

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**  
**Harrisburg, Pennsylvania 17105-3265**

**UGI Utilities, Inc., UGI Central Penn  
Gas, and UGI Penn Natural Gas  
Focused Management and Operations  
Audit Report**

**Public Meeting: May 24, 2012  
2221061-AUD  
Docket Nos. D-2011-2221061;  
D-2011-2221062; D-2011-2221063**

**STATEMENT OF COMMISSIONER GARDNER**

I wish to commend the Commission's Bureau of Audits for doing an outstanding job on the Focused Management and Operations Audit of UGI Utilities, Inc., both the gas distribution and electric operations, as well as, UGI Central Penn Gas, Inc. (CPG) and UGI Penn Natural Gas, Inc. (PNG). Audits spent five months in 2011 conducting fieldwork at the companies, then another six months analyzing and preparing a comprehensive final report. The report contains 31 recommended actions that UGI should take to improve, correct, or eliminate deficiencies in the management and operations of the companies. I depend on these reports to give me an objective look at how our utilities are operating so I am always thankful when they are as thorough as this one.

On April 23, 2012, UGI submitted an Implementation Plan responding to each of the Audit Staff's 31 recommendations. The UGI Implementation Plan indicates agreement with 25 recommendations, partial agreement with 3 recommendations, and disagreement with 3 recommendations.

A number of the Audit Staff's recommendations, if effectively implemented, could positively affect operational efficiency and yield annual cost savings of approximately \$787,300 to \$1,066,600, along with one-time savings of \$2,544,000 to \$4,405,000.

I am happy to see that UGI has accepted Audit's recommendation that PNG and CPG develop formal dividend policies that incorporate their sources and uses of cash. I am also pleased that UGI has accepted Audit's recommendation to refine its strategic planning process. This includes more clearly defining its capital spending forecasts. These are issues that have caused me to view UGI's request to register debt securities skeptically in the past. I see these as positive steps toward making the Companies' financing practices more transparent.

UGI disagreed with Audit Staff's recommendation that it should file an updated and better detailed affiliated interest agreement. I support Audit's recommendation. Affiliated interest agreements that are filed as parts of rate cases and merger cases are often lost amongst the bigger issues in those proceedings. The 1992 Administrative Services Affiliated Interest Agreement, that was re-affirmed by the Commission and adopted for use in the PNG and CPG acquisition proceedings, is vague and as such, may not prevent cross-subsidization amongst the Companies.

I note, but will not comment upon, the two operational issues which were referred by Audits to our Bureau of Investigations and Enforcement: The high numbers of Class A leaks on UGI Gas's and PNG's systems, and the removal and disposal of 6,700 confirmed mercury regulators and the inspection of another 4,000 devices that might contain mercury in UGI Gas's service territory.

However, I will state that I am astonished that two years after the Commission held an en banc hearing regarding replacement of at risk cast iron and bare steel mains, our Audits Staff has to recommend to UGI that it should formally establish short and long term goals for the replacement of its at risk pipe because its main replacement program is not well documented. The Company has agreed to Audit Staff's recommendation on this issue and states that it has adopted a twenty-year replacement plan for cast iron and a thirty-year replacement plan for bare steel. UGI states that the framework of that plan will be embodied in its revised Distribution Integrity Management Plan which will be completed by the end of this year.

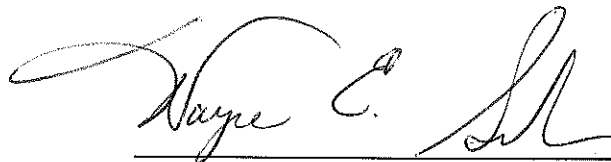
The UGI companies have every tool available to a natural gas distribution company that needs to replace aged or unreliable pipelines:

- The companies earn very healthy returns on equity
- The companies have healthy balance sheets
- The companies have a regulatory commission that wants the at risk pipes fixed
- The companies have the opportunity to file for approval of a DSIC to allay cost

UGI's management has no excuse for not making the replacement of at risk pipe its number one priority.

May 24, 2012

Date



Wayne E. Gardner, Commissioner