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MAR 20 2008

PUBLIC SERVICE
COMMISSION

March 19, 2008

VIA UPS NEXT DAY AIR SAVER

Mr. Robert Amato
Acting Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: In the Matter of: An Investigation of the Energy and Regulatory Issues in Section 50 of Kentucky's 2007 Energy Act - Case No. 2007-00477.

Dear Mr. Amato:

Enclosed for filing in the above-captioned matter is an original and ten (10) copies of Stand Energy Corporation Customer Group's Responses to Requests For Information from Duke Energy Kentucky, Inc. and Data Requests from Commission Staff.

In the interests of regulatory efficiency, we have combined our responses to these two discovery matters into one response that addresses all of the information and data requests.

Thank you for your prompt attention to this filing and you may contact me if you require any further information or have any questions.

Sincerely,

John M. Dosker

John M. Dosker
General Counsel

Encls.

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MAR 20 2008

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE ENERGY AND REGULATORY ISSUES IN SECTION 50 OF KENTUCKY'S 2007 ENERGY ACT	))))	ADMINISTRATIVE CASE NO. 2007-00477

RESPONSES OF THE STAND ENERGY CORPORATION CUSTOMER GROUP TO FIRST DATA REQUESTS OF DUKE ENERGY KENTUCKY AND COMMISSION STAFF.

The Stand Energy Corporation Customer Group, pursuant to 807 KAR 5:001, hereby files responses to the First Data Requests of Duke Energy Kentucky, Inc. and the Commission Staff.

REQUESTS FOR INFORMATION OF DUKE ENERGY KENTUCKY, INC.

1. Referring to the top of page 3 of Witness Mark Ward's Testimony, please explain how a competitive natural gas market would "better align the financial interests of the utility with the goals of achieving energy efficiency."

Response: When using a full-cycle analysis in evaluating efficiency from production to the point of energy use, a natural gas system is much more efficient than an electric system. As a natural gas supplier, Stand Energy Corporation encourages its customers to analyze their uses of energy to determine if electrical equipment and appliances can be converted from electricity and replaced with natural gas equipment. By replacing electrical equipment, a customer can reduce electrical peak demand, thus realizing lower costs for energy. The electric utility receives economic benefits from reduced demand such as reducing the need for construction of additional power generation facilities, and environmental benefits through the reduction of carbon emissions that cause acid rain.

A competitive natural gas market allows customers to obtain market prices; to hedge against volatile pricing; and to use gas storage to take advantage of lower summer natural gas prices. All of these opportunities to control energy costs can encourage customers to seek opportunities to replace or convert electrical equipment to natural gas.

2. *Please identify and describe all demand side management ("DSM") and energy efficiency programs that Stand Energy currently offers to its customers in Kentucky.*

Response: For the customer, the objective of demand side management and energy efficiency programs is to reduce their total energy budget. In Kentucky, Stand Energy offers its customers the opportunity to reduce natural gas costs through various programs. Stand Energy allows customers to use a gas storage program where natural gas is purchased in the summer and injected into storage and withdrawn from storage and burned the following winter to defray higher priced natural gas. Customers can also lock in the price of future gas purchases through a hedging program administered by Stand Energy. As a provider to several Kentucky State Government facilities, Stand Energy has saved the Commonwealth of Kentucky hundreds of thousands dollars over what they would have paid their regulated utility during the same period.

In addition to the many ways that Stand Energy assists customers in lowering their life-cycle energy costs, Stand Energy also provides propane back-up systems that help the customer reduce energy costs and assists the LDC to meet delivery requirements during peak conditions. Having the ability to call on customers to switch from natural gas to their back-up propane systems limits the plant investment required by the host utility.

3. Does Stand Energy currently have any plans to offer DSM or Energy Efficiency programs to its Kentucky customers in the next 12 months? If the response is in the affirmative, please list and describe such programs.

Response: See the response to #2 above.

4. Please identify and describe all DSM and energy efficiency programs that Stand Energy currently offers to its customers in Ohio, and in particular, in Duke Energy Ohio's Service Territory.

Response: Stand Energy offers the same programs to its Duke Energy Ohio, Inc. customers as it offers to Duke Energy Kentucky, Inc. customers, as described in # 2 above.

FIRST DATA REQUESTS OF COMMISSION STAFF

1. Provide a definition of the term "utility" as used in the testimony of Mark T. Ward ("Ward Testimony"), page 3, line 2, and state whether Stand is included or excluded from that definition.

Response: The definition of "utility" in the testimony refers to entities providing natural gas and electricity in the Commonwealth which are regulated by the Kentucky Public Service Commission. Stand Energy is not included in this definition.

2. Provide a definition of the term "energy efficiency" as used in the Ward Testimony at page 3, line 3.

Response: The efficiency that was referred to is the ability of customers to reduce their overall energy budget and tailor their energy purchases to fit their load profile and utilize capacity, for which they are currently paying, to purchase natural gas supplies in an open and competitive market. Customers believe that being given access to released capacity would allow them to reach or negotiate for cheaper sources of natural gas thus lowering their energy costs.

3. *Explain in detail the reasons why Stand believes that the financial interests of Kentucky's major local gas distribution companies ("LDCs") are not now aligned with the goals of achieving energy efficiency and lowest life-cycle energy costs to all classes of ratepayers.*

Response: The financial interests of the utility and the goals of energy efficiency and lowest life-cycle costs to all classes of rate payers are not aligned for several reasons.

A dual energy utility may prefer a customer to use an electric sourced piece of equipment rather than comparable natural gas sourced equipment, because the utility receives more financial benefit from the use of electric equipment - - even though the use of natural gas equipment may be cheaper for the customer.

Barring customers from entering into the open and competitive market to shop for their energy supplies may also benefit the financial interests of the utility but result in higher costs for the customer. Currently, the major gas utilities in Kentucky have barriers in their tariffs that preclude smaller, predominantly winter space-heating customers to avail themselves of the benefits of gas transportation services similar to what large industrial and commercial customers have been doing in Kentucky for over 20 years. This is inefficient and anti-competitive. If the utilities allow their large customers to reduce life-cycle energy costs, then what legitimate reasons exist to bar smaller customers from the same economic opportunity?

4. *Refer to pages 2-3 of the Ward Testimony concerning the purpose of the testimony. Provide a detailed explanation of how Stand's proposed changes to the rate structures and tariffs of LDC's in Kentucky are related to aligning the financial interests of the utility with the goals of achieving energy efficiency and lowest life-cycle energy costs to all classes of ratepayers.*

Response: As a natural gas supplier, Stand Energy Corporation encourages its customers to analyze their uses of energy to determine if electrical equipment and appliances can be converted or replaced with natural gas equipment. By replacing electrical equipment, the customer can reduce their electrical peak demand thus allowing them lower costs for energy. The electric utility receives economic benefits such as reducing the need for future power generation facilities, and environmental benefits through the reduction of carbon emissions from electric generation that cause acid rain.

Having a competitive natural gas market that allows customers to obtain market prices; to hedge against volatile pricing; and to use gas storage to take advantage of lower summer natural gas prices; will encourage customers to seek opportunities to replace or convert electrical equipment to natural gas. Current Kentucky Local Distribution Company tariffs do not allow smaller customers to avail themselves of choices available in the competitive natural gas market.

In addition to changes to tariffs that allow smaller customers to enter the competitive market for their energy sources, there are also provisions in some LDC tariffs which penalize the conservation efforts of customers. Some tariffs charge a higher unit cost for lower consumption.

As an example, in one Kentucky gas LDC, a customer that uses 24,999 Mcf in one year will pay thousands of dollars more than a customer that uses 25,000 Mcf per year! That is not efficient rate design.

5. *Since natural gas is fungible commodity, explain how allowing a customer to purchase its gas commodity from a supplier other than the incumbent LDC produces energy efficiency.*

Response: See the response to #2 above. Also, because oil, electricity, and natural gas are all fungible commodities, the principal form of competition between them with respect to product sales is price competition. Therefore, the tariffs for electricity and natural gas directly impact the price, and thereby directly effect the selection of which energy commodity is consumed by Kentucky customers. In terms of electricity vs. natural gas, natural gas doesn't necessarily come out of the ground in a fungible state. Natural gas is fungible only after non-combustible gases; water, sediment and other contaminants have been removed to specified gas quality levels all of which can increase the cost of the natural gas commodity.

6. *Provide copies of any reports, studies, or analyses which support Stand's claim that allowing small commercial and industrial customers to purchase their natural gas supplies through open, competitive markets results in greater energy efficiencies than if those customers were limited to purchasing their gas from their existing LDC.*

Response: Customers should have the right to choose suppliers. A Customer's choice should not be artificially "limited" to the LDC because of anti-competitive tariff provisions. The Kentucky PSC first addressed these issues over ten years ago in the "Gas Unbundling

Collaborative" that arose from Administrative Case Nos. 297 and 367. In addition to the 40 page Report dated July 11, 1997; titled "*Natural Gas Unbundling in Kentucky*"; submitted by Ralph E. Dennis[1], Assistant to the Commissioners (http://psc.ky.gov/agencies/psc/unbundle/gas.rpt.pdf) and available on the PSC website - - the record in those administrative proceedings contain orders, comments of various interested parties and minutes of meetings, all of which are incorporated herein by reference as if fully set forth. Nothing has changed in the last 10 years:

> Small commercial customers currently do not have the ability to participate in transportation since the LDCs' transportation tariffs have minimum volume requirements to qualify, which most of these marketers believe should be removed. Any perceived difficulties by the LDCs in balancing for or billing small commercial customers can be addressed by allowing a marketer to pool small loads for delivery to the city gate. Along a similar vein, an LDC should not have volumetric or location restrictions on delivery points for entry of a marketer's gas supply into the LDC's system; and, aggregation of meters within the city gate of an LDC's system should be allowed for a customer who has multiple meters (fast food restaurants, school systems, and the like). Id., Unbundling Report, page 9.

7. Refer to the Ward Testimony at page 8. Mr. Ward discusses the Columbia Gas of Kentucky ("Columbia KY") Choice program for residential and small commercial customers.

a. Does Stand participate in the Columbia KY Choice program?

Response: Stand does not participate in the Columbia Gas of Kentucky (CKY) Choice Program. The current CKY Choice program requires mandatory assignment of firm pipeline capacity from Louisiana to Kentucky. Stand would prefer to supply its Kentucky customers with Kentucky produced natural gas supplies and having to take pipeline capacity all the way from the Gulf of Mexico makes it uneconomical for customers to participate in the CKY Choice program.

b. Has Stand ever participated in the Columbia KY Choice Program?

Response: Stand did participate in Phase I of the CKY Choice program when assignment of capacity was not mandatory.

[1] Ralph E. Dennis is now Director of Regulatory Affairs for Constellation New Energy Gas Division.

8. *Refer to the Ward Testimony at pages 9 and 10. Mr. Ward discusses the four changes he proposes the Commission require the LDCs it regulates to make to their tariffs.*

a. Is Mr. Ward recommending that the Commission require all jurisdictional LDCs develop retail choice programs? If no, explain why.

Response: The purpose of the testimony was not to recommend a mandatory Choice program for all jurisdictional LDCs, but to suggest the elimination of unrealistic barriers that currently exist in many of the LDC tariffs. Columbia of Kentucky's sister company in Ohio can provide non-Choice transportation service to customers that use only 2,000 Mcf per year, why does CKY require a minimum of 25,000 Mcf for a non-Choice customer? Duke of Kentucky charges $430 per meter per month to a small customer in Kentucky, but only charges $21 per meter per month to a similar customer in their Duke Ohio Company. These are examples of intentional and unrealistic barriers to smaller customers which are inefficient and anti-competitive.

b. Has Mr. Ward considered the impact his recommendations, if required, will have on jurisdictional LDCs with less than 10,000 customers? If no, explain why.

Response: The testimony was directed at the major natural gas utilities in Kentucky, however, even a small gas LDC of less than 10,000 customers may have some large commercial or industrial customers that are not allowed to choose a third party supplier. For instance, a large Kentucky State University in a small municipality or behind a small LDC should still have the ability to lower their energy costs and thus the costs to the Commonwealth of Kentucky. All jurisdictional LDCs obtain their earnings from the distribution of gas supplies and cannot, by law, profit from the commodity sales of natural gas. The LDCs will continue to make the same earnings from the distribution of gas supplies if they allow customers to purchase their own natural gas supplies from third party suppliers. Giving customers access to the competitive natural gas market may even incentivize customers to increase their natural gas usage through equipment conversion or replacement.

CERTIFICATION

I hereby certify that the foregoing responses are true and accurate to the best of my knowledge, information and belief formed after reasonable inquiry.

MARK T. WARD

STATE OF OHIO)
)SS
COUNTY OF HAMILTON)

Signed and sworn to before me by Mark T. Ward, personally known to me, this 19th day of March, 2008. My commission expires March 25, 2012.

JOHN M. DOSKER
Notary Public, State of Ohio
My Commission Expires 03-25-2012

NOTARY PUBLIC

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I hereby certify that the foregoing was hand-delivered or mailed, first class postage prepaid, this 19th day of March 2008, to the following parties of record:

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