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

SECOND 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 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before March 26, 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. Refer to the response to Item 3 of the Commission Staff's First Data Request ("First Staff Request"). Provide the basis for LG&E's position that the 50/50

sharing of savings provides increased net savings to the customer and why an alternative level of sharing should not be considered.

2. Refer to the response to Item 3 of the First Staff Request, specifically the portions that refer to United Cities Gas's ("UCG") lower sharing percentage for capacity release savings and the sliding scale sharing percentage for Nashville Gas Company's ("NGC") capacity release savings.

a. In its response, LG&E has apparently assumed that the lower percentage of UCG and the sliding scale percentage of NGC may be due to the fact that neither company is subject to a capacity release threshold. In its application, LG&E proposes to retain its capacity release threshold and 50/50 sharing percentage. Explain LG&E's position on the possible elimination of its capacity release threshold in conjunction with a change in the sharing percentage applicable to capacity release.

b. In its response, LG&E reiterates its belief that backward looking thresholds can be problematic and punitive. It also states that earnings caps, like those imposed on UCG and NGC, would likely act as a disincentive to maximize savings. Explain whether it is LG&E's position that backward looking thresholds and caps are inappropriate for all components of a Performance Based Ratemaking ("PBR") mechanism or only for selected components.

3. Refer to the response to Item 4 of the First Staff Request. Given the timing and nature of the price postings of the various indices and the fact that the four indices are averaged to arrive at the Gas Acquisition Index Factor ("GAIF") commodity cost benchmark, explain whether, at the time of a gas purchase transaction, LG&E is

able to determine that the price at which it makes the purchase will “beat” the benchmark and result in savings to be shared between ratepayers and shareholders.

4. Refer to the response to Item 8 of the First Staff Request. Provide workpapers showing the derivation of the estimated savings amounts achieved under the Transportation Index Factor (“TIF”) attributable to negotiated pipeline discounts for each of the three years covered by the PBR pilot and explain why the amounts are estimates rather than actual achieved savings.

5. Refer to the response to Item 11, page 3 of 4, of the First Staff Request. If the total savings achieved during one PBR period compared to the total savings realized during the period before the PBR is not considered a meaningful evaluation for determining if LG&E has accomplished the goals of the PBR mechanism, explain in detail the criteria LG&E considers reasonable to determine whether the PBR mechanism benefits customers.

6. Refer to the response to Item 11 of the First Staff Request, pages 2 of 4 and 3 of 4. The table on page 2 of 4 and the paragraph at the bottom of that page indicate that LG&E achieved increased commodity savings on a yearly basis during the three-year pilot of the PBR, both on a total dollar basis and on a cents per MMBtu basis. The paragraph concludes with the statement that the data indicates that LG&E improved its ability to purchase gas under benchmark during the PBR period to the benefit of its customers.

a. The 50/50 sharing percentage in the PBR was established before LG&E had any experience under the PBR. Given that there are three years of history and that such history indicates LG&E has steadily improved versus the commodity cost benchmark, explain in greater detail LG&E's aversion to backward looking thresholds and whether it believes that an equitable PBR can be developed that contains such a threshold.

b. On page 3 of 4, the second paragraph identifies several factors that influence the level of savings achieved under the GAIF, three of which affect commodity savings, namely, weather, price volatility, and LG&E's purchasing strategy. The second paragraph points out that weather affects volumes and that the more volumes LG&E purchases the greater the opportunity for savings. However, while volumes reported in LG&E's application were less in years 2 and 3 of the pilot than in year 1, commodity savings increased each year. Explain how LG&E's experience supports the statement that weather's impact on volumes impacts savings under the PBR.

7. Refer to the response to Items 11 and 13 of the First Staff Request. The responses provide benchmarks for the periods contiguous to the extraordinary month of February 1996. These benchmarks indicate an approximate 33 percent increase in both Texas Gas Zones SL and 1 from December 1995 to January 1996. The response also reports an approximate 7 percent increase in Texas Gas Zone SL and no increase in Texas Gas Zone 1 from January 1996 to February 1996.

a. Provide a detailed explanation of the steps taken in January 1996 that resulted in the purchase of the February gas at a price of $2.50, which resulted in the extraordinary level of savings in February 1996.

b. Explain why LG&E was not able to take steps similar to January 1996, in the months of November and December 1995 to create greater savings in December and January.

8. Refer to the response to Item 11 of the First Staff Request, specifically the reference to LG&E's initial PBR case and the circumstances contributing to approximately 47 percent of the PBR savings calculated for the 12 months ended October 1996. The extraordinary savings were attributed to LG&E having entered into a contract in January 1996 that allowed it to avoid paying $12 for gas in February 1996 when prices peaked at that level. Substantial price volatility was recently experienced during December 2000 and January 2001. While these months are outside the PBR's three-year pilot period, LG&E requested, and the Commission approved, continuing LG&E's PBR in its present form until this proceeding is concluded.

a. Describe LG&E's gas purchasing experience during the months of December 2000 and January 2001, identifying savings or losses achieved during those two months, and specifically identifying any extraordinary savings or losses similar to the extraordinary savings experienced in February 1996.

b. Explain whether its PBR incented LG&E to purchase gas differently in December 2000 and January 2001 than it did in January and February 1996.

c. Explain whether the results of LG&E's gas purchasing experience in the months of December 2000 and January 2001 would have been the same had the PBR mechanism not been in place.

9. Refer to the response to Item 11 of the First Staff Request.

a. Provide a breakdown of the estimated savings of $2,535,179 realized during February 1996, into the various elements such as weather, price volatility, and reduction in reservation fees that created the savings. Present this information both in total dollars and average amounts per MMBtu.

b. Provide an explanation of how the extraordinary savings in the month of February could be normalized to provide a better comparison of the savings between the periods prior to the PBR and the period of the PBR.

10. Refer to the response to Item 12 of the First Staff Request, specifically the discussion on page 2 of 2 regarding the average term of LG&E's pipeline transportation contracts.

a. The discounts negotiated by LG&E will be in effect for several years. Provide LG&E's current estimate of the level of pipeline discounts it will experience over the 12-month periods ended October 2001, October 2002, and October 2003.

b. The response indicates that 5 years is the average term of LG&E's pipeline transportation contracts. Provide a listing of all current contracts that includes the termination dates, along with a summary of the discount terms. The listing need not specifically identify the contracts or pipelines. Identifying the contracts as Contract No. 1, Contract No. 2, etc. will suffice.

11. Refer to the response to Item 13 of the First Staff Request. Although LG&E did not maintain the data sets to develop the Supply Area Indices for 1996/1997,

provide the requested information or an explanation of why the information cannot be produced.

12. Refer to the response to Item 15 of the First Staff Request, particularly page 3 of 4 of the attachment regarding purchases made in July 2000 on the Texas Gas system.

a. Explain the reasons for the decrease in purchase volumes beginning on July 7 and continuing through July 14, a period when prices declined from the levels experienced the first 6 days of the month.

b. Explain why purchase volumes increased beginning July 15 at the same time prices increased from what had been experienced the previous 8 days.

13. Refer to the response to Item 18 of the First Staff Request. The storage component modification proposed by LG&E includes enhancements to assets currently embedded in rate base. LG&E has compared its proposed modification to Delta Natural Gas's ("Delta") recovery of its Canada Mountain storage facility through its Gas Cost Recovery ("GCR") mechanism. Delta's GCR no longer includes recovery of costs for the storage field since the costs were rolled into base rates in Delta's most recent general rate case.

a. Identify how and when changes in individual projects' revenue requirements due to increases in accumulated depreciation that result in a decline in rate base would be reflected in the SDRF.

b. Given that the proposed SDRF does not contain a benchmark against which costs would be compared to calculate a "savings amount" to be shared by ratepayers and shareholders, explain why, from an administrative standpoint, it should be included as a component of the PBR as opposed to being established as a separate tariff rider apart from the PBR.

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DATED 3/16/2001

cc: All Parties