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July 17, 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: Application of Leatherstocking Gas Company, LLC to Supply Natural Gas Service to the Public in Certain Townships and Boroughs in Northern Susquehanna County, Pennsylvania

Docket No. A-2011-2275595

Application of UGI Penn Natural Gas, Inc. for approval to begin to offer, render, furnish or supply gas utility service to the public in the additional territories of Bridgewater, Forest Lake, Great Bend, Harmony, New Milford and Oakland Townships, and Great Bend, Hallstead, Lanesboro, Montrose, New Milford, Oakland and Susquehanna Depot Boroughs, Susquehanna County Docket No. A-2012-2284831

Dear Secretary Chiavetta:

Enclosed for filing please find the Answer of UGI Penn Natural Gas, Inc. in Response to the Motion to Strike of the Bureau of Investigation and Enforcement. Copies will be provided as indicated on the Certificate of Service.

Respectfully Submitted,

Michael W. Hassell

MWH/skr Enclosures

cc: Certificate of Service

## BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Leatherstocking Gas Company,

LLC to Supply Natural Gas Service to the

Public in Certain Townships and Boroughs in Northern Susquehanna County, Pennsylvania Docket No. A-2011-2275595

Application of UGI Penn Natural Gas, Inc. for approval to begin to offer, render, furnish or supply gas utility service to the public in the additional territories of Bridgewater, Forest Lake, Great Bend, Harmony, New Milford and Oakland Townships, and Great Bend, Hallstead, Lanesboro, Montrose, New Milford,

Oakland Townships, and Great Bend, Hallstead, Lanesboro, Montrose, New Milford Oakland and Susquehanna Depot Boroughs, Susquehanna County, Pennsylvania Docket No. A-2012-2284831

ANSWER OF UGI PENN NATURAL GAS, INC. IN RESPONSE TO THE MOTION TO STRIKE OF THE BUREAU OF INVESTIGATION AND ENFORCEMENT

UGI Penn Natural Gas, Inc. ("PNG") hereby files this Answer to the Motion to Strike submitted by the Bureau of Investigation & Enforcement ("I&E") in response to the filing of the Joint Stipulation in Settlement ("Joint Stipulation") between Leatherstocking Gas Company, LLC ("Leatherstocking") and PNG at the above-referenced dockets. For reasons explained herein, the arguments set forth in the Motion to Strike should be rejected and the Pennsylvania Public Utility Commission ("Commission") should approve the Joint Stipulation in its entirety.

Before responding to the substance of I&E's arguments, PNG takes note of the procedural efforts undertaken by I&E to not have the Joint Stipulation considered on its merits. These efforts not only include a procedural challenge to the submission of the Joint Stipulation directly for Commission review, but also a challenge to the presentation of the Joint Stipulation

in <u>any</u> fashion. I&E's efforts even extend to a challenge to PNG's right to even respond to the Motion to Strike. (Motion to Strike, p. 11). I&E's efforts are surprising. I&E took no position before Administrative Law Judge Salapa (the "ALJ") on the standing of PNG to participate in the Leatherstocking case, and offered no objection when Leatherstocking and PNG sought, and obtained, three consecutive extensions of the due date for Exceptions to the Initial Decision ("I.D.") for the specific purpose of negotiating a settlement of the competing Application proceedings of Leatherstocking and PNG. Leatherstocking and PNG have negotiated in good faith to develop a settlement to completely resolve their competing concerns in a fashion that allows natural gas distribution service to be extended in an area not currently served. PNG respectfully requests that the Commission review the Joint Stipulation on its merits and approve the Joint Stipulation.

### I. <u>INTRODUCTION AND BACKGROUND</u>

On November 23, 2011, Leatherstocking filed an Application with the Commission at Docket No. A-2011-2275595 ("Leatherstocking Application"). In its Application, Leatherstocking, which is not currently certificated in Pennsylvania, seeks a certificate of public convenience, pursuant to Chapter 11 of the Public Utility Code, authorizing it to begin to offer, render, furnish, or supply natural gas distribution services in certain townships and boroughs in rural parts of northern and central Susquehanna County.

On December 27, 2011, PNG filed a protest to the Leatherstocking Application. PNG filed its protest prior to the deadline for filing protests to the Application. In its protest, PNG indicated, among other things, that it had been engaged in substantial market development activities in the area covered by the Leatherstocking Application, that it currently serves in other areas of Susquehanna County, and that it intended in the near future to file its own application seeking Commission approval to construct its own natural gas facilities to provide natural gas

service to all or a substantial portion of the service area contemplated by the Leatherstocking Application.

The Office of Consumer Advocate ("OCA") filed a Notice of Intervention and Public Statement in the Leatherstocking Application on December 27, 2011. Williams Field Services Company, LLC ("Williams") filed a Petition to Intervene in the Leatherstocking Application on December 27, 2011. On January 11, 2012, I&E entered a Notice of Appearance in the Leatherstocking Application.

On January 12, 2012, a Notice was issued scheduling a Prehearing Conference before the ALJ at 10:00 a.m. on Tuesday, February 14, 2012, in Hearing Room 3 in the Commonwealth Keystone Building, Harrisburg, Pennsylvania.

On January 17, 2012, Leatherstocking filed preliminary objections to PNG's protest stating, among other things, that PNG lacked standing to protest because it did not have a competing application before the Commission.

In accordance with the assertions set forth in its Protest, on January 18, 2012, PNG filed with the Commission the "Application of UGI Penn Natural Gas, Inc. for approval to begin to offer, render, furnish or supply gas utility service to the public in the additional territories of Bridgewater, Forest Lake, Great Bend, Harmony, New Milford and Oakland Townships, and Great Bend, Hallstead, Lanesboro, Montrose, New Milford, Oakland and Susquehanna Depot Boroughs, Susquehanna County, Pennsylvania," Docket No. A-2012-2284831 (hereinafter "PNG Application").

On January 27, 2012, PNG filed an answer to Leatherstocking's preliminary objections. Therein, PNG argued that it had standing as a protestant because the protest clearly indicated that PNG has been engaged in substantial market development activities in the area covered by the Application, and that PNG intended in the near future to file its own application seeking

Commission approval to construct its own natural gas facilities to provide natural gas service to all or a substantial portion of the service area contemplated in the Leatherstocking Application. PNG also noted that the Company was filing an amended protest to update the initial protest to reflect that the PNG Application was filed on January 18, 2012.

Also on January 27, 2012, PNG filed its amended protest pursuant to Section 5.91 of the Commission's regulations, 52 Pa. Code § 5.91. The amended protest reiterated that PNG's initial protest clearly indicated that it was actively taking steps to extend its service within Susquehanna County. PNG also explained that the purpose of the amended protest was to update the initial protest to reflect that PNG had filed the competing PNG Application on January 18, 2012.

On February 10, 2012, PNG filed a motion to consolidate the PNG Application with the Leatherstocking Application. PNG's motion to consolidate the two Applications was held in abeyance pending the disposition of the preliminary objections.

The Prehearing Conference in the Leatherstocking Application was held as scheduled on February 14, 2012. At that time, Leatherstocking indicated that it intended to file preliminary objections to PNG's amended protest. Leatherstocking also requested that the procedural schedule and discovery in the Leatherstocking Application be stayed until the disposition of Leatherstocking's forthcoming second preliminary objections. Leatherstocking's request was granted at the Prehearing Conference without objection.

On February 16, 2012, Leatherstocking filed its preliminary objections to PNG's amended protest to the Leatherstocking Application, again challenging, among other things, PNG's standing as protestant to the Leatherstocking Application. On February 27, 2012, PNG filed an Answer to Leatherstocking's preliminary objections to PNG's amended protest to the Leatherstocking Application.

The ALJ's I.D. on the preliminary objections was issued by Secretarial Letter dated March 20, 2012. The I.D. treated Leatherstocking's preliminary objection on the basis of lack of standing as a request for summary judgment. (I.D., pp. 8-9.) On this basis, the I.D. concluded that there was no material issue of fact for trial and that Leatherstocking was entitled to judgment as a matter of law on the issue of PNG's standing to file the initial December 27, 2011 protest. Specifically, the I.D. found that PNG did not have standing to protest because, at the time it filed its initial protest, PNG did not have a certificate of public convenience authorizing it to serve the service territory proposed in the Leatherstocking Application. (I.D., pp. 11-13.) The I.D. further found that PNG was not entitled to file an amended protest, and that PNG failed to establish good cause for filing its amended protest after the close of the protest period. (I.D., pp. 15-18.) PNG disagrees with the ALJ's conclusion, and is prepared to submit Exceptions if necessary.

Prior to and continuing after the issuance of the I.D., Leatherstocking and PNG engaged in negotiations to amicably resolve their respective differences, in accordance with the Commission's policy encouraging settlement. 52 Pa. Code § 5.231. PNG requested three extensions of time to file Exceptions and Reply Exceptions to facilitate these negotiations for a settlement that would fully resolve PNG's and Leatherstocking's respective issues in both the Leatherstocking Application and PNG Application. All parties of record consented to the extensions. The third of these unopposed extensions set June 29, 2012 as the due date for Exceptions.

On June 21, 2012, Leatherstocking and PNG filed the Joint Stipulation in both the Leatherstocking Application and PNG Application. On June 26, 2012, Leatherstocking and PNG submitted a corrected Joint Stipulation to clarify that it was the parties' original intention to submit the Joint Stipulation directly to the Commission. Under the terms of the Joint Stipulation, if adopted, PNG would agree to withdraw its protest to the Leatherstocking Application and

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PNG would withdraw the PNG Application, with the right to re-file to serve all or a portion of the territory in the future, with certain exceptions. Further, if adopted, Leatherstocking would agree to amend its current Application to specify that it is seeking a nonexclusive territory, and agree that it would not protest a future application filed by PNG to serve in the identified territory. The Joint Stipulation further provided for a Right of First Refusal for PNG to purchase Leatherstocking's facilities constructed in the applied-for territory, in the event Leatherstocking decided to divest itself of ownership. The OCA, Williams, and Borough of Lanesboro<sup>2</sup> are not signatories to the Joint Stipulation, but indicated no opposition to the Joint Stipulation.

With the filing of the Joint Stipulation, Leatherstocking and PNG also requested that the Commission postpone the due date for filing Exceptions and Reply Exceptions to a date 30 days following a Commission decision on the Joint Stipulation. This request was made because Commission adoption of the Joint Stipulation would render the need to file Exceptions and Reply Exceptions moot. I&E opposed this request. By Secretarial letter issued June 28, 2012, the Commission stayed the period for filing Exceptions, pending further notice from the Commission.

By letter dated June 27, 2012, I&E advised the Commission of its opposition to the Commission's direct consideration of the Joint Stipulation. On June 28, 2012, Leatherstocking and PNG submitted letters in response to I&E's opposition to the Commission's consideration of the Joint Stipulation. Also on June 27, 2012, I&E submitted its Motion to Strike the Joint Stipulation. PNG herein responds to I&E's Motion to Strike. For the reasons explained below,

<sup>&</sup>lt;sup>1</sup> Naturally, any sale of facilities by Leatherstocking would require the filing of an application for Commission approval.

<sup>&</sup>lt;sup>2</sup> The Borough of Lanesboro is a party to the PNG Application proceeding.

<sup>&</sup>lt;sup>3</sup> PNG emphasizes that the draft Joint Stipulation was provided to all other parties several weeks prior to filing.

the Motion to Strike of I&E should be denied, and the Commission should act upon and approve the Joint Stipulation in its entirety.

### II. ARGUMENT

### A. The Joint Stipulation Is In The Public Interest.

Before responding to the specific contentions of I&E, PNG reiterates the reasons why the Joint Petition is in the Public Interest and should be approved.

Currently pending with the Commission are two applications, one by Leatherstocking and one by PNG, to serve the same service territory. When presented with competing applications in the past, the Commission has either accepted one application and rejected the other,<sup>4</sup> approved a split of the territory in dispute,<sup>5</sup> or certificated multiple entities.<sup>6</sup> As these cases demonstrate, substantial time, often years, and resulting expense has been incurred in litigation of such matters. One result has been delay in extending service to unserved areas.

Leatherstocking and PNG have developed a compromise that avoids the delays attendant to such dual litigation. Through the Joint Stipulation, PNG agrees to withdraw its pending protest to the Leatherstocking Application, and agrees to withdraw its pending Application. In return, Leatherstocking agrees to an offer, which it made early in these proceedings, to amend its Application to specify that it sought a non-exclusive territory. (See Preliminary Objections of Leatherstocking Gas Company LLC filed January 17, 2012, at p. 12.) As explained in greater detail later in this response, such amendment is consistent with Pennsylvania law, which holds that the Commission always has the authority to certificate another entity to serve an area when

<sup>&</sup>lt;sup>4</sup> See, e.g., Application of Audobon Water Company and Application of Citizens Utilities Home Water Company, 1989 Pa. P.U.C. LEXIS 11, 69 Pa. P.U.C. 88 (1989) ("Audobon/Citizens").

<sup>&</sup>lt;sup>5</sup> See, e.g., Application of Pennsylvania Gas and Water Company and Application of Union Gas Company, Pittston District, 1992 Pa. P.U.C. LEXIS 48 (1992) ("PG&W/Union").

<sup>&</sup>lt;sup>6</sup> See, e.g., Application of South Penn Gas Company and Application of UGI Utilities, Inc., Docket Nos. A-122900F003, A-123100F0016, Order entered May 22, 1995 ("South Penn/UGI") (granting certificates to both utilities)

warranted. Leatherstocking further agrees that it would not protest a future application by PNG to serve in the applied-for territory, while PNG agrees to mitigate competitive concerns by committing that a future application, if any, will not seek to serve Leatherstocking's customers. Importantly, the Joint Stipulation specifically preserves other parties rights to challenge a future application, if any, filed by PNG. Finally, the signatories to the Joint Stipulation have agreed that PNG will have a right of first refusal to purchase the Leatherstocking facilities in the applied-for territory. This provision presents an important potential benefit. Leatherstocking is not currently certificated to serve in Pennsylvania, and the area it seeks to serve is not densely populated. Small utility systems can present concerns related to long-term viability. See Applications of Nido's Ltd., Inc. d/b/a Kaylor Gas Distribution and Shadyside Gas, A-120007F2000, et al., Order entered April 26, 2007; Policy Statement on Small Drinking Water Systems, 52 Pa. Code § 69.701. The existence of a potential backstop to Leatherstocking, in a long-established Pennsylvania utility with existing facilities in the immediate area, is another benefit of the Joint Stipulation.

The Joint Stipulation is in the public interest, as it allows service for Leatherstocking to go forward in the disputed area, and avoids the cost of litigation for the parties. The Joint Stipulation should be approved.

### B. I&E's Contention That The Commission Cannot Consider A Settlement Of Two Competing Applications Is Without Merit.

I&E contends that the Commission cannot consider a settlement between Leatherstocking and PNG because the ALJ has issued an I.D. denying the standing of PNG to protest Leatherstocking's Application. Such contention is without merit and should be rejected.

<sup>&</sup>lt;sup>7</sup> The Commission has previously approved settlements in which one party agrees not to protest a future application by another party. *PG&W/Union*.

As explained in the Introduction and Background to this Answer, Leatherstocking and PNG have filed competing applications to serve the same territory in Susquehanna County. Leatherstocking and PNG have each filed a protest to the other company's application. The Joint Stipulation resolves the companies' disputes with respect to each other's protests and applications, thereby allowing the Leatherstocking Application to move forward.

The I.D., to which PNG disagrees, is not a barrier to Leatherstocking and PNG settling their disputes. The I.D. does not represent a final Commission ruling on PNG's standing, and PNG clearly remains a party until its standing is finally determined. Approval of the Joint Stipulation would avoid the need for a Commission ruling on the standing issue. The Joint Stipulation also avoids the potential delays to action on Leatherstocking's Application in the event of appellate proceedings concerning PNG's standing.

Furthermore, the Settlement is not just resolving issues related to the Leatherstocking application proceeding. The Settlement also resolves issues related to PNG's application proceeding. Gertainly, I&E cannot contend that PNG does not have standing to participate in, and settle, its own application proceeding.

I&E's position that a party whose standing is in question cannot participate in a settlement could have far-reaching adverse consequences on the ability of adverse parties to settle their differences. A party that successfully challenges the standing of another party before an ALJ may find that it has impeded its ability to conclusively settle the matter, because it would be impossible under I&E's position to settle claims with a party dismissed from a case, whose only recourse would be to appeal if it believes it has a valid position. Thus, I&E's position is contrary to the provisions of 52 Pa. Code § 5.231(b), which provides that "[n]othing contained in

<sup>&</sup>lt;sup>8</sup> To suggest otherwise would present the question of how an entity could seek review of a denial of party status.

<sup>&</sup>lt;sup>9</sup> Contrary to I&E's assertions in footnote 2 to its Motion to Strike, PNG does have an interest in the territory that is the subject of the Leatherstocking Application, as it is the same territory that PNG seeks to serve in its Application.

this chapter or Chapter 1 or 3 ... preclude a party in a proceeding from submitting, at any time, offers of settlement..."

I&E's contention that Leatherstocking and PNG cannot settle their respective disputes because the I.D. denied PNG's standing in the Leatherstocking Application proceeding should be rejected.

## C. Leatherstocking's and PNG's Submission Of The Joint Stipulation To The Commission, Rather Than To The ALJ, Is Procedurally Correct.

In footnotes 1 and 2 of its Motion to Strike, and in its Letter in opposition to the submission of the Joint Stipulation to the Commission, I&E contends that Leatherstocking and PNG failed to comply with established procedures and rules in submitting their Joint Stipulation directly to the Commission. I&E offers no citation in support of its contention. I&E's contention is incorrect.

In assessing the proper forum for submission of the Joint Stipulation, it is relevant to consider the current procedural status of the two applications. Further action on the Leatherstocking Application currently has been stayed until 30 days following a final Commission decision on the I.D. (I.D., Ordering Paragraph 4). I&E further asserts, by its Motion to Strike, that the ALJ cannot act upon the Joint Stipulation in the Leatherstocking matter, because he has rejected PNG's standing to participate in that case. With respect to the provision in the Joint Stipulation regarding the pending PNG Application, the Commission's regulations allow leave to withdraw a pleading in a contested proceeding to be filed directly with the Commission. 52 Pa. Code § 5.94(a). As a result, the proper forum for consideration of the Joint Stipulation at this time is to present the Joint Stipulation to the Commission.

Submission of a settlement to the Commission in lieu of Exceptions and Reply Exceptions is an accepted process for consideration of a settlement reached subsequent to an ALJ's action on a matter. *Keebler v. Verizon PA, Inc.*, Docket No. F-2010-2215057 (Order

entered January 27, 2012); Applications of UGI Utilities, Inc., UGI Utilities Newco Inc. and Southern Union Company, 2006 Pa. P.U.C. LEXIS 62 (2006); see also Joint Application for Approval of the Transfer of Stock of Dominion Peoples, 2009 Pa. P.U.C. LEXIS 1976 (2009) (wherein the Commission took jurisdiction, through interlocutory review, to review and approve a settlement rejected by an ALJ in an Interim Order that was not reversible through Exceptions).

For the foregoing reasons, the filing of the Joint Stipulation with the Commission by Leatherstocking and PNG is not inappropriate, but rather is the proper procedural vehicle, at this stage of the proceedings and while the I.D. remains outstanding, for the two parties to present their settlement for consideration by the Commission.

## D. Leatherstocking's Agreement To Amend Its Application To State That Its Territory Is Non-Exclusive Does Not Require Filing Of A New Application.

I&E contends, without citation to authority, that Leatherstocking's Agreement in the Joint Stipulation to amend its Application to state that its proposed service territory is non-exclusive would require that Leatherstocking re-file its Application. PNG does not agree.

The amendment will not expand the area which Leatherstocking seeks to serve, and therefore no further application or notice is required. Moreover, amendments and conditions to applications for certificates of public convenience are adopted as a matter of course in settlements, and no new application or notice has been required. See, e.g., Application of the City of Bethlehem for approval to offer, render, furnish or supply domestic water service to the public in additional territory in portions of Allen and Bethlehem Townships located in Northampton County, Pennsylvania, Docket No. A-2009-2086451, 2010 Pa. PUC LEXIS 437 (February 16, 2010) (approving a joint petition for settlement that, among other things, amended the service territory originally requested in the application); Application of Pennsylvania-American Water Company, Docket Nos. A-212285F0071, et al., 2001 Pa. PUC LEXIS 5 (February 13, 2001) (approving a stipulation between Pennsylvania-American Water Company and Philadelphia

Suburban Water Company that, among other thing, reduced the service territory originally requested in the application).

# E. No Hearing Is Necessary At This Time To Consider Potential Issues Related To Overlapping Service Territories, Because No Approval Of Overlapping Service Territories Is Sought By The Joint Stipulation.

I&E challenges that portion of the Joint Stipulation wherein Leatherstocking agrees to amend its Application to explicitly state that its proposed service territory is non-exclusive. I&E contends that such amendment would raise issues concerning gas safety and competition. <sup>10</sup> I&E's concerns are premature, and do not need to be addressed prior to approving the Joint Stipulation.

## 1. The Grant of a Certificate of Public Convenience Does Not Prohibit Another Entity From Applying for the Same Territory

I&E is concerned that Leatherstocking has agreed to amend its Application to state that its territory is explicitly non-exclusive. However, such amendment is consistent with the law in Pennsylvania.

A Certificate of Public Convenience does not necessarily grant an exclusive right to serve a particular geographic area. *Lukens Steel Company v. Pa. P.U.C.*, 1985 Pa. Commw. LEXIS 1350 at \*3, n.1 (1985); *Re: Metropolitan Edison*, 78 Pa. P.U.C. 617, 622 (1993) ("*MetEd*"). The extent to which competition between utilities will be allowed is within the discretion of the Commission. *Peoples Natural Gas Co. v. Pa. P.U.C.*, 594 A.2d 585, 592 (Pa. Commw. 1992). Applicants are permitted to apply for areas previously certificated by others. *See South Penn/UGI* (authorizing South Penn and UGI to serve a territory previously certificated to Columbia Gas of Pennsylvania, Inc.). Thus, the proposed amendment to Leatherstocking's application is consistent with the law.

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<sup>&</sup>lt;sup>10</sup> I&E also raises unspecified issues of "convoluted proceedings." It is unknown what is convoluted about two entities applying to serve the same service area. The Commission clearly has managed such cases before. See Audobon/Citizens; PG&W/Union; South Penn/UGI.

### 2. I&E's Issues Are Not Ripe for Determination at This Time.

I&E's concerns about potential safety and competition issues are premature. As explained in the Introduction and Background, the Joint Stipulation provides for PNG to withdraw its competing Application to serve in the same territory as Leatherstocking. If PNG files an Application to serve in this territory in the future, I&E can examine, based on actual rather than theoretical circumstances, whether there are specific objections to a future proposed expansion of PNG's service territory. See MetEd, at 622 ("[I]n the absence of actual competition between [two utilities], there was no cause for either of the utilities, or the Commission, to seek clarification or resolution of the overlap." If and when an actual PNG application is filed, the Commission can then determine whether to allow another utility to be certificated for an area, as was done in South Penn/UGI, or deny a future application by PNG. PNG notes that Paragraph 20 of the Joint Stipulation specifically recognizes that the Joint Stipulation has no effect on the rights of other parties to participate in any future application filed by PNG. It is at that time when I&E can assert that there are actual safety or competition issues to consider.

I&E's concerns are premature. Issues regarding overlapping service territories should not be considered in the abstract, but should await an actual future filing, if any.

It is noted, with respect to the issue of gas on gas competition, that PNG agrees in the Joint Stipulation that any future application it may make would not seek to serve Leatherstocking's customers.

### III. <u>CONC</u>LUSION

WHEREFORE, for all of the foregoing reasons, UGI Penn Natural Gas, Inc. respectfully requests that the Motion to Strike of I&E be denied, that the Commission act upon the Joint Stipulation and that the Joint Stipulation be approved in its entirety.

Respectfully submitted,

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Attorneys for UGI Penn Natural Gas, Inc..

## CERTIFICATE OF SERVICE (Docket Nos. A-2011-2275595 and A-2012-2284831)

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 E-MAIL AND FIRST CLASS MAIL

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