

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE	)	
GAS AND ELECTRIC COMPANY TO	)	CASE NO.
IMPLEMENT A NATURAL GAS SUPPLY	)	2002-00136
HEDGE PLAN	)	

O R D E R

On April 16, 2002, Louisville Gas and Electric Company ( LG&E ) filed its proposed hedging plan for the 2002-2003 winter season. Based on its initial review of LG&E s filing, the Commission finds that additional inquiry into LG&E s proposed hedging program is necessary.

LG&E, pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 8 copies of the information set forth in Appendix B, with a copy to all parties of record. The information requested herein is due on or before May 13, 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 herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A to this Order shall be followed in this proceeding.
2. All parties shall respond to any interrogatories and requests for production of documents that Commission Staff submits in accordance with the procedural schedule set forth in Appendix A.
3. All interrogatories and requests for production of documents shall be appropriately indexed. Responses shall include the name of the individual responsible for responding to the questions related to the information provided.
4. Service of any document or pleading shall be made in accordance with Administrative Regulation 807 KAR 5:001, Section 3(7), and Kentucky Civil Rule 5.02.
5. All documents that the Commission requires any party to file with the Commission shall also be served upon all parties of record at or before the time of filing.
6. Motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

Done at Frankfort, Kentucky, this 6<sup>th</sup> day of May, 2002.

By the Commission

ATTEST:

  
Executive Director

APPENDIX A

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2002-00136 DATED May 6, 2002

LG&E shall file with the Commission and serve upon all parties of record  
responses to the interrogatories and requests for production  
of documents set forth in Appendix B no later than..... 05/13/2002

Any party desiring a formal hearing shall file its  
request for such hearing with the Commission no later than..... 05/17/2002

Intervenors and Commission Staff may serve supplemental interrogatories  
and requests for production of documents upon LG&E no later than..... 05/20/2002

LG&E shall file with the Commission and serve upon all parties of record  
responses to supplemental interrogatories and requests for production of  
documents no later than..... 05/24/2002

Intervenors may file written comments  
on LG&E s proposed hedging plan no later than..... 05/31/2002

## APPENDIX B

### AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00136 DATED May 6, 2002

1. Provide any customer surveys (including results) LG&E has conducted in order to determine customer understanding and acceptance of its proposed hedging activity.
2. Identify and describe LG&E s price expectations for gas injected into storage in the summers of 2002 and 2003 as well as for the periods covered by its proposed hedging plan(s). Explain the basis for the expectations.
3. Identify the personnel who participated in the analysis and decision to develop LG&E s hedging program. Describe their previous experience with hedging activity.
4. Describe LG&E s internal review process for deciding to develop and submit its proposed hedging plan(s).
5. Describe LG&E s reporting process for the hedging plan and identify all personnel who will receive the reports.
6. Provide LG&E s existing risk management procedures.
7. Identify any employees whose compensation is related to the performance of the proposed hedging plan(s). Describe how their compensation is related to the plan(s).
8. Refer to page 13 of LG&E s application, which presents a chart outlining possible call option strike prices and associated premiums. Provide the number of brokers LG&E contacted for quotes listed in the chart.

9. Describe in detail LG&E s criteria for establishing the strike price for any call options it would purchase.

10. Describe LG&E s familiarity with the hedging activity of other Kentucky gas companies hedging plans for the 2001-2002 winter season.

11. Refer to page 16 of LG&E s application, which refers to its plans for filing hedging activity reports with the Commission.

a. Explain how LG&E determined that the period of time for filing its initial hedging report should be 60 days following the first month of the hedging period, as opposed to a shorter or longer period of time.

b. LG&E indicates it would file a second report after the conclusion of the applicable heating season that would evaluate the results of the hedging plan. How soon after the heating season would LG&E expect to file this report?

12. Refer to pages 16 and 17 of LG&E s application, which discusses the requirements of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities. The last sentence in the section headed Accounting Issues indicates that LG&E is requesting that such regulatory asset and liability treatment be approved by the Commission. Provide a more specific description of the treatment LG&E is seeking.

13. Refer to page 17 of LG&E s application, which discusses counter-party risk and recovery of any counter-party losses from ratepayers.

a. Describe the procedures LG&E used to evaluate the credit-worthiness of counter-parties.

b. Provide an estimate of any possible losses and a description of how the estimate was developed.

c. Provide the number of counter-parties that LG&E plans on using in its proposed hedging plan.

d. Provide a list of potential counter-parties that LG&E expects to use.

14. Refer to pages 19 and 24 of LG&E s application. Provide a detailed explanation of how the amounts of the proposed Price Stabilization Funds were selected.

15. Refer to page 27, Alternative 2, Implementation Tables A & B. To clarify LG&E s intent under this alternative, is it correct that LG&E would start to purchase call options for the 2003-2004 winter season at the same time it is purchasing call options for the 2002-2003 winter season?

16. Identify which of the three alternatives in its application LG&E prefers and explain the reasons for the preference.