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June 24, 2014

**VIA E-FILING**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission et al. v. UGI Penn  
Natural Gas, Inc., et al., Docket Nos. R-2014-2420273; C-2014-2421510;  
C-2014-2427283**

**Pennsylvania Public Utility Commission et al. v. UGI Utilities, Inc. –  
Gas Division, et al., Docket Nos. R-2014-2420276; C-2014-2421547;  
C-2014-2427279**

**Pennsylvania Public Utility Commission et al. v. UGI Central  
Penn Gas, Inc., et al., Docket Nos. R-2014-2420279; C-2014-2421520;  
C-2014-2427287**

Dear Secretary Chiavetta:

Enclosed for filing please find a copy 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

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

cc: Service List

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.</b>	:	<b>Docket Nos. R-2014-2420273 C-2014-2421510 C-2014-2427283</b>
<b>v.</b>	:	
<b>UGI PENN NATURAL GAS, INC.</b>	:	
:		
<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.</b>	:	<b>Docket Nos. R-2014-2420276 C-2014-2421547 C-2014-2427279</b>
<b>v.</b>	:	
<b>UGI UTILITIES, INC. - GAS DIVISION</b>	:	
:		
<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.</b>	:	<b>Docket Nos. R-2014-2420279 C-2014-2421520 C-2014-2427287</b>
<b>v.</b>	:	
<b>UGI CENTRAL PENN GAS, INC.</b>	:	

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

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**BEFORE ADMINISTRATIVE LAW JUDGE ELIZABETH H. BARNES:**

**I. BACKGROUND**

UGI Penn Natural Gas, Inc. ("PNG"), UGI Utilities, Inc. - Gas Division ("UGI") and UGI Central Penn Gas, Inc. ("CPG") (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 §§53.61-53.69, 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), the Companies each filed certain supporting information for their annual PGC filings on May 1, 2014, and, in accordance with the schedule for PGC filings established by the Commission, filed their 2014 PGC filings on May 30, 2014. On June 6, 2014, the Companies filed supplemental direct testimony to reflect the inclusion of revised core market peak day demand requirements, included in the written direct testimony of witness Shaun Hart, but inadvertently excluded from the calculation of proposed PGC rates in the Companies' May 30, 2014 filings.

In its current PGC filing PNG proposes to implement a PGC rate of \$5.81/Mcf, effective December 1, 2014, which will result in a \$0.03/Mcf rate increase from the PNG PGC rates implemented after a quarterly adjustment on June 1, 2014.

In its current PGC filing UGI proposes to implement a PGC(1) rate of \$6.50 per Mcf, effective December 1, 2014, which will result in a \$0.07/Mcf rate increase from the UGI PGC(1) rates implemented after a quarterly adjustment on June 1, 2014. In addition, UGI proposes to implement a PGC(2) rate of \$5.63 per Mcf to become effective December 1, 2014, which will result in an average PGC(2) decrease of \$0.51 per Mcf from the average UGI PGC(2) rate that became effective after a quarterly adjustment on June 1, 2014.

In its current PGC filing CPG has proposed to implement a PGC rate of \$4.65/Mcf, effective December 1, 2014, which will result in a \$0.30/Mcf rate decrease from the CPG PGC rates in effect on December 1, 2013.

On May 7, 2014 the Office of Consumer Advocate ("OCA") filed formal complaints, notices of appearance and public statements in the three PGC proceedings. The Companies filed answers to these complaints on June 19, 2014.

On or about May 9, 2014 counsel for the Commission's Bureau of Investigation and Enforcement ("I&E") entered notices of appearance in all three PGC proceedings.

On June 9, 2014 the Office of Small Business Advocate ("OSBA") filed formal complaints, notices of appearance and public statements in the three PGC proceedings. The Companies filed answers to these complaints on June 19, 2014.

In a notice dated June 9, 2014 the parties were informed that a Prehearing Conference on the Company's PGC filings would be held before Administrative Law Judge ("ALJ") Elizabeth H. Barnes on June 30, 2014.

On June 17, 2014 ALJ Barnes issued a Prehearing Conference Order. This Prehearing Memorandum is being submitted in accordance with the directives of this order.

## **II. SERVICE LIST**

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

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### **III. CONSOLIDATION**

The Companies support the consolidation of their PGC proceedings for purposes of discovery, hearing and briefing.

### **IV. DISCOVERY**

The Companies have received interrogatories from the OCA, I&E and OSBA. Each has responded or is in the process of responding to these discovery requests, and has posted responses on a password-protected website for those parties interested in receiving responses in this manner.

The Companies have also responded to certain informal discovery requests, remains willing to do so, and strongly encourages the parties and their expert witnesses to consider this option to facilitate the preparation of their testimonies within the compressed procedural schedules necessitated by the Section 1307(f) process.

The Companies have entered into Stipulated Protective Agreements with all current participants addressing rules for the provision of confidential information in discovery requests, and are filing a Petition for a Protective Order contemporaneously with this Prehearing Memorandum to supplement or supplant the protections afforded by the Stipulated Protective Agreements.

Traditionally, public parties have sought to shorten discovery response time in Company Section 1307(f) proceedings, and the Companies have supported these requests

with modifications to reflect the additional time that is required to respond to discovery requests served immediately before weekends or holidays. To the extent such modifications are sought in the current proceedings, the Companies would support the discovery response modifications adopted in the Companies' consolidated 2013 Section 1307(f) proceedings at Docket Nos. R-2013-2361763 *et al.*, R-2013-2361764 *et al.*, and R-2013-2361771 (Procedural Order dated June 20, 2013, pp 6-7), as set forth below:

- (1) *Answers to written interrogatories shall be served in-hand within ten (10) calendar days of service of the interrogatories, provided that, if receipt of the interrogatories occurs after 12:00 noon on either a Friday or the day preceding a holiday, service shall be deemed to have occurred on the next business day;*
- (2) *Objections to interrogatories shall be communicated orally within three (3) calendar days of service of the interrogatories, provided that, if receipt of the interrogatories occurs after 12:00 noon on a Friday or the day preceding a holiday, service shall be deemed to have occurred on the next business day. Unresolved objections to written interrogatories shall be served in writing on the propounding party within five (5) calendar days of service of the interrogatories, as defined above;*
- (3) *Motions to compel answers to written interrogatories that have been objected to in writing and answers to such motions to compel shall be filed and served within three (3) calendar days of service of the written objections or motions to compel, provided that, if receipt of the objections or motion to compel occurs after 12:00 noon on a Friday or the day preceding a holiday, service of these documents shall be deemed to have occurred on the next business day.*
- (4) *Rulings over motions shall be issued, if possible, within seven (7) calendar days of filing of the motion, consistent with the above-mentioned rule changes;*
- (5) *Responses or objections to requests for document production, entry for inspection, or other purposes shall be served in hand within ten (10) calendar days of service of the request, provided that, if receipt of the request occurs after 12:00 noon on a Friday or the day preceding a holiday, service shall be deemed to have occurred on the next business day; and,*
- (6) *Requests for admission shall be deemed admitted unless answered within ten (10) calendar days or objected to within five (5) calendar days of service of the requests, provided that, if receipt of the request occurs after*

*12:00 noon on a Friday or the day preceding a holiday, service shall be deemed to have occurred on the next business day.*

**V. SCHEDULE**

A proposed procedural schedule consistent with the close of record date specified in the Prehearing Conference Order, and acceptable to the Companies, is set forth in Appendix A. There is not yet agreement among the parties on this procedural schedule.

**VI. WITNESSES**

**PNG**

PNG has submitted the written direct and supplemental direct testimony of the following witnesses, and reserves the right to call such additional witnesses as may be required to respond to issues raised by other parties:

William J. McAllister, Principal Analyst  
(PNG Statement Nos. 1 and 1-S)  
UGI Utilities, Inc.  
2525 N. 12<sup>th</sup> St., Suite 360  
Reading, Pennsylvania 19605

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

Shaun Hart – Manager - Supply  
(PNG Statement No. 3)  
UGI Utilities, Inc.  
2525 N. 12<sup>th</sup> 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, 2014, (2) Migration Rider volume projection, (3) the development of PNG's PGC interest calculation, (4) PNG's

Revenue Sharing Incentive Mechanism, (5) PNG's Retainage Rate, (6) quarterly PGC adjustment methodology, and (7) Gas Beyond the Mains Program ("GBM").

In his testimony Mr. Beasten addresses (1) a Tennessee and Transco SS-2 contract replacement RFP, (2) a RFP for supplies delivered into Transco's Liedy line, (3) peak day capacity status, (4) bundled sales to CPG and UGI, (5) peaking contract update, (6) releases across utilities and (7) reduction of Transco Eminence Storage Service.

In his testimony, Mr. Hart addresses (1) a review of winter 2013-2014, (2) projected peak day demand and (3) a study of Unaccounted-For-Gas ("UFG").

The PNG witnesses also support the portions of the PNG May 1, 2014, supporting information and May 30, 2014 PGC filing, as supplemented on June 6, 2014, as shown on Exhibit PNG-WJM-1 to Mr. McAllister's direct testimony.

### UGI

UGI has submitted the written direct and supplemental direct testimony of the following witnesses, and reserves the right to call such additional witnesses as may be required to respond to issues raised by other parties:

William J. McAllister, Principal Analyst  
(UGI Statement No. 1)  
UGI Utilities, Inc.  
2525 N. 12<sup>th</sup> St., Suite 360  
Reading, Pennsylvania 19605

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

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

In his testimony, Mr. McAllister addresses (1) the development of UGI's proposed PGC rates for the twelve-month period beginning December 1, 2014; (2) the Migration Rider volume projection; (3) the development of UGI's calculation of interest; (4) UGI's Revenue Sharing Incentive Mechanism; (5) UGI's Retainage Rate, (6) quarterly PGC adjustment methodology and (7) Gas Beyond the Mains Program.

In his testimony Mr. Beasten addresses (1) existing peaking contracts, (2) incremental peaking services, (3) peak day capacity status, (4) termination of Transco Eminence storage service, (5) a RFP for supply on the Transco Leidy Line, (6) a RFP to replace Texas Eastern pipeline capacity contracts, (7) a RFP seeking supplies delivered into Transco Sentinel firm transportation contract and (8) a bundled sale from PNG.

In his testimony Mr. Hart addresses (1) a review of winter 2013-2014, (2) projected peak day demand and (3) a study of Unaccounted-For-Gas.

UGI witnesses also supported the portions of the UGI May 1, 2014 supporting information and May 30, 2014 PGC filing as shown on Schedule UGI-WJM-1 to Mr. McAllister's direct testimony.

**CPG**

CPG has submitted the written direct and supplemental direct testimony of the following witnesses, and reserves the right to call such additional witnesses as may be required to respond to issues raised by other parties:

Tracy A. Hazenstab, Senior Analyst  
(CPG Statement Nos. 1 and 1-S)  
UGI Central Penn Gas, Inc.  
2525 N. 12<sup>th</sup> St., Suite 360  
Reading, Pennsylvania 19605

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

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

In his testimony, Ms. Hazenstab addresses (1) the development of CPG's proposed PGC rate for the twelve-month period beginning December 1, 2014, (2) Migration Rider volume projection, (3) the development of CPG's PGC interest calculation, (4) CPG's Revenue Sharing Incentive Mechanism, (5) CPG's Retainage Rate and (6) quarterly PGC adjustment methodology.

In his testimony Mr. Beasten addresses (1) the extension of a storage contract with UGI Storage Company, (2) a peaking service update, (3) Hollow Road substitute supply plans, (4) upstream pipeline contract terminations, (4) capacity additions to meet design day changes and (5) a bundled sale from PNG.

In his testimony Mr. Hart addresses (1) a review of winter 2013-2014 (2) projected peak day demand and (3) a study of Unaccounted-For-Gas ("UFG").

CPG witnesses also support the portions of the CPG May 1, 2014 supporting information and May 30, 2014 PGC filing as shown on Exhibit CPG-TAH-1 to Ms. Hazenstab's direct testimony.

## **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, 2014).

### **VIII. EVIDENCE**

PNG intends to offer into evidence its (1) May 1, 2014 supporting information, (2) May 30, 2014 PGC filing, (3) June 6, 2014 supplemental direct testimony and (4) any other PNG written testimony or exhibits submitted in the course of the proceeding.

UGI intends to offer into evidence (1) May 1, 2014 supporting information, (2) May 30, 2014 PGC filing, (3) June 6, 2014 supplemental direct testimony and (4) any other UGI written testimony or exhibits submitted in the course of the proceeding.

CPG intends to offer into evidence (1) May 1, 2014 supporting information, (2) May 30, 2014 PGC filing, (3) June 6, 2014 supplemental direct testimony and (4) any other CPG written testimony or exhibits submitted in the course of the proceeding.

### **IX. SETTLEMENT**

The Companies stand ready to engage in such settlement discussions and plan to propose an initial settlement meeting shortly after the date established for submission of other party direct testimony unless there is interest among the parties for an even earlier

commencement of settlement discussions.

Respectfully submitted,



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Counsel for:

UGI Penn Natural Gas, Inc.  
UGI Central Penn Gas, Inc.  
UGI Utilities, Inc. - Gas Division

Dated: June 24, 2014

## APPENDIX A

### Proposed Schedule

Prehearing Conference	Wednesday June 30, 2014
Other Party Testimony	Tuesday July 8, 2014
Rebuttal Testimony (all parties)	Monday July 21, 2014
Surrebuttal Testimony (all parties)	Friday July 25, 2014
Hearing Dates	Monday July 28, 2014, Tuesday, July 29, 2014 and Wednesday July 30, 2014 (start 10:00 a.m. all days)
Evidentiary Record Closes	Wednesday July 30, 2014
Main Briefs	Friday August 8, 2014 (in hand to ALJ)
Reply Briefs	Friday August 15, 2014 (in hand to ALJ)
Last Public Meeting date Before December 1, 2014 -	November 13, 2014

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.</b>	<b>:</b>	<b>Docket Nos. R-2014-2420273</b>
<b>v.</b>	<b>:</b>	<b>C-2014-2421510</b>
<b>UGI PENN NATURAL GAS, INC.</b>	<b>:</b>	<b>C-2014-2427283</b>
	<b>:</b>	
<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.</b>	<b>:</b>	<b>Docket Nos. R-2014-2420276</b>
<b>v.</b>	<b>:</b>	<b>C-2014-2421547</b>
<b>UGI UTILITIES, INC. - GAS DIVISION</b>	<b>:</b>	<b>C-2014-2427279</b>
	<b>:</b>	
<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.</b>	<b>:</b>	<b>Docket Nos. R-2014-2420279</b>
<b>v.</b>	<b>:</b>	<b>C-2014-2421520</b>
<b>UGI CENTRAL PENN GAS, INC.</b>	<b>:</b>	<b>C-2014-2427287</b>

**CERTIFICATE OF SERVICE**

I hereby certify that I have, on this 24th day of June, 2014 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):

**VIA ELECTRONIC AND FIRST CLASS MAIL:**

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