COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT, HEAT AND POWER COMPANY TO IMPLEMENT A PILOT PROGRAM TO EVALUATE THE USE OF A HEDGING PROGRAM TO MITIGATE PRICE VOLATILITY IN THE PROCUREMENT OF NATURAL GAS	))))))	CASE NO. 2001-00128

SUPPLEMENTAL DATA REQUEST OF COMMISSION STAFF
TO THE UNION LIGHT, HEAT AND POWER COMPANY

The Union Light, Heat and Power Company (ULH&P) is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before May 2, 2002. 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 Item 1 of ULH&P s response to the Commission Staff s first data request. ULH&P states that the objective of its hedging program is to reduce the impact of wholesale natural gas price volatility on sales customers. Provide an analysis, with graphs, that compares:

a. The market price of gas and the hedged price of gas during the period covered by the hedging plan for the 2001-2002 heating season.

b. The market price of gas and the Expected Gas Cost component of ULH&P s Gas Cost Adjustment during the period covered by the hedging plan for the 2001-2002 heating season.

2. Refer to Item 2 of ULH&P s response to the Commission Staff s first data request. ULH&P states that it has not conducted any customer surveys to determine customer understanding and acceptance of hedging activity.

a. Explain why ULH&P has not conducted such surveys.

b. Describe any plans ULH&P has to conduct such surveys. If ULH&P has no such plans, explain why.

3. Refer to Item 3 of ULH&P s response to the Commission Staff s first data request. Therein, ULH&P identifies the sources, or bases, for its price expectations for natural gas prices for the summer of 2002 and the winter of 2002-2003, but does not provide its price expectations as was requested. Provide ULH&P s actual price expectations or range of price expectations for these periods.

4. Refer to Item 7 of ULH&P s response to the Commission Staff s first data request. Provide any and all procedures or policies that ULH&P has developed in relation to its hedging activity.

5. Refer to Item 11(a) of ULH&P s response to the Commission Staff s first data request. Identify the two suppliers with whom ULH&P contracted for its hedging activity.

6. Refer to Item 12(a) of ULH&P s response to the Commission Staff s first data request. Describe ULH&P s familiarity with the Black-Scholes model of option pricing.

7. Refer to Item 12(e) of ULH&P s response to the Commission Staff s first data request.

a. Under a scenario where gas price trends appear to be headed downward, explain whether ULH&P would be agreeable to setting only a cap on the volumes hedged rather than setting a range in order to allow it an opportunity to cease hedging activity.

b. If ULH&P is not agreeable to setting only a cap on the volumes hedged under the above scenario, explain why.

Thomas M. Dorman
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Public Service Commission
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DATED April 26, 2002

cc: All Parties