joint Settlement Petition without modification, the Joint Petitioners agree to waive the exception period, thereby allowing this Joint Settlement Petition to be presented directly to the Commission for review, pursuant to 52 Pa. Code § 5.232(e).

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, findings of fact or conclusions of law rendered in this matter. It is the intent of the parties that this Joint Settlement Petition not be admitted as evidence in any potential civil proceeding involving this matter. It is further understood that, by entering into this Joint Settlement Petition, the UGI Companies have made no concession or admission of fact or law and may dispute 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 this Joint Settlement Petition.

43. The Joint Petitioners acknowledge that this Joint Settlement Petition reflects a compromise of competing positions and does not necessarily reflect any party's position with respect to any issues raised in this proceeding. This Joint Settlement Petition may not be cited as precedent in any future proceeding, except to the extent required to implement its provisions.


44. This Joint Settlement Petition is being presented only in the context of this proceeding in an effort to resolve the proceeding in a manner that is fair and reasonable. This Joint Settlement Petition is presented without prejudice to any position that any of the parties may have advanced and without prejudice to the position any of the parties may advance in the future on the merits of the issues in future proceedings, except to the extent necessary to effectuate the terms and conditions of this Joint Settlement Petition. This Joint Settlement Petition does not preclude the parties from taking other positions in any other proceeding.

45. The Parties arrived at the Settlement after conducting discovery and engaging in discussions over several months. The terms and conditions of this Joint Settlement Petition constitute a carefully crafted package representing reasonable negotiated compromises on the issues addressed herein. Thus, the Settlement is consistent with the Commission's rules and practices encouraging negotiated settlements set forth in 52 Pa. Code §§ 69.391, 69.401.

WHEREFORE, the Commission's Bureau of Investigation & Enforcement and UGI Utilities, Inc., UGI Central Penn Gas, Inc, and UGI Penn Natural Gas, Inc. respectfully request that the Presiding Administrative Law Judge issue an initial decision approving the terms of this Joint Settlement Petition.

Respectfully submitted,

**PENNSYLVANIA PUBLIC UTILITY COMMISSION -
BUREAU OF INVESTIGATION AND ENFORCEMENT**



Prosecutor
Title

10/3/12
Date

**UGI UTILITIES, INC.
UGI CENTRAL PENN GAS, INC.
UGI PENN NATURAL GAS, INC.**



Counsel for UGI Companies
Title

10/3/12
Date

Attachment 1

Station Designation	Type of Supply Point	UGI Company	Population Served
North Annville (Ono)	City Gate	CPG	Lebanon North
Leesport	City Gate	CPG	Reading North
Old Lycoming	City Gate	PNG	Williamsport and South
Pennsdale	City Gate	PNG	Williamsport and South
Uniondale	City Gate	PNG	Scranton/Wilkes-Barre
Wyoming Monument	City Gate	PNG	Scranton/Wilkes-Barre
Saylor Avenue	City Gate	PNG	Scranton/Wilkes-Barre
Shickshinny	City Gate	PNG	Scranton/Wilkes-Barre
Hunlock Plant	Peaking Plant	PNG	Scranton/Wilkes-Barre
Locust Point	City Gate	UGIG	Harrisburg West
Blakeslee	City Gate	UGIG	Scranton/Hazleton
Lebanon	City Gate	UGIG	Lebanon
Maytown	City Gate	UGIG	Harrisburg
Millway	City Gate	UGIG	Reading
New Holland	City Gate	UGIG	Lancaster
Parkersford	City Gate	UGIG	Reading
Reading Plant	Peaking Plant	UGIG	Reading
Hellertown	City Gate	UGIG	Lehigh Valley
Bethlehem Plant	Peaking Plant	UGIG	Lehigh Valley
Easton (Tatamy)	City Gate	UGIG	Lehigh Valley
West Lancaster	City Gate	UGIG	Lancaster
Lancaster (Fruitville)	City Gate	UGIG	Lancaster
Dauphin	City Gate	UGIG	Harrisburg
Steelton Plant	Peaking Plant	UGIG	Harrisburg
Grantville	City Gate	UGIG	Harrisburg
Temple	City Gate	UGIG	Reading
Temple-LNG	Peaking Plant	UGIG	Reading
Coventry	City Gate	UGIG	Reading
Tatamy	District station	UGIG	Lehigh Valley
Nazareth	District station	UGIG	Lehigh Valley
Locust Road	District station	UGIG	Lehigh Valley
Weaversville Road	District station	UGIG	Lehigh Valley

Appendix A

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**BUREAU OF INVESTIGATION AND ENFORCEMENT
STATEMENT IN SUPPORT OF
JOINT SETTLEMENT PETITION**

PRESIDING ADMINISTRATIVE LAW JUDGE
DAVID A. SALAPA:

INTRODUCTION:

The Bureau of Investigation and Enforcement of the Pennsylvania Public Utility Commission (“Commission”) (“I&E”) hereby files this Joint Statement in Support of the Joint Settlement Petition Resolving All Issues (“Settlement” or “Joint Settlement Petition”) entered into by UGI Utilities, Inc. – Gas Division (“UGI Gas”), UGI Penn Natural Gas, Inc. (“PNG”), and UGI Central Penn Gas, Inc. (“CPG”) (hereinafter, collectively the “UGI Companies”) and I&E (hereinafter, collectively “Joint Petitioners”) in the above-captioned proceeding. The Settlement, if approved, fully resolves all issues related to the I&E complaint involving an explosion and fire on February 9, 2011, in

Allentown, Pennsylvania that took the lives of five individuals, injured one other nearby, destroyed eight houses and caused damage to numerous surrounding businesses and properties. I&E respectfully request that Administrative Law Judge David A. Salapa recommend approval of, and the Commission approve, the Settlement, including the terms and conditions thereof, without modification.

THE PUBLIC INTEREST:

The Settlement, once approved, will resolve all issues related to the I&E complaint involving an explosion and fire on February 9, 2011, in Allentown, Pennsylvania. The UGI Companies have been cooperative and proactive with I&E related to identifying facilities, practices and procedures, policies, and training that can be further improved to help the UGI Companies enhance the safety and reliability of service and to satisfy the commitments that I&E has required in the settlement process. Moreover, the UGI Companies have made substantial economic concessions to I&E demands that will provide significant public benefits and further reduce the risk of a similar occurrence in the future.

The Settlement, if approved, will provide substantial public benefits, including significant acceleration of the UGI Companies pipeline replacement programs, enhancement of the odorant testing programs, and the installation of fixed odorant level monitoring equipment and fixed odorizers. The Settlement is in the public interest, in particular, the interest of the UGI Companies' customers and communities they serve. For these reasons and the reasons set forth below, the Settlement is fair, just and

reasonable and, therefore, the Settlement should be approved so that these important public benefits may be realized expeditiously.

TERMS OF SETTLEMENT:

The Complaint alleges that, in connection with the incident, UGI Gas committed several violations of the Public Utility Code, the Federal Pipeline Safety Standards, Commission Regulations, and UGI's Gas Operations Manual ("GOM"). Based on these allegations, the Complaint requests that the Commission order UGI Gas to pay civil penalties, modify its odorant testing procedures, and accelerate its pipeline replacement program.

Under the terms of the Settlement, the UGI Companies collectively have agreed as follows:

- A. The UGI Companies shall retire or replace all in-service cast iron mains in its three regulated service territories over the period of 14 years in each case commencing with the beginning of the month following the month in which the Commission enters a final order approving this Joint Settlement Petition, and such period shall not be altered absent a material change in circumstances affecting public safety on the UGI Companies' gas systems or through issuance by the Commission of a final order that generically requires all natural gas distribution companies to replace or retire all in-service cast iron pipeline over a shorter period of time.
- B. The UGI Companies will be permitted to continue the pace of their current 30-year bare steel main replacement programs in each of their three regulated service territories, and such period shall not be altered absent a material change in circumstances affecting public safety on the UGI Companies' gas systems or through issuance by the Commission of a final order that generically requires all natural gas distribution companies to replace or retire all in-service bare steel pipeline over a shorter period of time.

- C. The UGI Companies will commit to enhance their odorant testing program by additional testing at the extremities of their systems and at random testing locations, and shall record and maintain records of such testing. The UGI Companies shall fully implement the procedures in compliance with this requirement no later than the end of the 6th full calendar month after the date of a final order approving the Joint Settlement Petition.
- D. The UGI Companies will commit to install fixed odorant level monitoring equipment at all third party points of delivery into UGI pipeline systems and shall record and maintain records of the results of such monitoring. The UGI Companies shall phase in the installation of this equipment over the course of the 24 months following the date of the final order approving the Joint Settlement Petition.
- E. The UGI Companies will commit to install fixed odorizers at gate stations serving Allentown, Lancaster, Reading, Harrisburg, and other major population centers, as identified in Attachment 1. The UGI Companies shall phase in the installation of these stations over the course of the 24 months following the date of the final order approving the Joint Settlement Petition.
- F. UGI Gas will commit to pay a civil penalty in the amount of \$386,000, which it will agree not to seek to recover through rates regulated by the Commission. UGI shall pay this amount no later than the end of the first full calendar month after the date of a final order approving this Joint Settlement Petition.
- G. The UGI Companies will be prohibited from seeking recovery of any costs that would otherwise be eligible for recovery through a distribution system improvement charge (DSIC), for a period of 24 months following the month in which the Commission enters a final order approving this Joint Settlement Petition. Following this 24-month restriction, should the UGI Companies seek recovery of any costs through a DSIC, the UGI Companies agree to comply with Act 11 of 2012, 66 Pa. C.S. § 1350 *et seq.*

The terms of this settlement come at a significant cost to the UGI Companies, individually as well as in combination, beyond the civil penalty imposed. The UGI Companies estimate that the capital investment required to install the odorant facilities

will be approximately \$2-4 million. Further, although not estimated, there will be a significant increase in the operating costs (cost of odorant, employee training, and increased labor) associated with the new odorant test and monitoring points and injection facilities. In addition, the UGI Companies estimate that it will require an increased capital investment of \$18 million annually to implement the accelerated pipeline replacement program, for a total spend on such projects of about \$55 million annually.

Importantly, under the terms of the Settlement, the UGI Companies have agreed to waive its right to recover any related revenue requirement that might otherwise be eligible for recovery through a Distribution System Improvement Charge (DSIC) for a 24-month period. This revenue requirements equates to return requirement, income taxes and depreciation expense associated with \$110 million of replacement capital investment, which represents about \$8.25 million on the first year of capital investment and an additional \$16.5 million in year two, for a total of \$24.75 million. This is a substantial sum for which the UGI Companies will not seek DSIC recovery for any of its three regulated businesses.

ROSI STANDARDS:

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. *Pennsylvania Public Utility Commission v. Philadelphia Gas Works*, Docket No. M-00031768 (Order entered January 7, 2004).

I&E submits that approval of the Joint Settlement Petition in the above-captioned matter is consistent with the Commission's Policy Statement 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 substantial public benefits of the Settlement, as well as the ten factors that the Commission considers in reviewing a settlement of an alleged violation, is addressed in the section that follows. For the reasons explained below, the Settlement is in the public interest and should be approved.

1. 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 involves the following: (1) UGI Gas’ failure to timely replace cast-iron piping systems in the Allentown area in accordance with the National Transportation Safety Board’s 1992 recommendation; (2) UGI Gas’ failure to maintain an odorant sampling program to demonstrate that adequate concentrations of odorant are consistently present throughout its distribution system; (3) UGI Gas’ post-incident odorant testing, which was performed in a separate pressure district from the affected 12-inch cast iron main and thus may not have produced accurate results; (4) UGI Gas’ failure to monitor and react to forces that may have detrimentally affected the integrity of the cast iron main; (5) UGI Gas’ failure to promptly close curb valves to the residences that were located in the same row as the homes destroyed by the explosion; and (6) UGI Gas’ failure to promptly and effectively respond to the explosion in that it took approximately five hours for UGI Gas to diminish the flow of gas. I&E submits that UGI Gas’ alleged

conduct is of a serious nature and was considered in arriving at the penalty in the Joint Settlement Petition.

2. The second factor considered is whether the resulting consequences of UGI Gas' alleged conduct were of a serious nature. In this case, the explosion and subsequent fire took the lives of five individuals and injured one other nearby person. The explosion and subsequent fire also destroyed or significantly damaged eight homes on North 13th Street. The terms and conditions of this Joint Settlement Petition acknowledge the seriousness of the incident and are designed to help the UGI Companies enhance the safety and reliability of service throughout their three certificated gas service territories.

3. The third factor to be considered in this case, namely, whether UGI Gas' alleged conduct was intentional or negligent, does not apply to the present case because this proceeding is a settled matter. To the extent this factor is to be considered, there has been no finding that UGI Gas' conduct was either intentional or negligent in nature.

4. The fourth factor to be considered is whether UGI Gas made efforts to modify internal policies and procedures to address the alleged conduct at issue and to prevent similar conduct in the future. In response to the February 9, 2011 incident, UGI Gas moved forward to adopt several changes to its policies and practices that should further enhance the safety and reliability of its service. Specifically, in response to the incident, the UGI Companies performed the following: (1) conducted additional leak surveys of its cast iron system; (2) reviewed and revised the model used to assess the risk of a given pipeline segment; (3) facilitated data sharing with municipalities on a software system that allows municipalities to list and track public works projects; and (4)

enhanced oversight of construction activities, including a contractor evaluation program that ensures compliance with the UGI Companies' operating procedures and applicable regulations. Furthermore, per the terms of this Joint Settlement Petition, the UGI Companies now agree to a further acceleration to its pipeline replacement program, an enhanced odorant testing program, and the installation of fixed odorant level monitoring equipment and fixed odorizers. These concessions come at a significant cost to the UGI Companies, individually as well as in combination, for which they have waived any right to seek rate relief through a DSIC mechanism for a term of 24 months. Each of these modifications to UGI's internal policies and procedures, as well as to its infrastructure, addresses the alleged conduct at issue and will prevent similar conduct in the future. Moreover, these improvements and modifications provide a significant benefit to public safety.

5. The fifth factor to be considered deals with the number of customers affected and the duration of the violation. In this case, at approximately 10:48 p.m. on February 9, 2011, a natural gas explosion and subsequent fire occurred. The explosion and subsequent fire destroyed eight houses, took the lives of five individuals, and injured one other nearby person. Other residences and businesses in the community sustained damaged or lost property.

6. The sixth factor considered is the compliance history of UGI Gas. As related to its cast iron pipeline risk management program, prior to 1996 when UGI Gas committed to the National Transportation Safety Board (NTSB) to remove high risk 8-inch or smaller diameter pipeline from its system, UGI Gas averaged 1.2 reportable

incidents per year, as measured over the 20-year period ending 1991. In the 16-year period since it made its NTSB commitment, it has experienced two such incidents, for a rate of approximately 0.125 per year.

Since 2001, UGI Gas has experienced a total of twelve (12) reportable incidents, two of which were corrosion related. Both corrosion-related incidents were on cast iron mains.

However, during the same time-frame, UGI Gas also accelerated the replacement of its cast iron distribution systems, with over 50 percent of its historical inventory of cast iron pipeline having now been replaced to date. This record suggests that UGI Gas has made significant gains toward substantially reducing risk associated with its cast iron inventory. Its commitment to further accelerate that program in this Settlement evidences a resolve to eliminate that risk within a reasonably accelerated period of time, with a substantial investment of resources. Continued compliance with this program will be essential to achieving that end. This Joint Settlement Petition further evidences UGI Gas' good faith efforts to enhance the safety and reliability of its gas system, consistent with the purposes of the Code and the Commission's regulations.

Prior to this matter, UGI Gas' record of compliance with state and federal regulations governing odorization to date has not been subject to challenge over the several decades that its programs have been in place. Notwithstanding, the UGI Companies have agreed to substantial enhancements to its investment in odorant level testing, monitoring of third party deliveries and supplemental injection of odorant. These changes, as well as the enhanced leak surveys that the UGI Companies have already

implemented, should provide added assurance to the general public that natural gas leaking from its dwindling inventory of cast iron and bare steel mains will be detectable in accordance with applicable regulations as long as those pipes remain in service.

7. The seventh factor considered is whether the regulated entity cooperated with the Commission's investigation. UGI Gas cooperated with the Commission staff throughout its investigation, as well as the complaint and settlement process. UGI Gas has also volunteered to include CPG and PNG in this Settlement, thereby expanding the benefits of replacing pipelines made of non-contemporary materials to a broader geographic and demographic scope. I&E submits that such cooperation and additional concessions demonstrate a commitment consistent with the Commission's public safety goals and objectives.

8. The eighth factor is whether the amount of the civil penalty or fine will deter future violations. I&E submits that a civil penalty in the amount of \$386,000, which is the full amount demanded in the Complaint, and which may not be recovered through rates regulated by the Commission, together with the installation of the odorant facilities (\$2-4 million capital investment), increased operating cost (cost of odorant, employee training, and increased labor) associated with the new odorant test points and monitoring and injection facilities (not estimated), accelerated pipeline replacement program (increased capital investment of \$18 million annually), and the 24-month prohibition from seeking recovery of any costs that would otherwise be eligible for recovery through a DSIC (annual return, income taxes and depreciation expense associated with \$110 million of capital investment, or approximately \$16.5 million), is

quite substantial and sufficient to deter the UGI Companies from committing any violations in the future and, in combination, represents a pecuniary concession that is well above the maximum civil penalty that could have been assessed in this matter.

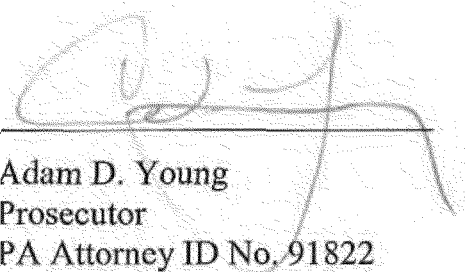
9. The ninth factor examines past Commission decisions in similar situations. The February 9, 2011 Allentown, PA explosion and fire was one of the worst natural gas incidents in recent history. There are no past Commission decisions responsive to a similar situation, and for that reason, this case should be viewed on its own merits. However, setting aside the devastating nature of the incident and looking at the relevant factors that are comparable to other incidents, such as incident response, post-incident actions, cooperation 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.

10. The parties submit that an additional relevant factor – whether the case was settled or litigated – is of pivotal importance to this Joint Settlement Petition. 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, or other remedial action. Both parties negotiate from their initial litigation positions. The fines and 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.

11. I&E and the UGI Companies fully support the terms and conditions of this Joint Settlement Petition. The foregoing terms of this Joint Settlement Petition reflect a carefully balanced compromise of the interests of the parties in this proceeding. The parties believe that approval of this Joint Settlement Petition is in the public interest. Acceptance of this Joint Settlement Petition 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 Joint Settlement Petition and respectfully requests that the Honorable Administrative Law Judge David A. Salapa recommend approval of, and 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

Wayne T. Scott
First Deputy Chief Prosecutor
PA Attorney ID No. 29133

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

Dated: October 3, 2012

Appendix B

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**JOINT STATEMENT IN SUPPORT OF
UGI UTILITIES, INC. – GAS DIVISION,
UGI PENN NATURAL GAS, INC., AND
UGI CENTRAL PENN GAS, INC.**

PRESIDING ADMINISTRATIVE LAW JUDGE
DAVID A. SALAPA:

UGI Utilities, Inc. – Gas Division (“UGI Gas”), UGI Penn Natural Gas, Inc. (“PNG”), and UGI Central Penn Gas, Inc. (“CPG”) (hereinafter, collectively the “UGI Companies”) hereby file this Joint Statement in Support of the Joint Settlement Petition Resolving All Issues (“Settlement” or “Joint Settlement Petition”) entered into by the UGI Companies 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 fully resolves all issues related to the I&E complaint involving an explosion and fire on February 9, 2011, in Allentown, Pennsylvania. The UGI Companies respectfully request that Administrative Law Judge David A. Salapa recommend approval of, and the Commission approve, the Settlement, including the terms and conditions thereof, without modification.

UGI Gas undertook an extensive investigation of the events related to the February 9, 2011 incident and fully cooperated with and assisted I&E with its investigation of the events surrounding the incident. The UGI Companies have been cooperative and proactive with I&E related to identifying facilities, practices, and procedures that can be further improved to help the UGI Companies enhance the safety and reliability of service and to satisfy the commitments that I&E has required in the settlement process. The Settlement reflects a carefully balanced compromise of the interests of the Joint Petitioners to this proceeding.

The Settlement, if approved, will provide substantial public benefits, including significant acceleration of the UGI Companies' pipeline replacement programs, enhancement of the odorant testing programs, and the installation of fixed odorant level monitoring equipment and fixed odorizers. These important public benefits come at a significant cost to the UGI Companies, individually as well as in combination, for which they have waived any right to seek rate relief through a Distribution System Improvement Charge (DSIC) mechanism for a term of 24 months. The Settlement is in the public interest, in particular, the interest of the UGI Companies' customers and communities they serve. For these reasons and the reasons set forth below, the Settlement is fair, just and reasonable and, therefore, the Settlement should be approved so that these important public benefits may be realized expeditiously.

I. INTRODUCTION

A. PARTIES

I&E is the entity established by statute to prosecute complaints against public utilities pursuant to 66 Pa.C.S. § 308(b). The Commission has delegated its authority to initiate proceedings that are prosecutory in nature to I&E and other bureaus with enforcement

responsibilities. *Implementation of Act 129 of 2008; Organization of Bureaus and Offices*, Docket No. M-2008-2071852 (Aug. 11, 2011).

UGI Gas is a division of UGI Utilities, Inc. UGI Gas is a “public utility” and a “natural gas distribution company” (“NGDC”) as those terms are defined in Sections 102 and 2202 of the Code, 66 Pa.C.S. §§ 102, 2202. UGI Gas provides natural gas transmission, distribution, and supplier of last resort services to approximately 354,000 customers throughout its certificated service territory subject to the regulatory jurisdiction of the Commission.

PNG currently is a wholly-owned subsidiary of UGI Utilities, Inc. PNG is a Pennsylvania certificated “public utility” and an NGDC as those terms are defined in Sections 102 and 2202 of the Code, 66 Pa.C.S. §§ 102, 2202. PNG provides natural gas transmission, distribution, and supplier of last resort services to approximately 157,000 customers throughout its certificated service territory subject to the regulatory jurisdiction of the Commission.

CPG currently is a wholly-owned subsidiary of UGI Utilities, Inc. CPG is a “public utility” and an NGDC as those terms are defined in Sections 102 and 2202 of the Code, 66 Pa. C.S. §§ 102, 2202. CPG provides natural gas transmission, distribution, and supplier of last resort services to approximately 75,650 customers throughout its certificated territory subject to the regulatory jurisdiction of the Commission.

B. BACKGROUND

This background of this matter is adequately set forth in Paragraphs 12-25 of the Joint Settlement Petition and is incorporated herein by reference. On the same date as the filing of the Joint Settlement Petition to which this Statement in Support is attached, CPG and PNG filed separate petitions to intervene in this proceeding. CPG and PNG have intervened in this proceeding for the sole purpose of being subject to the terms and conditions of the Settlement.

The reasonableness, safety, and reliability of their regulated operations, facilities, and service have not been an issue in this proceeding.

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 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. *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).

The substantial public benefits of the Settlement, as well as the ten factors that the Commission considers in reviewing a settlement of an alleged violation, are addressed in the section that follows. For the reasons explained below, the Settlement is in the public interest and should be approved.

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST.

The Settlement, once approved, will resolve all issues related to the I&E complaint involving an explosion and fire on February 9, 2011, in Allentown, Pennsylvania. The UGI Companies have been cooperative and proactive with I&E related to identifying facilities, practices and procedures, policies, and training that can be further improved to help the UGI Companies enhance the safety and reliability of service and to satisfy the commitments that I&E has required in the settlement process. Further, the UGI Companies have made substantial economic concessions to I&E demands that will provide substantial public benefits as explained below and further reduce the risk of a similar occurrence in the future. Finally, the terms and conditions of the Settlement are consistent with the ten factors that may be considered under the Commission’s Policy Statement. Accordingly, the Settlement should be approved.

A. TERMS OF THE SETTLEMENT

The Complaint alleges that, in connection with the incident, UGI Gas committed several violations of the Public Utility Code, the Federal Pipeline Safety Standards, Commission Regulations, and UGI's Gas Operations Manual ("GOM"). Based on these allegations, the Complaint requests that the Commission order UGI Gas to pay civil penalties, modify its odorant testing procedures, and accelerate its pipeline replacement program.

Under the terms of the Settlement, the UGI Companies collectively have agreed as follows:

- A. The UGI Companies shall retire or replace all in-service cast iron mains in its three regulated service territories over the period of 14 years in each case commencing with the beginning of the month following the month in which the Commission enters a final order approving this Joint Settlement Petition, and such period shall not be altered absent a material change in circumstances affecting public safety on the UGI Companies' gas systems or through issuance by the Commission of a final order that generically requires all natural gas distribution companies to replace or retire all in-service cast iron pipeline over a shorter period of time.
- B. The UGI Companies will be permitted to continue the pace of their current 30-year bare steel main replacement programs in each of their three regulated service territories, and such period shall not be altered absent a material change in circumstances affecting public safety on the UGI Companies' gas systems or through issuance by the Commission of a final order that generically requires all natural gas distribution companies to replace or retire all in-service bare steel pipeline over a shorter period of time.
- C. The UGI Companies will commit to enhance their odorant testing program by additional testing at the extremities of their systems and at random testing locations, and shall record and maintain records of such testing. The UGI Companies shall fully implement the procedures in compliance with this requirement no later than the end of the 6th full calendar month after the date of a final order approving the Joint Settlement Petition.
- D. The UGI Companies will commit to install fixed odorant level monitoring equipment at all third party points of delivery into UGI pipeline systems and shall record and maintain records of the results of such monitoring. The UGI Companies shall phase in the installation of this equipment over the course

of the 24 months following the date of the final order approving the Joint Settlement Petition.

- E. The UGI Companies will commit to install fixed odorizers at gate stations serving Allentown, Lancaster, Reading, Harrisburg, and other major population centers, as identified in Attachment 1. The UGI Companies shall phase in the installation of these stations over the course of the 24 months following the date of the final order approving the Joint Settlement Petition.
- F. UGI Gas will commit to pay a civil penalty in the amount of \$386,000, which it will agree not to seek to recover through rates regulated by the Commission. UGI shall pay this amount no later than the end of the first full calendar month after the date of a final order approving this Joint Settlement Petition.
- G. The UGI Companies will be prohibited from seeking recovery of any costs that would otherwise be eligible for recovery through a distribution system improvement charge (DSIC), for a period of 24 months following the month in which the Commission enters a final order approving this Joint Settlement Petition.

Importantly, as discussed in paragraph 42 to the Joint Settlement Petition, the parties agree that it is their intent that the Joint Settlement Petition not be admitted as evidence in any potential civil proceeding involving this matter. It is further understood that, by entering into the Joint Settlement Petition, the UGI Companies have made no concession or admission of fact or law and may dispute 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 Joint Settlement Petition.

The terms of the Settlement fully resolve all of the issues raised in and relief requested by I&E's Complaint, including the payment of civil penalties, modification of the UGI Companies' odorant testing procedures, and acceleration of the UGI Companies' pipeline replacement programs. As explained below, and in I&E's Statement in Support, the Joint Petitioners believe that approval of the Settlement is in the public interest. Further, acceptance of the Settlement

will avoid the necessity of further administrative and potential appellate proceedings at what would have been a substantial cost to the parties.

B. PUBLIC BENEFITS

If approved, the Settlement will provide substantial and important benefits to the customers and communities served by the UGI Companies, including significant acceleration of the UGI Companies' pipeline replacement programs, enhancement of the odorant testing programs, and the installation of fixed odorant level monitoring equipment and fixed odorizers. These public benefits are further explained below.

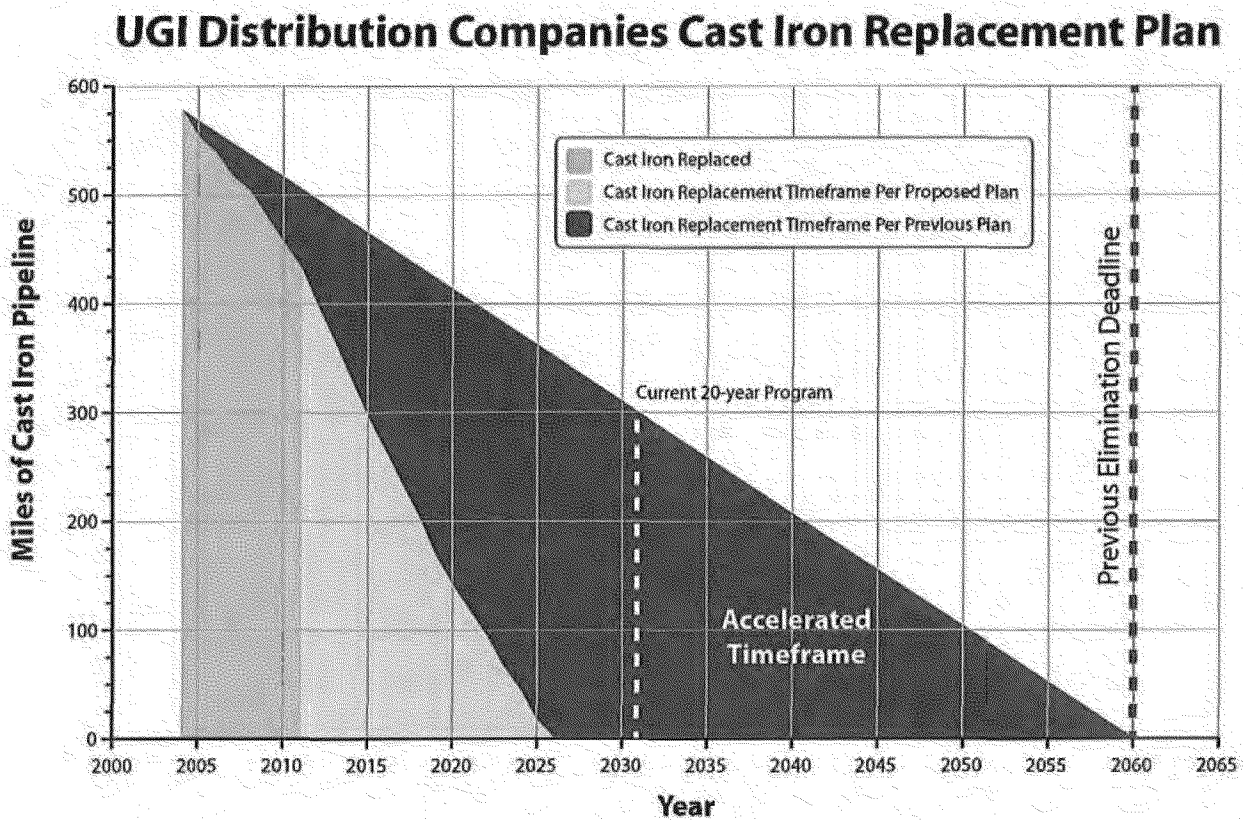
Collectively, the UGI Companies serve approximately 585,000 natural gas customers throughout Pennsylvania. The UGI Companies own, operate, and maintain approximately 12,000 miles of natural gas pipelines in the Commonwealth. The UGI Companies' distribution mileage, as of the end of calendar year 2011, is as follows:

	<u>UGI Gas</u>	<u>CPG</u>	<u>PNG</u>	<u>Total</u>
Bare Steel	369.8	662.4	344.6	1376.8
Cast Iron	366.4	11.7	54.7	432.8
Total Miles of Main	5501.3	3834.3	2648.3	11983.9
% of Bare Steel	6.72	17.28	13.01	11.49
% of Cast Iron	6.66	0.31	2.07	3.61

As outlined in its Answer in this proceeding, in response to the February 9, 2011 incident, and prior to I&E's Complaint being filed, UGI Gas moved forward to adopt several changes to its policies and practices to further enhance the safety and reliability of its service and already has substantially accelerated the pace of its cast iron and bare steel pipeline replacement

program, by committing to replace its cast iron and bare steel pipeline in 20 years and 30 years, respectively. CPG and PNG followed suit.

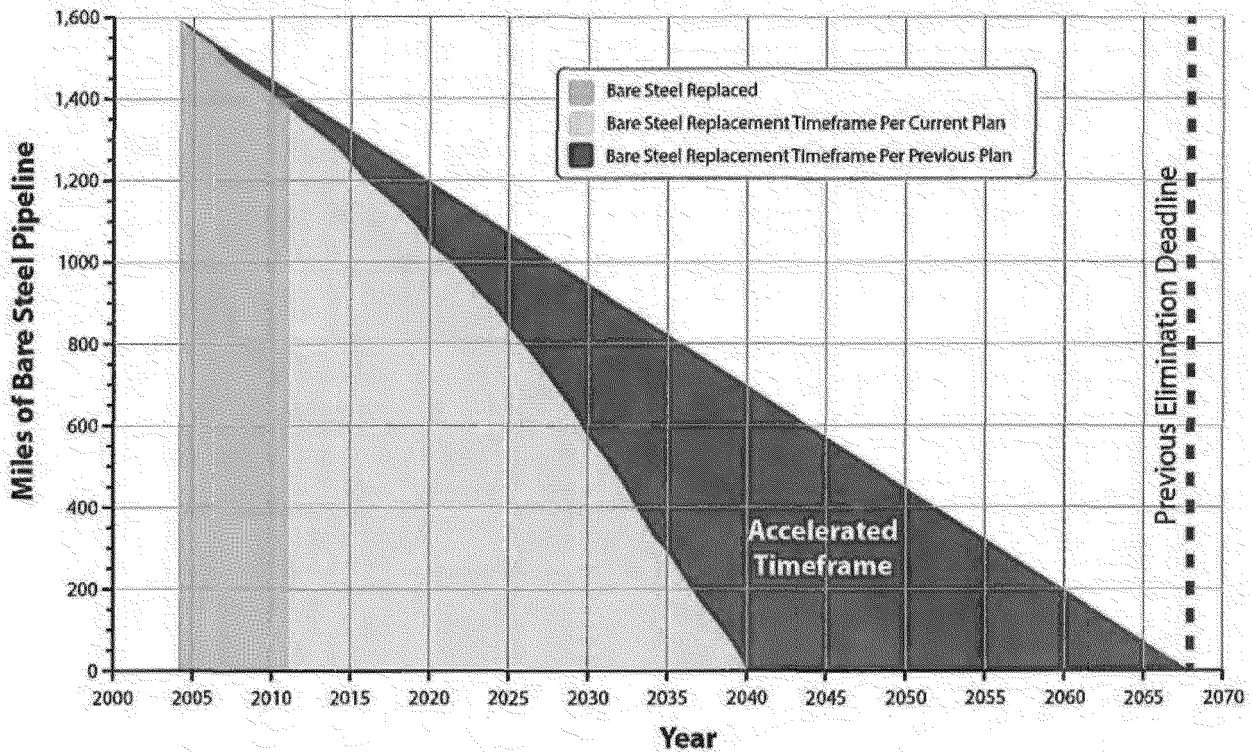
Under the terms of the Settlement, the UGI Companies agreed to retire or replace all in-service cast iron mains in its three regulated service territories over the period of 14 years. The 14-year program shortens the approximate 50-year replacement trend for UGI Gas cast iron that pre-existed the incident by 36 years, or by approximately 72 percent. As compared to the UGI Companies' historic and recently accelerated pace of cast iron replacement, the 14-year program will materially accelerate the replacement of aging cast iron mains.



Under the terms of the Settlement, the UGI Companies have agreed to continue the pace of their current 30-year bare steel main replacement programs. This timeframe represents a

substantial shortening of the UGI Gas, CPG, and PNG bare steel replacement programs that, prior to the incident, would have been completed in approximately 58 years. Under this program, all bare steel mains will be replaced within 30 years. This represents a material, nearly 50 percent acceleration of the replacement time frame that pre-existed the Allentown matter.

UGI Distribution Companies Bare Steel Replacement Plan



The accelerated replacement of the UGI Companies' cast iron and bare steel mains provides substantial benefits. Acceleration will allow the UGI Companies to manage and eventually eliminate the risk associated with its remaining inventory of bare steel and cast-iron pipeline over a materially shorter period of time. This will complement the UGI Companies' efforts on leak detection and repair. All of these programs allow the UGI Companies to enhance

their ability to provide safe and reliable natural gas service to the customers and the communities they serve.

The time frames for bare steel and cast iron main replacement set forth in the Settlement must be considered in the context of the current infrastructure construction environment. Due to accelerated infrastructure replacement, including other gas and water utilities in the Commonwealth, and the profound pace at which new infrastructure is being installed for Marcellus Shale gas, there has been a heightened level of demand on existing, qualified resources with the training and capability to replace utility infrastructure in a safe manner. Given the existing heightened demand for qualified resources, both the UGI Companies and the construction communities must have sufficient time to bring on additional resources necessary to execute the accelerated main replacement with high quality and consistency. These additional resources must be operator qualified, trained in the UGI Companies' construction practices and methods, and pass rigorous contractor qualification criteria before they may be allowed to begin work, as required by the UGI Companies' practices, USDOT regulations, and the DSIC legislation. Thus, it is important that proper consideration be given to the infrastructure construction environment in assessing the reasonableness of the time frames for bare steel and cast iron main replacement set forth in the Settlement. Indeed, time frames that are too short simply would not be practicable from both the UGI Companies' and the construction communities' standpoints. The UGI Companies believe that time frames set forth in the Settlement are appropriate to enable the UGI Companies and necessary contractors to obtain and properly train the resources required to replace the infrastructure in a safe manner.

Moreover, the UGI Companies recognizes that the accelerated replacement of their cast iron and bare steel mains will strain the state and municipal road systems under which gas mains

are located. Deft coordination with Commonwealth agencies and local municipalities dealing with their own resource constraints, aging road and bridge infrastructure, and limited budgets is absolutely essential for this plan to work. Avoiding the creation of unwanted barriers to traffic flow in heavily traveled urban and suburban settings also must be considered. The UGI Companies believe that the agreed upon time frames in the settlement reflect adequate consideration of these factors.

In addition to the public safety benefits afforded by accelerated pipeline replacement programs, the UGI Companies have agreed, as part of the Settlement, to enhance their odorant testing program by increasing the number of odorant testing points and installing fixed odorant level monitoring equipment at all third party points of delivery. As an additional check on the level of odorant in its distribution system, the UGI Companies also agreed to install odorizer equipment at more than 30 city gate and regulator stations that serve major population centers. These facilities complement existing odorizer facilities on the UGI Companies' gas distribution system and already odorized interstate pipeline deliveries serving other communities served by the UGI Companies. These agreed-to improvements provide additional assurance that the gas throughout the UGI Companies' systems will be odorized within the limits required by the applicable federal and state regulations and the UGI GOM. Such measures will help the UGI Companies continue to provide safe and reliable service to customers.

These important public benefits come at a significant cost to the UGI Companies, individually as well as in combination, for which they have waived any right to seek rate relief through a DSIC mechanism for a term of 24 months. The UGI Companies estimate that the capital investment required to install the odorant facilities will be approximately \$2-4 million. Further, although not estimated, there will be a significant increase in the operating costs (cost of

odorant, employee training, and increased labor) associated with the new odorant test and monitoring points and injection facilities. In addition, the UGI Companies estimate that it will require an increased capital investment of \$18 million annually to implement the accelerated pipeline replacement program, for a total spend on such projects of about \$55 million annually. This means that the total infrastructure spend by the UGI Companies for its replacement program will increase by about \$180 million over the next time, to \$550 million.

Importantly, under the terms of the Settlement, the UGI Companies have agreed to waive their right to recover any related revenue requirement that might otherwise be eligible for recovery through a DSIC for a 24-month period. This revenue requirement equates to return requirement, income taxes and depreciation expense associated with \$110 million of replacement capital investment, which represents approximately \$8.25 million on the first year of capital investment and an additional \$16.5 million in year two, for a total of \$24.75 million. This is a substantial sum for which the UGI Companies will not seek DSIC recovery for any of its three regulated businesses.

As explained above, the Settlement will provide substantial public benefits, including significant acceleration of the UGI Companies' pipeline replacement programs, enhancement of the odorant testing programs, and the installation of fixed odorant level monitoring equipment and fixed odorizers. The Settlement is in the best interest of the UGI Companies and the customers and communities they serve. For these reasons, the Settlement is just and reasonable and, therefore, the Settlement should be approved so that these important public benefits may be realized expeditiously.

C. FACTORS UNDER COMMISSION'S POLICY STATEMENT

Under the Policy Statement, the Commission may consider ten specific factors when evaluating settlements of alleged violations of the Public Utility Code and the Commission's

Regulations. 52 Pa. Code § 69.1201(c). 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. The alleged conduct in this case involves: (1) UGI Gas' response to a gas leak or explosion; (2) the levels of natural gas odorant in UGI Gas' distribution system at the time of the incident; (3) UGI Gas' natural gas odorant testing program; and (4) UGI Gas' response to "warning signs" regarding the integrity of its cast iron mains. The UGI Companies acknowledge that gas safety is a significant issue, and one that the UGI Companies take very seriously. The terms and conditions of the Settlement adequately take the alleged conduct into account, as well as UGI Gas' response under the circumstances.

UGI Gas believes that it promptly responded to the incident and took actions to locate and shut off the source of the suspected gas, without jeopardizing the safety of the public, UGI Gas employees, or emergency and fire personnel working in the area. UGI Gas' response activities were severely restricted due to several conditions that limited access to the incident site, including, but not limited to: the initial safety perimeter established by the fire personnel; the location of the emergency response equipment and vehicles battling the fire; heavy smoke and intense flames; water from firefighting activities and the resulting ice; the significant debris from the explosion that had to be cleared; the presence of downed power lines; the thick layer of frost in the ground; and the reinforced concrete underlying the asphalt. UGI Gas, however, devoted significant resources to monitoring gas leaks, locating the suspected source of the gas, and shutting off the gas flow.

The second factor considered is whether the resulting consequences of UGI Gas' alleged conduct were of a serious nature. In this case, the explosion and subsequent fire took the lives of five individuals and injured one other nearby person. The explosion and subsequent fire also

destroyed or significantly damaged eight homes on North 13th Street. UGI Gas does not deny the seriousness of the incident. The terms and conditions of the Settlement acknowledge the seriousness of the incident and are designed to help the UGI Companies enhance the safety and reliability of service throughout their three certificated gas service territories.

The third factor to be considered in this case, namely, whether UGI Gas' alleged conduct was intentional or negligent, does not apply to the present case because this proceeding is a settled matter. To the extent this factor is to be considered, there has been no finding that UGI Gas' conduct was either intentional or negligent in nature.

The fourth factor to be considered is whether UGI Gas made efforts to modify internal policies and procedures to address the alleged conduct at issue and to prevent similar conduct in the future. UGI Gas undertook an extensive investigation of the events related to the February 9, 2011 incident and fully cooperated with and assisted I&E with its investigation of the events surrounding the incident. As outlined on pages 2-4 of its Answer in this proceeding and listed below, in response to the February 9, 2011 incident, and prior to I&E's Complaint being filed, UGI Gas moved forward to adopt several changes to its policies and practices to further enhance the safety and reliability of its service and already has substantially accelerated the pace of its cast iron and bare steel pipeline replacement program, by committing to replace its cast iron and bare steel pipeline in 20 years and 30 years, respectively. CPG and PNG followed suit. The terms and conditions of the Settlement adequately take into account UGI Gas' efforts to modify internal policies and procedures to address the alleged conduct.

Some of the changes that the UGI Companies implemented soon after the February 9th incident include:

- Increased leak survey activity. The UGI Companies routinely surveys their entire gas distribution system and ensures compliance with all applicable regulations governing leak survey requirements. In an effort to enhance its leak survey efforts, the UGI Companies began conducting additional leak surveys of their cast iron system. The UGI Companies survey their entire cast iron systems every two weeks from January 1 to March 31. These efforts are in excess of the federal and state requirements. The UGI Companies will continue to monitor their distribution systems and conduct additional leak surveys as appropriate.
- Coordination and data sharing with municipalities. Since the incident, the UGI Companies have significantly increased outreach efforts and will continue to foster constructive relationships with the municipalities within their respective service territories. The UGI Companies are conducting two pilot projects whereby municipalities are using a software system to list and track public works projects. The UGI Companies facilitated these municipalities' receipt of and training on the software with the intent of having better sharing of project data between the UGI Companies, municipalities, and other utility companies. Moreover, the UGI Companies have attended municipal planning meetings to coordinate infrastructure improvement projects.
- Prioritization of pipeline replacement projects. The UGI Companies historically have employed the judgment of engineers and operations professionals to determine which pipeline segments are the best candidates for replacement. Along with data received from the field, the UGI Companies use a model to assess the risk of a given pipeline segment. Since the incident, the UGI Companies have conducted a comprehensive review of the factors considered in the risk model and have made changes as appropriate. The risk criteria are reviewed and additional factors incorporated periodically to ensure the most up-to-date information is being used in the model and changes will be made as often as necessary to ensure effectiveness.
- Odorant Testing Program. To gain an additional review of its odorant testing program, the UGI Companies engaged a nationally recognized expert in the field of odorant monitoring. This expert concluded from his independent review that the UGI Companies' odorant monitoring program are, and were at the time of the incident, fully compliant with state and federal regulations. Even though the UGI Companies Gas' program comply with all applicable regulations, the UGI Companies plan to enhance their odorant program over the remainder of the current calendar year by increasing the number of monitoring test points, including the addition of random testing points, consistent with industry best practice in odorant testing.

- Response to Emergency calls. The UGI Companies continuously strive to improve their emergency response performance. Currently, the UGI Companies' performance in responding to emergency calls, including odorant calls on their systems is exemplary by industry standards. In 2011, UGI Gas' percentage of response to emergency calls within 23 minutes ranked it in the top quartile nationally. UGI Gas' emergency response in the Allentown matter was within 18 minutes.
- Enhanced construction oversight. While the UGI Companies utilize a highly skilled qualified workforce, they have enhanced their inspection practices, including the creation of a contractor evaluation program, used for ensuring compliance with the UGI Companies' operating procedures and applicable regulations. The UGI Companies require that construction personnel meet all Department of Transportation mandated code and operator qualification requirements. The UGI Companies have a compliance department dedicated to regular inspection of construction activities and verification of qualifications of individuals performing qualified tasks. During the past year, the UGI Companies retained an independent entity to audit contractor safety as well as the UGI Companies' inspections of independent contractor construction activities.
- Facility replacement timeline. The UGI Companies previously accelerated the replacement of its cast iron systems over the past 5 years and made a recent commitment to replace all cast iron mains over the next 20 years.

Further, per the terms of the Settlement, the UGI Companies now agree to an additional acceleration to their pipeline replacement program, to complete the replacement of cast iron in 14 years, a further enhancement to their odorant testing program, and the installation of additional fixed odorant level monitoring equipment and fixed odorizers. These concessions come at a significant cost to the UGI Companies, individually as well as in combination, for which they have waived any right to seek rate relief through a DSIC mechanism for a term of 24 months.

The fifth factor to be considered deals with the number of customers affected and the duration of the violation. In this case, at approximately 10:48 p.m. on February 9, 2011, a natural gas explosion and subsequent fire occurred. The explosion and subsequent fire took the lives of five individuals and injured one other nearby person. Others in the community sustained

damaged or lost property, or service interruption. As explained above, UGI Gas believes that it promptly responded to the incident and took actions to locate and shut off the source of the suspected gas, without jeopardizing the safety of the public, UGI Gas employees, or emergency and fire personnel working in the area. The terms and conditions of the Settlement adequately take into account the serious nature of the incident, the number of customers affected, as well as UGI Gas' response under the circumstances.

The sixth factor considered is the compliance history of UGI Gas. As related to its cast iron pipeline risk management program, UGI Gas' history can be divided into two separate periods, the period prior to 1996, when it committed to the National Transportation Safety Board ("NTSB") to remove high risk 8-inch or smaller diameter pipeline from its system, and the period thereafter. In the earlier period, UGI Gas averaged 1.2 reportable incidents per year involving its cast iron system, as measured over the 20-year period ending 1991. In the 16-year period since it made its NTSB commitment, it has experienced two such incidents, for a rate of approximately 0.125 per year. During the same time-frame, UGI Gas also accelerated the replacement of its cast iron distribution systems, with over 50 percent of its historical inventory of cast iron pipeline having been replaced to date.

UGI Gas' record suggests that it has made substantial efforts to significantly reduce the risk associated with its cast iron inventory. Its commitment to further accelerate that program in the Settlement evidences a resolve to eliminate that risk within a reasonably accelerated period of time, with a substantial related investment of resources. Continued compliance with this program and the cooperation of, and coordination with all affected stakeholders will be essential to achieving that end. The Settlement further evidences UGI Gas' good faith efforts to enhance

the safety and reliability of its gas system, consistent with the purposes of the Code and the Commission's regulations.

Prior to this matter, UGI Gas' record of compliance with state and federal regulations governing odorization had not been subject to challenge over the several decades that its programs have been in place. Notwithstanding, the UGI Companies have agreed to substantial enhancements to their investment in odorant level testing, monitoring of third party deliveries and supplemental injection of odorant. These changes, as well as the enhanced leak surveys that the UGI Companies have already implemented, should provide added assurance to the general public that any natural gas leaking from their declining inventory of cast iron and bare steel mains will be detectable in accordance with applicable regulations while those mains remain in service. The terms and conditions of the Settlement adequately take into account UGI Gas' compliance history.

The seventh factor considered is whether the regulated entity cooperated with the Commission's investigation. UGI Gas supported and cooperated fully with the Commission and its staff throughout its investigation, as well as the complaint and settlement process. By volunteering to include CPG and PNG in this Settlement, and thereby expanding the benefits of replacing pipelines made of non-contemporary materials to a broader geographic and demographic scope, the UGI Companies have demonstrated a commitment consistent with the Commission's public safety goals and objectives and broadly expanded the number of communities that will benefit from the commitments made in the Settlement.

The eighth factor is whether the amount of the civil penalty or fine will deter future violations. The UGI Companies submit that a civil penalty in the amount of \$386,000, which may not be recovered through rates regulated by the Commission, together with the installation

of the odorant facilities (\$2-4 million capital investment), increased operating cost (cost of odorant, employee training, and increased labor) associated with the new odorant test points and monitoring and injection facilities (not estimated), accelerated pipeline replacement program (increased capital investment of \$18 million annually), and the 24-month prohibition from seeking recovery of any costs that would otherwise be eligible for recovery through a DSIC (annual return, income taxes and depreciation expense associated with \$110 million of capital investment, or approximately \$24.75 million over the 24-month period), is quite substantial and sufficient to deter the UGI Companies from committing any violations in the future and, in combination, represents a pecuniary concession that is well above the maximum civil penalty that could have been assessed in this matter. The UGI Companies believe that the civil penalty set forth in the Settlement appropriately recognizes UGI Gas' good faith efforts to comply with the Commission's regulations.

The ninth factor examines past Commission decisions in similar situations. When all relevant factors are taken into account, the Settlement is not inconsistent with past Commission actions. Moreover, since this is a settled matter, it should be considered on its own merits.

Relative to the tenth factor, the UGI Companies submit that additional relevant factors are of pivotal importance to the Settlement. First, 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, or other remedial action. 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. Second, by volunteering to include CPG and PNG in this Settlement, and thereby expanding the benefits of replacing pipelines made of non-contemporary materials to a broader geographic and demographic scope, the UGI Companies have demonstrated a commitment consistent with the Commission's public safety goals and objectives and broadly expanded the scope of the general public that will benefit from the commitments made in this Settlement.

Based on the foregoing, the Settlement is consistent with the ten factors to be considered under the Commission's Policy Statement. The terms and conditions of the Settlement appropriately and adequately take into account the efforts and actions of UGI Gas. For the reasons explained above, the Settlement should be approved without modification.

IV. CONCLUSION

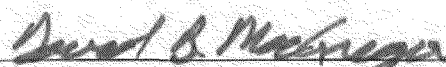
Through cooperative efforts and the open exchange of information, the Joint Petitioners have arrived at a settlement that resolves all issues in the proceeding in a fair and equitable manner. The Settlement resolves all issues related to the I&E complaint involving an explosion and fire on February 9, 2011, in Allentown, Pennsylvania. Further, and more importantly, the Settlement provides significant public benefits to all customers and communities within the service territories of the three UGI Companies, including significant acceleration of the UGI Companies' pipeline replacement programs, enhanced odorant testing programs, and the installation of fixed odorant level monitoring equipment and fixed odorizers. Finally, the terms and conditions of the Settlement should be viewed as satisfying the ten factors set forth in the Commission's Policy Statement, 52 Pa. Code § 69.1201(c).

A fair and reasonable compromise has been achieved in this case. The UGI Companies fully support the Settlement and respectfully request that the Honorable Administrative Law

Judge David A. Salapa recommend approval of, and the Commission approve, the Settlement in its entirety, without modification.

Respectfully submitted,

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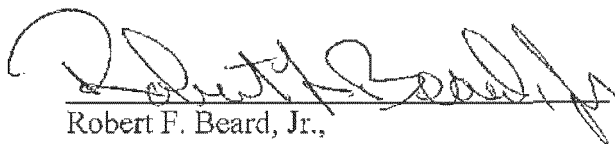
Date: October 3, 2012

Attorneys for UGI Utilities, Inc.,
UGI Central Penn Gas, Inc., and
UGI Penn Natural Gas, Inc.

VERIFICATION

I, Robert F. Beard, Jr., being the President & Chief Executive Officer of UGI Utilities, Inc., UGI Central Penn Gas, Inc., and UGI Penn Natural Gas Inc., ("UGI Companies") 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 the UGI Companies 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: October 1, 2012



Robert F. Beard, Jr.,
President & Chief Executive Officer,
UGI Utilities, Inc.
UGI Central Penn Gas, Inc.
UGI Penn Natural Gas, Inc.