



June 13, 2011

VIA ELECTRONIC AND EXPRESS MAIL

The Honorable Kandace F. Melillo
Administrative Law Judge
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
kmelillo@state.pa.us

**Re: Pennsylvania Public Utility Commission et al. v. UGI Central
Penn Gas, Inc., Docket Nos. R-2011-2238949; C-2011-2243177**

**Pennsylvania Public Utility Commission et al. v. UGI Penn
Natural Gas, Inc., Docket Nos. R-2011-2238943; C-2011-2243199**

**Pennsylvania Public Utility Commission et al. v. UGI Utilities, Inc. –
Gas Division, Docket Nos. R-2011-2238953; C-2011-2243186**

Dear Judge Melillo:

Enclosed please find two copies of the Prehearing Memorandum of UGI Penn Natural Gas, Inc., UGI Utilities, Inc. – Gas Division and UGI Central Penn Gas, Inc. Copies of this document have been served upon the persons indicated in the attached Certificate of Service.

Very truly yours,

Mark C. Morrow
Melanie J. Elatieh

Counsel for
UGI Central Penn Gas, Inc
UGI Penn Natural Gas, Inc.
UGI Utilities, Inc. – Gas Division

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.	:	
	:	
v.	:	Docket Nos. R-2011-2238949
	:	C-2011-2243177
UGI CENTRAL PENN GAS, INC	:	
	:	
PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.	:	
	:	
v.	:	Docket Nos. R-2011-2238943
	:	C-2011-2243199
UGI PENN NATURAL GAS, INC.	:	
	:	
PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.	:	
	:	
v.	:	Docket Nos. R-2011-2238953
	:	C-2011-2243186
UGI UTILITIES, INC. - GAS DIVISION	:	
	:	

**PREHEARING MEMORANDUM OF
UGI CENTRAL PENN GAS, INC.
UGI PENN NATURAL GAS, INC.
and
UGI UTILITIES, INC. - GAS DIVISION**

BEFORE ADMINISTRATIVE LAW JUDGE KANDACE F. MELILLO:

I. BACKGROUND

UGI Central Penn Gas, Inc. ("CPG"), UGI Penn Natural Gas, Inc. ("PNG") and UGI Utilities, Inc. - Gas Division ("UGI") (collectively, the "Companies"), being natural gas distribution companies with gross intrastate annual operating revenues in excess of \$40,000,000,

are authorized by the provisions of Section 1307(f) of the Public Utility Code, 66 Pa.C.S. §1307(f), and the Pennsylvania Public Utility Commission's ("Commission") gas cost recovery regulations at 52 Pa. Code §§53.61 - 53.68, to make annual purchase gas cost ("PGC") filings proposing modifications to their gas tariff rates to reflect increases or decreases in their natural gas costs. Consistent with the requirements of 52 Pa. Code §53.64(c), CPG, PNG and UGI each filed certain supporting information for their annual PGC filings on April 30, 2011, and, in accordance with the schedule for PGC filings established by the Commission, filed their 2011 PGC filings on June 1, 2011.

In its 2011 PGC filing, CPG proposes to implement, effective December 1, 2011, a PGC rate of \$6.27/Dth for PGC customers served under Rate R (Residential Service), and a PGC rate of \$6.24/Dth for PGC customers served under Rates G (General Service), RS (Resale Service) and O (Outdoor Lighting Service).¹ These proposed PGC rates would result in no change to the PGC rates that became effective June 1, 2011.

In its 2011 PGC filing, PNG proposes to implement, effective December 1, 2011, a PGC rate of \$6.76/Mcf for PGC customers served under Rate R (Residential Service), and a PGC rate of \$6.73 for PGC customers served under Rates N (General Service), Rate GL (Gas Lights) and Rate CIAC (Commercial & Industrial Air Conditioning). These proposed PGC rates would result in no change to the PGC rates that became effective June 1, 2011.

In addition, PNG proposes, for its existing 122 Rate GBM (Gas Beyond the Mains) customers, to (1) establish a special PGC rate, effective December 1, 2011, comprised seventy-five percent (75%) of the standard PGC rate and twenty-five percent (25%) of a propane market

¹ The PGC rates for CPG PGC customers served under Rates G, RS and O, for PNG PGC customers served under Rates N, GL and CIAC and UGI PGC customers served under Rates N reflect an allocated portion of certain

rate, and (2) establish a Rate GBM PGC rate transition mechanism that will move existing Rate GBM customers to market-based propane prices by August 27, 2014. Separate notices of these proposed changes were mailed to the affected Rate GBM customers.

In its 2011 PGC filing, UGI proposes to implement, effective December 1, 2011, a PGC(1) rate of \$8.49/Mcf for PGC customers served under Rates R (Residential Service), GL (Gas Lights) and CIAC (Commercial & Industrial Air Conditioning) and a PGC(1) rate of \$8.48/Mcf for PGC customers served under Rates N (General Service). These proposed PGC rates would result in no change to the PGC rates that became effective June 1, 2011.

In addition, UGI proposes to implement, effective December 1, 2011, a PGC(2) rate of \$6.20/Mcf, which represents an average decrease of approximately \$0.19/Mcf from the PGC(2) rate that became effective June 1, 2011. The PGC(2) rate is applicable to PGC customers served under Rates BD (Business Development), Rate CIAC (Commercial and Industrial Air Conditioning), and the Total Space Conditioning (TSC) option of Rates R and N.

In a Prehearing Conference Orders dated June 6, 2011, the parties were informed that a prehearing conference has been scheduled for Thursday, June 9, 2011 before presiding Administrative Law Judge (“ALJ”) Kandace F. Melillo. The date of the prehearing conference was subsequently moved to Thursday June 16, 2011.

II. SERVICE LIST

The following persons should be identified on the service list for the CPG, PNG and UGI PGC proceedings:

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III. CONSOLIDATION

CPG, PNG and UGI support the consolidation of their PGC proceedings for purposes of discovery, hearing and briefing.

IV. DISCOVERY

CPG, PNG, and UGI have received interrogatories from the Office of Consumer Advocate (“OCA”) and the Commission’s Office of Trial Staff (“OTS”). Each has responded or is in the process of responding to these discovery requests. The Companies are willing to meet with any party for the purpose of conducting informal discovery.

CPG, PNG and UGI have entered into voluntary Stipulated Protective Agreements with certain current and potential PGC participants to provide some protection for the provision of

confidential information in discovery requests on an interim basis, and filed a comprehensive Joint Petition for a Protective Order on June 7, 2011.

V. SCHEDULE

CPG, PNG and UGI have worked with other parties to develop a proposed procedural schedule consistent with the parameters established by the presiding Administrative Law Judge. That proposed procedural schedule, which CPG, PNG and UGI believe has the support of the OCA, OSBA, OTS, Proctor and Gamble, counsel who traditionally represent industrial intervenors and CenterPoint Energy Services, Inc. is set forth in Appendix A.

CPG, PNG and UGI are also willing to extend the six-month suspension period by one day in recognition of the fact that the Commission has a public meeting scheduled for December 1, 2011.

VI. WITNESSES

CPG

CPG submitted the written testimony of the following witnesses with its June 1, 2011 PGC filing, and reserves the right to call such additional witnesses as may be required to respond to issues raised by other parties:

William J. McAllister, Senior Rate Analyst
(CPG Statement No. 1)
UGI Utilities, Inc.
2525 N. 12th St., Suite 360
Reading, Pennsylvania 19605

David C. Beasten, Manager – Supply Planning and Procurement
(CPG Statement No. 2)
UGI Utilities, Inc.
2525 N. 12th St., Suite 360
Reading, Pennsylvania 19605

Shaun Hart, Manager - Supply
(CPG Statement No. 3)
UGI Utilities, Inc.
2525 N. 12th St., Suite 360
Reading, Pennsylvania 19605

In his testimony, Mr. McAllister addresses: (1) the development of CPG's proposed PGC rate for the twelve-month period beginning December 1, 2011; (2) calculation of interest; (3) CPG's Revenue Sharing Incentive Mechanism; (4) CPG's Retainage Rate and Lost and Unaccounted For ("LAUF") levels; and (5) Tennessee Pipelines Refund Credits. Mr. Beasten addresses (1) changes to CPG's storage hedge plan; (2) changes to CPG's capacity portfolio; and (3) the status of the Dominion Storage reporting error litigation. Mr. Hart addresses (1) CPG's efforts to acquire Marcellus Shale supplies; and (2) CPG's proposed changes to its mandatory capacity assignment rules for Choice suppliers.

CPG witnesses also support the portions of the CPG April 29, 2011 supporting information and June 1, 2011 PGC filing as shown on Schedule CPG-WJM-1 to CPG Statement No. 1.

PNG

PNG submitted the written testimony of the following witnesses with its June 1, 2011 PGC filing, and reserves the right to call such additional witnesses as may be required to respond to issues raised by other parties:

William J. McAllister, Senior Rate Analyst
(PNG Statement No. 1)
UGI Utilities, Inc.
2525 N. 12th St., Suite 360
Reading, Pennsylvania 19605

David C. Beasten, Manager – Supply Planning and Procurement
(PNG Statement No. 2)
UGI Utilities, Inc.
2525 N. 12th St., Suite 360
Reading, Pennsylvania 19605

Shaun Hart, Manager - Supply
(PNG Statement No. 3)
UGI Utilities, Inc.
2525 N. 12th St., Suite 360
Reading, Pennsylvania 19605

In his testimony, Mr. McAllister addresses: (1) the development of PNG's proposed PGC rate for the twelve-month period beginning December 1, 2011; (2) calculation of interest; (3) PNG's Revenue Sharing Incentive Mechanism; (4) PNG's Retainage Rate and Lost and Unaccounted For ("LAUF") levels; (5) Tennessee Pipeline Refund Credits; and (6) the development of PNG's Gas Beyond the Mains ("GBM") PGC rate. Mr. Beasten addresses (1) changes to PNG's storage hedge plan; (2) certain decisions PNG will be making this year concerning pipeline contracts that are set to expire in 2014-2015; and (3) compliance with certain 2010 PNG PGC settlement terms. Mr. Hart, in his testimony, addresses (1) PNG's efforts to acquire Marcellus Shale supplies; and (2) PNG's proposed Rate GBM transition rate mechanism.

The PNG witnesses also support the portions of the PNG April 29, 2011 supporting information and June 1, 2011 PGC filing shown on Schedule PNG-WJM-1 to PNG Statement No. 1.

UGI

UGI submitted the written testimony of the following witnesses with its June 1, 2011 PGC filing, and reserves the right to call such additional witnesses as may be required to respond to issues raised by other parties:

William J. McAllister, Senior Rate Analyst
(UGI Statement No. 1)
UGI Utilities, Inc.
2525 N. 12th St., Suite 360
Reading, Pennsylvania 19605

David C. Beasten, Manager – Supply Planning and Procurement
(UGI Statement No. 2)
UGI Utilities, Inc.
2525 N. 12th St., Suite 360
Reading, Pennsylvania 19605
Reading, Pennsylvania 19605

J Shaun Hart, Manager - Supply
(UGI Statement No. 3)
UGI Utilities, Inc.
2525 N. 12th St., Suite 360
Reading, Pennsylvania 19605

In his testimony, Mr. McAllister addresses (1) the development of UGI's proposed PGC rates, both PGC(1) and PGC(2), for the twelve-month period beginning December 1, 2011; (2) calculation of interest; (3) UGI's Revenue Sharing Incentive Mechanism; (4) UGI's Retainage Rate and Lost and Unaccounted For ("LAUF") levels; and (5) Tennessee Pipeline Refund Credits. Mr. Beasten's testimony addresses (1) changes to UGI's storage hedge plan; (2) decisions UGI will be making concerning the potential replacement of certain oaking and storage contracts set to expire this year; and (3) confirm UGI's discontinuance of swing supply contracts with first-of-month pricing provisions consistent with last year's PGC settlement. Mr. Hart addresses (1) UGI's efforts to acquire Marcellus Shale supplies; (2) UGI gas losses associated with line hits where UGI is at fault; and (3) the posting of UGI customer choice statistics consistent with last year's PGC settlement.

UGI witnesses also supported the portions of the UGI April 29, 2011 supporting information and June 1, 2011 PGC filing as shown on Schedule UGI-WJM-1 to UGI Statement No. 1.

VII. ISSUES

Under Section 1307(f), the Commission must determine that portion of a natural gas distribution company's actual gas costs incurred during a 12-month historical period that meets the standards set forth in Section 1318 of the Public Utility Code, 66 Pa.C.S. §1318. Section 1318, in turn, requires the Commission to determine whether:

1. The utility has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission.
2. The utility has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with its gas suppliers which are or may be adverse to the interests of the utility's ratepayers.
3. The utility has taken all prudent steps necessary to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies.
4. The utility has not withheld from the market or caused to be withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy.

Where applicable, the Commission must also make certain findings concerning gas purchases from affiliates, and determine whether a natural gas distribution company has "shut-in" gas that could have been brought to market during the relevant period.

Once such findings are made for the historical period, the Commission must determine the reasonableness of the rates proposed for the projected PGC period. Such rates are comprised primarily of two elements, the so-called "C-Factor" and "E-Factor." The "C-Factor" is a

projection of the gas costs the natural gas distribution company will incur during the future period. The "E-Factor" is the reconciliation of: (a) the natural gas distribution company's gas costs that meet the standards of Section 1318 during the historic period; and (b) the PGC revenues collected by the natural gas distribution company during such historic period, plus projections of over and under collections for the interim period (April through November, 2011).

VIII. EVIDENCE

CPG intends to offer into evidence in this proceeding its April 29, 2011 pre-filed supporting information and its June 1, 2011 PGC tariff filing with supporting schedules and the written direct testimony of its witnesses.

PNG intends to offer into evidence in this proceeding its April 29, 2011 pre-filed supporting information and its June 1, 2011 PGC tariff filing with supporting schedules and the written direct testimony of its witnesses.

UGI intends to offer into evidence in this proceeding its April 29, 2011 pre-filed supporting information and its June 1, 2011 PGC tariff filing with supporting schedules and the written direct and supplemental direct testimony of its witnesses.

IX. SETTLEMENT

There have been no settlement discussions to date. The Companies stand ready, however,

to engage in such settlement discussions if the parties to this proceeding so desire.

Respectfully submitted,



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Counsel for:
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UGI Utilities, Inc. - Gas Division
UGI Central Penn Gas, Inc.

Dated: June 13, 2011

APPENDIX A

Proposed Schedule

Prehearing Conference	Thursday, June 16, 2011
Other Party Testimony	Monday, July 11, 2011
Rebuttal Testimony	Monday, July 25, 2011
Surrebuttal Testimony	Wednesday, August 3, 2011
Hearing Dates	Friday, August 5, 2011 – Monday, August 8, 2011
Main Briefs	Tuesday, August 23, 2011
Reply Briefs	Wednesday, September 7, 2011

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.	:	
	:	
v.	:	Docket Nos. R-2011-2238949
	:	C-2011-2243177
UGI CENTRAL PENN GAS, INC	:	
	:	
PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.	:	
	:	
v.	:	Docket Nos. R-2011-2238943
	:	C-2011-2243199
UGI PENN NATURAL GAS, INC.	:	
	:	
PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.	:	
	:	
v.	:	Docket Nos. R-2011-2238953
	:	C-2011-2243186
UGI UTILITIES, INC. - GAS DIVISION	:	
	:	

CERTIFICATE OF SERVICE

I hereby certify that, on this 13th day of June, 2011, I have served a true and correct copy of the foregoing document in the manner and upon the persons listed below in accordance with requirements of 52 Pa. Code §1.54 (relating to service by a participant):

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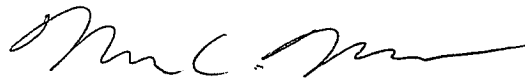
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A handwritten signature in black ink, appearing to read 'Mark C. Morrow', written in a cursive style.

Mark C. Morrow