COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY TO IMPLEMENT AN EXPERIMENTAL LIMITED NATURAL GAS SUPPLY HEDGING PLAN	)))))	CASE NO. 2001-253

FIRST DATA REQUEST OF COMMISSION STAFF
TO LOUISVILLE GAS AND ELECTRIC COMPANY

Louisville Gas and Electric Company ("LG&E"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before September 10, 2001. 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.

1. Refer to the Application, page 2. LG&E states that it believes a hedging plan should attempt to limit customer exposure to hedging costs. Since price caps are

one of the most expensive forms of hedging, explain how price caps limit customer exposure to hedging costs.

2. Refer to the Application, page 2. LG&E states that it wants to eliminate the Commission's concern that the LDCs might be in the position of sharing some of the price risk to which customers have been exposed in the past. Explain whether or not LG&E is concerned that the Commission will not allow it to recover all gas costs in the future.

3. Refer to the Application, page 6.

a. Describe how LG&E determined that the proposed dollar amount of the PSF is reasonable and adequate for the proposed program.

b. Explain whether or not LG&E proposes to recover the entire dollar amount of the PSF or whether it proposes that the PSF amount is a cap that will be charged to customers through the GCR.

c. Explain why it is preferable to establish a PSF instead of limiting the total volumes to be hedged.

4. Refer to the Application, page 12. LG&E compares scenarios in which the customer either loses benefits under a fixed price program or achieves benefits under LG&E's price cap proposal. Explain the likelihood of winter gas prices occurring at the price LG&E uses in its example.

5. Referring to the same example cited above, describe the effect on a customer if the price rises higher than the current futures prices for December, January and February but does not surpass the price cap amount in the proposal.

6. Refer to the Application, page 7. Explain how the use of call options in conjunction with on-system storage results in a balanced portfolio of pricing options.

7. Explain why LG&E is not proposing to include any fixed-price contracts in its design of a balanced portfolio.

8. Provide an analysis of the natural gas portfolio mix that LG&E has relied upon for each of the last 5 years. The analysis should include, at a minimum, the amount of material gas provided: (a) from on-system storage; (b) from off-system storage; (c) under fixed-price contracts; and (d) from purchases made at spot clearing prices.

9. Explain why LG&E has not proposed to secure storage from third parties, such as pipelines and/or marketers, as a part of a balanced portfolio.

10. Refer to the Application, pages 14-15.

a. Provide supporting documentation for the statement in the second to last line on this page, "The purpose of the PBR is to encourage least-cost acquisition strategies."

b. LG&E states that the hedging plan is designed to reduce price volatility, while the PBR plan is intended to encourage a least-cost acquisition strategy. Explain in detail how LG&E plans to coordinate the two programs, as the programs appear to have conflicting goals.

11. Does LG&E believe that the use of hedging tools, either passive (storage) or financial, are prohibited from inclusion in its established gas cost incentive mechanism? Fully explain the response.

12. Refer to the Application, page 14. LG&E states that it plans to document its hedging purchases under Financial Accounting Standards ("FAS") No. 133.

a. Provide and describe the journal entries that LG&E expects to make when an option is originally purchased, when an option is marked to market (including journal entries for both an increasing and a decreasing market price for the option) and when the option is either exercised or allowed to expire in accordance with FAS 133. Provide a summary of the accounting requirements and procedures set out in FAS 133.

b. Does LG&E believe that the proposed call options will qualify as hedges as defined in FAS 133? Fully explain the response.

c. Does LG&E believe the proposed call options will qualify for the "normal purchase and sale exception" provided for in an amendment to FAS 133? Fully explain the response.

13. Does LG&E envision that the hedging program will impact the operation of the PBR? Explain the response.

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DATED August 30, 2001

cc: All Parties