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VIA HAND DELIVERY

RECEIVED

JUL 2 2 2005

PUBLIC SERVICE COMMISSION

July 22, 2005

The Honorable Elizabeth Blackford
Attorney General's Office
1024 Capital Center Drive
Frankfort, KY 40601-8204

Re: In the Matter of In the Matter of Application of The Union Light, Heat and Power Company for Approval of Fixed Bill Program Riders Applicable to Residential Customers
Case No. 2004-00503

Dear Ms. Blackford:

Enclosed please find the responses of The Union Light, Heat and Power Company to the Attorney General's third set of Data Requests in the above-referenced case.

Please call me at (513) 287-3601 should you have any questions.

Very truly yours,

John J. Finnigan, Jr.
Senior Counsel

cc: Hon. Elizabeth O'Donnell (w/encl – via hand delivery)

Enclosure

JJF/sew

153301

AG-DR-03-001

REQUEST:

1. In response to AG-1-39 an increase of 8% in winter heating occurred in the PSI test. With respect to heating with natural gas:

   a. Would ULH&P agree that the cost of natural gas has increased over the last three years? If not, please explain the basis for disagreement.
   b. Would ULH&P agree that the increase in gas cost has occurred for both winter and summer gas purchases? If not, please explain the basis for disagreement.
   c. Would ULH&P agree that there is no foreseeable change in the trend of increasing gas prices for the next three years? If not, please explain the basis for disagreement.
   d. Would ULH&P agree that the increasing cost of gas is a product of the supply-demand ratio? If not, please explain the basis for disagreement.
   e. Please explain why it is appropriate to remove price signals in a market in which natural gas is in short supply?
   f. Please explain how non-participating customers will be protected from more frequent and ever more expensive purchases of gas (assuming continuation of the upward trend in gas supply prices) resulting from anticipated increased usage associated with fixed bill participation?

RESPONSE:

a. ULH&P agrees that the cost of natural gas has increased over the last three years. The average Inside FERC monthly index for Henry Hub for the calendar years 2002 through 2004 was \$3.22/dth, \$5.38/dth and \$6.13/dth, respectively. Through July, the average for 2005 is \$6.57/dth.

b. ULH&P agrees that the increase in gas cost has occurred for both winter and summer gas purchases.

c. ULH&P would <u>not</u> agree that there is no foreseeable change in the trend of increasing gas prices for the next three years. It is possible that the trend will continue, but it is also possible that it will reverse, or that prices may remain relatively unchanged. ULH&P does not currently forecast natural gas prices. However, ULH&P does monitor natural gas futures prices on the New York Mercantile Exchange (NYMEX) and forecasts from other entities such as Cambridge Energy Research Associates (CERA) and the Energy Information Administration (EIA).

NYMEX futures prices closed on July 14, 2005 with an average 2006 price of $8.27/dth, and average 2007 price of $7.87/dth and an average 2008 price of $7.46/dth representing a slight annual decline in prices. In CERA's Monthly Briefing issued June 17, 2005, they predicted that prices will fall to an average Henry Hub price $5.85/dth in 2006. In addition, EIA's natural gas price forecast for Weighted Average Delivered Price (Annual Energy Outlook – January 2005) also predicted declining prices from $6.90/dth in 2006 to $6.01/dth in 2008.

d. ULH&P does not know what a supply-demand ratio is, but agrees that, although there are many factors influencing the price of natural gas, the underlying basis for price changes reflects the balance between supply and demand. For example, hurricane activity affects prices due to the possibility of disrupting supply, and weather affects prices due to increasing or decreasing demand. However, ULH&P believes that material changes in either supply or demand are required to alter the balance (e.g., hurricane, weather fronts). The magnitude of the energy demands affected by Fixed Bill for ULH&P are not significant enough to alter the balance between supply and demand to the point where natural gas price or demand is materially affected.

e. Price signals are not removed with the Fixed Bill program. They are simply lagged, annually in one case and monthly in another. Annually, each customer's Fixed Bill will be adjusted to reflect the increased usage, or decreased usage, observed during the prior year. Moreover, because the bill estimation process controls for the impact of weather effects, any price signal adjustment that is made will be due to the behaviors and adjustments of the customer and not due to the weather (over which customers have no control). In this regard, the annual price adjustment of Fixed Bill can potentially provide an independent, non-weather driven price signal beyond the standard tariff. Second, at a monthly level, ULH&P will monitor usage increases, and take steps to warn, or remove, customers that increase their usage beyond program limits. There will be a one month lag between the time of the usage increase and the time of the pricing signal. This monthly lag is the same lag that is currently experienced with the standard tariff.

f. The weighted average cost of gas that ultimately is passed through to ULH&P's sales customers through the GCA will be unaffected by the slight increase in gas purchases due to participation in the fixed bill program. ULH&P purchases gas as either "base" or "swing." Base gas is that portion of gas that ULH&P can purchase on a monthly basis, independent of daily temperature changes. This gas is purchased through the Commission-approved hedging strategy or at a price based on the Inside FERC First of the Month Index. The swing gas is purchased on a daily basis, usually at the published Gas Daily Midpoint. Since any increase in customer usage from the Fixed Bill program will increase the base portion as well as the swing portion to the same degree such that the weighted average will be the same as it would have been without the increase.

Even if the increases of base and swing volumes were not proportional, the amount of the increase in load due to participation in the fixed bill program would be too small to make a significant difference in the weighted average price overall. Based on an estimated 10% participation level and a 5% increase in usage, the annual load would increase only 36,000mcf. This is only 0.3% of ULH&P's total normal weather annual gas purchases of approximately 11,400,000 mcf.

WITNESS RESPONSIBLE: Tom Osterhus

AG-DR-03-002

REQUEST:

2. On page 2 of the Supplemental Filing in Support of Application, it says the customers were informed of the features of each of the billing options and that the customers also received billing illustrations "based on their own usage." With reference to the features of the fixed bill billing an illustration:

   a. Were the participants in the survey made to understand that an added 5.5% projected increase in usage was included in the fixed bill and that the risk adder was then applied to that projected increase in use as well as to normalized use?
   b. What premium was applied for the sake of the illustration?

RESPONSE:

a. Customers were told "in anticipation of some customers adjusting their heating or cooling for increased comfort levels, the first year of your participation will assume a 5% usage increase." The remaining 0.5% increase was not cited, since that portion of the increase is the naturally forecasted increase expected, on average, for all customers.

b. A 10% risk premium was applied to all customers. The 10% represents a ceiling for the risk premium. As ULH&P gains more experience with the program, and its associated costs and risks, the risk premium will be adjusted downward as appropriate.

WITNESS RESPONSIBLE: Michael Goldenberg

AG-DR-03-003

REQUEST:

3. What is the difference, if any, between the overview provided as Attachment C and attachment D other than the format (DVD+R and DVD-R)?

RESPONSE:

There is no difference. Some computers can read the +R format, and others read the –R format. ULH&P provided both to help insure that the video was viewable.

WITNESS RESPONSIBLE: Michael Goldenberg

AG-DR-03-004

REQUEST:

4. The Customer Survey Report indicates that 12 of the 42 customers interviewed are on budget billing.

   a. What segment of ULH&P's customers are on electric budget billing only and how many of those interviewed in the customer survey were on electric budget billing only?
   b. What segment of ULH&P's customers are on electric budget billing only and how many of those interviewed in the customer survey were on electric budget billing only?
   c. What segment of ULH&P's customers are on combined gas and electric budget billing and how many of those interviewed in the customer survey were on combined budget billing?

RESPONSE:

See ULH&P's response to KyPSC-DR-03-002 (c).

WITNESS RESPONSIBLE: Tom Osterhus

Attorney General Third Set Data Requests
ULH&P Case No. 2004-00503
Date Received: July 13, 2005
Response Due Date: July 22, 2005

AG-DR-03-005

REQUEST:

5. Given that Attachment E addresses high temperatures and air conditioning, is it correct that the analysis pertains only to electric usage and that the commitment to continue to survey usage pertains only to electric usage?

RESPONSE:

The analysis provided in Attachment E pertains only to electric usage, however ULH&P is committed to surveying and monitoring usage for both electric and gas.

WITNESS RESPONSIBLE: Tom Osterhus

AG-DR-03-006

REQUEST:

6. Has ULH&P considered redesigning its annual budget bill so that the true up occurs in an April or May or some other shoulder month, rather than in December?

RESPONSE:

Budget Bill already accommodates multiple months. Not every customer on budget bill settles up in December. Customers may enroll in the program at any time. If, as an example, a customer enrolls in May, the settle-up will occur the following April.

WITNESS RESPONSIBLE: Michael Goldenberg

AG-DR-03-007

REQUEST:

7. Assuming that customers would be willing to pay more for greater certainty in billing, has ULH&P considered meeting this need by offering a budget plan under which customers would have the option to pay an annual budget bill based on actual usage for the preceding bill plus an adder of 10-15% to cover possible weather extremes, giving rise to a probable refund for the true up?

RESPONSE:

No. This "pre-pay" type of billing option would not always result in a probable refund, nor does it insure the type of predictable billing for which many customers have stated a preference. First, fluctuations in bills due to the weather (and price) can exceed 10% to 15%. Second, year-to-year variations in bills can be significant where back-to-back years are extreme in opposite directions. Going from a mild year to an extreme year would result in a significant change in the billing amounts. The customers who have stated a preference for Fixed Bill are not likely to tolerate such large swings. Third, these swings might make it difficult for customers to link their usage behaviors to pricing signals. With Fixed Bill, the price change from year-to-year is caused by their specific behaviors, and not from the weather. Therefore, even slight changes of 5% or less will be signaled back to the customers. With budget billing, or the above proposal, such usage feedback is not possible, since the variability in the weather is likely to be much greater than the variability in customer behaviors.

WITNESS RESPONSIBLE: Michael Goldenberg