COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

MODIFICATIONS TO LOUISVILLE GAS AND ELECTRIC COMPANY'S GAS SUPPLY CLAUSE TO INCORPORATE AN EXPERIMENTAL PERFORMANCE-BASED RATEMAKING MECHANISM	)))))	CASE NO. 2001-017

FIRST DATA REQUEST OF COMMISSION STAFF TO
LOUISVILLE GAS AND ELECTRIC COMPANY

Louisville Gas and Electric Company ("LG&E") is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and ten copies of the following information, with a copy to all parties of record. The information requested herein is due on or before March 6, 2001. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Provide a detailed narrative description of LG&E's gas procurement procedures, highlighting all changes implemented since the experimental gas cost Performance-Based Ratemaking ("PBR") mechanism was approved. Include a description of how LG&E determines its capacity requirements for No Notice Service

("NNS") on Texas Gas's system. Also explain how and when LG&E is able to compare its commodity purchase prices to the daily prices included in the Gas Acquisition Index Factor ("GAIF") benchmark.

2. Refer to the testimony of Clay Murphy, page 4, Item (6) at the top of the page. Explain in detail how the PBR mechanism improves LG&E's service reliability.

3. Refer to Exhibit 1, page 4, of the application that includes a reference to the PBR approved for Western Kentucky Gas ("Western"). LG&E's original PBR application in Case No. 97-171[1] compared its proposed PBR to the experimental gas cost incentive approved for Columbia Gas of Kentucky ("Columbia"). Explain whether LG&E has compared its PBR with gas cost PBRs other than those of Western and Columbia, specifically those approved by the Tennessee Regulatory Authority for United Cities Gas Company and Nashville Gas Company.

4. Refer to Exhibit 1, pages 5-7 of the application, specifically the discussion of the indices included in the GAIF commodity cost benchmark. The objective of the indices is to reflect "first-of-month, mid-month, and daily price postings."

a. It appears that Inside FERC, Natural Gas Week, and Gas Daily each meets one of these three posting objectives. Explain why there is a need for a fourth index, the New York Mercantile Exchange ("NYMEX"), which reflects futures prices for short-term transactions in the following month.

b. Inside FERC, Natural Gas Week, and Gas Daily provide prices for the zones in which LG&E purchases natural gas while NYMEX provides one price with

[1] Case No. 97-171, Modifications to Louisville Gas and Electric Company's Gas Supply Clause to Incorporate an Experimental Performance-Based Ratemaking Mechanism.

no differentiation of prices between zones. With this difference between it and the other indices, explain why it is appropriate to reflect NYMEX prices in the derivation of the GAIF benchmark.

c. Compared to the other three indices, what portion of the natural gas market, either in volumes or number of transactions, is reflected in the NYMEX price postings?

5. Refer to Exhibit 1, page 7, of the application, under the heading Zone Price Differentials. Provide a detailed explanation, with any supporting documents, for the statement that the price differential between gas sourced in Texas Gas's Zone SL and Zone 1 may be changing so that now Zone 1 supplies are generally the same price as Zone SL supplies.

6. Refer to Exhibit 1, page 7, of the application. For each of the years of the three-year PBR pilot provide the amount of savings achieved under the PBR's GAIF component that were realized from shifting purchases to lower priced supply zones.

7. Refer to Exhibit 1, page 8, of the application. For each of the years of the three-year PBR pilot provide the amount of savings achieved under the PBR's GAIF component that were realized by outperforming the reservation fee benchmark.

8. Refer to Exhibit 1, pages 9-13, of the application. For each of the years of the three-year PBR pilot provide the amount of savings achieved under the PBR's Transportation Index Factor ("TIF") resulting from any transportation rate discounts that LG&E negotiated with the pipelines.

9. Refer to Exhibit 1, page 17, of the application. Provide a narrative description of the incremental operation and maintenance costs associated with the

PBR mechanism and workpapers supporting the $58,000 in costs incurred during the three-year pilot.

10. Identify specific actions or measures taken by LG&E during the three-year pilot of the PBR related to securing its natural gas supplies that would not have been taken if the PBR had not been in place.

11. Refer to Appendix A of the application, pages A-2 through A-4, which show the yearly savings achieved under the GAIF, TIF and Off-System Sales Index Factor ("OSSIF") component of the PBR.

a. LG&E has consistently beaten the GAIF benchmark by amounts ranging from $1.2 million in the second year of the pilot to $3.2 million in both the first and third years of the pilot, with an average yearly savings of $2.5 million. The first and third year savings were the same even though the Benchmark Gas Costs ("BGC") in year three were 50 percent greater than the BGC amount in year one. Identify and describe the factors that caused the savings to decline by $2.0 million from year one to year two and then increase by $2.0 million from year two to year three of the pilot.

b. In Case No. 97-171, for illustrative purposes, LG&E provided the calculations of what the savings or expenses would have been under the GAIF if it had been in place for the twelve-month periods ended October 1995 and October 1996. In those two periods, LG&E realized expenses of $.6 million the first year and savings of $5.4 million the second year, resulting in average yearly savings of $2.4 million during that period prior to the implementation of the PBR. One hundred percent of those average savings benefited LG&E's ratepayers during that period while only 50 percent of the average savings realized during the three-year pilot of the PBR went to ratepayers through the 50-50 sharing mechanism. Explain why such a result is reasonable and why ratepayers have benefited under the PBR.

12. Refer to Appendix A of the application, pages A-2 through A-4, which show the yearly savings achieved under the GAIF, TIF and OSSIF components of the PBR.

a. LG&E has consistently beaten the TIF benchmark by amounts ranging from $2.7 million in year two of the pilot to $3.7 million in year one of the pilot with an average yearly savings slightly greater than $3.1 million. The savings were equal to approximately 10 percent of the annual benchmark costs in each of the three years. Identify and describe the factors that contributed to LG&E achieving savings of this magnitude on such a consistent basis over the three-year pilot.

b. In Case No. 97-171, for illustrative purposes, LG&E provided the calculations of what the savings or expenses would have been under the TIF if it had been in place for the twelve-month periods ended October 1995 and October 1996. In those two periods, LG&E realized savings of $1.1 million and $1.2 million, respectively, and those savings were equal to approximately 3 percent of the annual benchmark costs in each of the two periods. Identify and describe the factors that have contributed to LG&E achieving a savings increase of approximately 300 percent under the PBR.

13. Provide a schedule that compares LG&E's average monthly commodity costs for each month of the six-year period ended October 31, 2000 to the monthly commodity prices from the four indices used to determine the benchmark gas costs.

14. Provide the same information as in response to Item 13 – a comparison of LG&E's average price to the prices reflected in each of the four indices – in graph form.

15. Refer to Appendix A of the application, pages A-210 through A-213, A-217 through A-220, A-224 through A-227, A-231 through A-234, and A-238 through A-241. These pages show the daily prices for year three of the PBR pilot, as reported in Gas Daily for the zones in which LG&E purchases natural gas.

a. For each of the zones, for the month of January 2000, provide the prices paid and volumes purchased for every day that Gas Daily reported prices.

b. For each of the zones, for the month of April 2000, provide the prices paid and volumes purchased for every day that Gas Daily reported prices.

c. For each of the zones, for the month of July 2000, provide the prices paid and volumes purchased for every day that Gas Daily reported prices.

d. For each of the zones, for the month of October 2000, provide the prices paid and volumes purchased for every day that Gas Daily reported prices.

16. Provide an analysis of the impact of the PBR on the gas cost component included in LG&E's retail rates over the three-year pilot.

17. Refer to Exhibit 1, page 22, of the application in the middle of the page. Provide a narrative explanation and workpapers supporting the estimated savings of $14 million annually achieved as a result of LG&E using its on-system storage to avoid the purchase of more expensive pipeline capacity.

18. Refer to Exhibit 1, pages 23-28, of the application, which includes a description of the proposed storage recovery mechanism.

a. Explain how LG&E determined that 30 days should be the time period for Commission review of proposed storage development projects. Identify any reasons why LG&E would not be agreeable to a review period longer than 30 days.

b. Provide a description of any specific storage development projects LG&E is considering at this time. If the proposed storage development and cost recovery mechanism were approved and if any specific projects are currently under consideration, how soon after such approval would LG&E anticipate submitting its first storage development project for Commission review?

c. With the potential of enhanced injection and withdrawal from its own storage as a result of storage development projects, explain in detail whether LG&E expects its on-system storage could meet its winter capacity requirements and eliminate or substantially reduce its requirements for NNS on Texas Gas's system.

d. Provide the current maximum flow for injections and withdrawals in and out of LG&E's underground storage fields.

19. Refer to Exhibit 1, page 29, of the application, regarding the proposed extension of the term of the PBR for 5 years, or through October 31, 2005.

a. Explain how the longer term without the uncertainty of termination might enable LG&E to achieve greater savings. Identify any such savings opportunities that were lost during the three-year pilot period.

b. Explain which is the higher priority: that the extended term be a full five years or that the term be approved for a period that ends on October 31, 2005.

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DATED February 20, 2001

cc: All Parties