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November 1, 2010

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COMMISSION

Mr. Jeff DeRouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RE: Case No. 2010-00146

Dear Mr. Derouen:

Enclosed for filing please find the original and twelve (12) copies of the Wal-Mart Stores East, LP and Sam's East, Inc. Post-Hearing Brief. By copy of this letter, all parties listed on the Certificate of Service have been served.

Also, enclosed is an extra copy of the Motion to stamp "received" to be returned to me in the self-addressed stamped envelope.

Please do not hesitate to contact me should you have questions.

Sincerely,

CARROLL M. REDFORD, III

cc: Certificate of Service

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COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF NATURAL GAS RETAIL COMPETITION PROGRAMS	)))	CASE NO. 2010-00146

WAL-MART STORES EAST, LP AND SAM'S EAST, INC.
POST-HEARING BRIEF

Comes now Wal-Mart Stores East, LP and Sam's East, Inc. (hereafter collectively "Wal-Mart"), and file the following Post-Hearing Brief in the above-styled matter.

I. Introduction

At the direction of the Kentucky General Assembly, the Kentucky Public Service Commission ("Commission") commenced this docket to engage in a collaborative study of natural gas retail competition programs to determine if benefits could be derived from these programs, and to determine whether natural gas retail competition programs could be crafted to benefit Kentucky consumers. The Commission has received pre-filed testimony, upon which the parties conducted discovery, and has also conducted two days of hearings on October 19 and 20, 2010.

Walmart operates approximately one hundred and one (101) facilities, including distribution centers, Supercenters, discount stores, Sam's Clubs, gas stations, and Neighborhood Markets, in the Commonwealth of Kentucky that are served by Kentucky utilities. Walmart's participation in this docket thus far has been only to monitor to protect its interests as a commercial customer procuring natural gas for its facilities across the Commonwealth. However, Walmart briefs the issues presented in this matter because it is a representative of the class of commercial customers consuming less than that required by most utilities to qualify for large commercial and industrial transportation tariff options that would allow for a choice of natural gas suppliers. Thus, Walmart is among the consumers whose welfare was the concern of the General Assembly when it asked this Commission to assess the benefits that could be derived through the introduction of retail choice.

Walmart currently competitively procures its gas supply in the following states: Arkansas, California, Colorado, Georgia, Florida, Illinois, Indiana, Kansas, Michigan, Missouri, Nebraska, New Mexico, New York, North Carolina, Oklahoma, Pennsylvania, and Wyoming. Walmart's day-to-day experience as a market participant is that the competitive natural gas market is working now and producing significant benefits to customers. Walmart's mission is delivering low prices to customers, helping them save money and live better. Walmart believes that savings in the natural gas market result from competitive pressures on prices. Walmart believes that the Commission, by working with stakeholders, can structure a program that provides benefits from "choice" without shifting costs or otherwise harming any other class of customers.

Walmart appreciates the opportunity to participate in this docket and submits that the ability of a retail customer to choose its retail natural gas supplier, based on the various pricing and service options, will deliver material benefits to those commercial customers that do not qualify for the existing utility natural gas transportation tariffs. As explained more fully below, these benefits include: the ability to secure competitive fixed or indexed pricing to match a customer's unique budget planning process and risk tolerance level, and transparent price signals that customers can rely on to manage their consumption patterns. In this economy, the cost savings and economies of scale associated with a commercial customer's ability to secure a statewide contract for the procurement of natural gas to all of its facilities should not be overlooked. Thus, a real benefit of retail choice in the market for natural gas supply for commercial customers is the availability of a menu of pricing and service options, including fixed rates and indexed pricing, which can be tailored to assist a commercial customer with achieving a higher degree of economies of scale in its operations. Note however, price related benefits described herein should not come at the expense of the utility's customers that do not choose to explore the choices available with respect to natural gas procurement.

While Walmart's position is that commercial customers that do not qualify for or participate in transportation tariff offerings will experience material benefits from the introduction of a choice of natural gas suppliers, it does not take a position with respect to "choice" for residential customers. Some commercial customers are not only sophisticated purchasers, but also sophisticated managers with respect to managing their own energy load. The need for the consumer protections outlined in several of the pre-filed testimonies in this docket may be diluted or absent in the case of commercial customers seeking the opportunity to choose their natural gas supplier.

In sum, for commercial customers not eligible for or participating in existing transportation tariffs, Walmart urges this Commission to conclude in its Report that the overall benefits realized from policies promoting the competitive market for natural gas will undoubtedly outweigh purported costs.

II. ARGUMENT

There are multiple advantages associated with expanding the ability of Kentucky customers to choose their gas supplier. These benefits include: competitive prices, the ability to secure fixed or indexed pricing to match a customer's unique budget planning process and risk tolerance, and transparent price signals that customers can rely on to manage their consumption patterns.

With respect to pricing, Walmart insists that competition between natural gas suppliers, and their pricing options, place downward pressure on natural gas prices charged to the customer. In addition, retail competition among natural gas suppliers has the potential to lower prices because natural gas marketers do not acquire natural gas on a "cost plus" basis and are under more pressure to manage purchases efficiently. *See* Rebuttal Testimony of M. Howard Petricoff on behalf of Vectren Retail, LLC, Interstate Gas Supply, Inc., and SouthStar Energy Services, LLC (collectively, "Gas Retailers") at p. 7, lines 16-19. Additionally, natural gas marketers have the expertise and commitment to acquire the commodity at the lowest price possible, given that it is their core focus to do so.

The broad array of pricing options offered by natural gas marketers can effectively lower the cost of the commodity to the customer by enabling it to choose pricing and contract terms that are tailor-made to the customer's business. Retail Energy Supply Association ("RESA") Witness Ringenbach agrees: with choice, "customers typically can choose from a broad array of price products that often serve to better reflect the unique economic and energy needs of that individual customer." *See* Direct Testimony of Teresa L. Ringenbach, at p. 4, lines 20-23. For instance, a customer can match its unique budget planning process and/or risk tolerance level to a pricing option that provides the best combination of contract term and price (fixed or indexed).

Gas Retailer Witness Petricoff provides examples of tailored natural gas pricing arrangements that offer unique benefits to different commercial customers:

> For example, I represented a consortium of 146 public school districts who wanted to aggregate their load and take it out for bid. Schools have very tight budgets these days, and five years ago when gas prices spiked, they had a difficult time paying the higher price. So in their request for proposal, the schools sought fixed prices. On the other hand, I represented a restaurant chain in which the cost of gas was a very small percentage of their business costs. The restaurant chain wanted the lowest possible price and they contracted for a variable price pegged to the New York Mercantile Exchange monthly closing price with a small basis for transportation. Finally, I had a customer whose only interest was having a price that was lower than the utility. That customer ended up with a contract for a percentage discount off the utility price per Dth. In sum, the major benefit of allowing customers to shop for natural gas is the ability to get a specialized product that best meets the customer's needs. That is not available if every customer must purchase gas on a flow through price based on what the utility paid based on a one size fits all paradigm. *See Petricoff Rebuttal* at p. 5, line 15 to p. 6, line 1.

Moreover, "choice" offers the potential for customers to reach higher degree of economies of scale in their operations by creating the opportunity for a customer to enter into one natural gas contract for all of its facilities in the Commonwealth. Gas Retailer Witness Petricoff testified that "small commercial customers such as chain restaurants and schools with multiple locations cannot take advantage of their aggregate use when purchasing natural gas. Price certainty is just as important to them as to large industry." *See Petricoff Rebuttal* at p. 4, lines 11-14.

Additionally, transparent price signals are a natural by-product of competition in the market for natural gas supply. Transparent price signals are an added benefit of "choice" because they enable customers to better manage their consumption, which yields additional cost savings. Price signals are more transparent in a "choice" environment than in the traditional regulatory paradigm because of the removal from gas costs of "true-ups" of prior period adjustments.

The price related benefits described herein should not come at the expense of the utility's customers that do not choose to explore the choices available with respect to natural gas procurement. Commercial customers can enjoy a choice of natural gas suppliers without increasing costs to other rate payers or interfering with equity principles if transition costs are correctly allocated. Walmart believes that storage and supply resources are portable and should follow the customer. Assuming current LDC rate designs are based on cost of service principles, there should be no cost shifting by introducing a choice of suppliers for the natural gas commodity. Because every customer class should stand on its own, those customers not participating in "choice" offerings should not be exposed to any effects. To the extent there are identifiable transition costs, these costs should be allocated by class and collected from those customers that elect to choose a competitive natural gas supplier.

In sum, allowing commercial customers, who do not qualify for or participate in utility transportation tariff offerings, to choose their natural gas supplier will deliver multiple benefits to the customer. As Gas Retailer Witness Petricoff testified with respect to small businesses, "the Commission should seek to put the tools in the hands of small business to let them best compete and grow their business. Giving small business the same natural gas contracting options that large industrial customers enjoy now is important." *See Petricoff Rebuttal* at p. 9, lines 14-17.

As a final note, at the hearing, there was a discussion of an alternative to "choice" – to look to the LDCs to offer options differing from the traditional pass-through mechanism – one, a fixed-price and two, a variable price tied to an index. The availability of an LDC fixed-price or index option, as introduced in this docket, has no bearing on whether or not customers will realize benefits through the introduction of choice in natural gas suppliers. There is no evidence in the record here to support how these options would perform as compared to offers through competitive suppliers.

III. CONCLUSION

For all of the reasons stated here in, for commercial customers not eligible for or participating in existing transportation tariffs, Walmart urges this Commission to conclude in its Report that the benefits realized from granting customers the ability choose their gas supplier will undoubtedly outweigh purported costs. Moreover, Walmart believes that the Commission, by working with stakeholders, can structure a program that provides benefits from "choice" without shifting costs or otherwise harming any other class of customers.

DATED: NOVEMBER 1, 2010

Respectfully submitted,

WAL-MART STORES EAST, LP AND SAM'S EAST, INC.

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CERTIFICATE OF SERVICE

I hereby certify that on this 1st day of November, 2010, a copy of Walmart's Post-Hearing Brief was served by mailing a true and correct copy via electronic mail (when available) and by first-class postage prepaid mail to:

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