COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

MODIFICATION TO WESTERN KENTUCKY GAS COMPANY, A DIVISION OF ATMOS ENERGY CORPORATION, GAS COST ADJUSTMENT TO INCORPORATE AN EXPERIMENTAL PERFORMANCE-BASED RATEMAKING MECHANISM (PBR)	))))))	CASE NO. 2001-317

FIRST DATA REQUEST OF COMMISSION STAFF
TO WESTERN KENTUCKY GAS COMPANY

Western Kentucky Gas Company ("Western"), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 8 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before November 9, 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. Provide a detailed narrative description of Western's gas procurement procedures, highlighting all changes implemented since the approval of Western's experimental gas cost Performance-Based Ratemaking ("PBR") mechanism. Include a

description of how Western determines its capacity requirements for No Notice Service ("NNS") on Texas Gas's system.

2. Refer to page 1 of the testimony of Gordon J. Roy. Mr. Roy states that he is responsible for planning, procurement, nominations and scheduling, controlling the system supply, and storage management, including the gas supply and storage operations of Western.

a. Describe in detail Mr. Roy's involvement in Western's gas supply and storage operations.

b. Describe in detail Woodward Marketing LLC's ("Woodward") role in Western's gas supply and storage operations.

3. Refer to pages 2 and 3 of Exhibit A regarding Western's experience with commodity cost benchmarking.

a. Explain how and when Western is able to compare its commodity purchase prices to the daily prices included in the Gas Acquisition Index Factor ("GAIF") benchmark.

b. Explain the rationale for using 4 indices in the GAIF commodity cost benchmark.

c. Based on Western's experience under the PBR during the last 3 years, describe the benefits of each of the indices used in the GAIF benchmark.

d. Based on its experience, does Western believe there are other indices that would work as well or better than the 4 used during the PBR pilot?

4. Does Western buy gas that originates in or close to Henry Hub, the basis for the NYMEX index?

a. If yes, how much and under what pricing arrangements?

b. If no, describe the usefulness of using the NYMEX as one of the indices.

5. Refer to page 5 of the testimony of Mr. Roy. Mr. Roy states that Western was able to secure gas supplies at prices below the prescribed benchmarks through the PBR.

a. Explain whether or not Western was able to procure gas supplies at prices below the benchmarks before the PBR.

b. If yes, identify the amount of the savings.

c. If no, explain why Western through Woodward and its predecessors was able to procure gas below the benchmarks during the PBR but could not do the same on its own prior to the PBR.

d. Provide an estimate of the amount of savings Western would have generated from July 1, 1998 through June 30, 2000, compared to the benchmarks without the PBR. Explain in detail.

e. Identify and describe any other gas supply PBR mechanisms being used by Western affiliates that are part of the Atmos system.

6. Refer to page 6 of the testimony of Mr. Roy that discusses the benefits of using a single gas supplier.

a. Explain in detail how a single supplier provides a reliable gas supply for Western's firm customers.

b. Provide a list of the other states where an Atmos company uses a single gas supplier.

c. Describe Western's procedure for monitoring Woodward's ability to purchase gas at the lowest price.

7. Refer to page 6 of the testimony of Mr. Roy that discusses Western's goals for the PBR. Mr. Roy states that Western achieved its goal of lowering regulatory costs by avoiding the cost of gas cost audits.

a. Provide the average cost incurred by Western for such audits prior to the PBR.

b. Provide the date of Western's most recent gas cost audit.

c. Explain how the cost of such audits is passed through to the customer.

8. Refer to page 7 of the testimony of Mr. Roy. Mr. Roy provides a citation from the Commission's Order in Case No. 99-447 that discusses Western's acceptance of Reliant's buy-out offer. Explain how the buy-out amount was passed through to ratepayers.

9. Refer to page 8 of the testimony of Mr. Roy, where he states that increased competition should lead to lower costs. Explain how the use of one supplier could simulate the pricing found under competition.

10. Refer to page 8 of the testimony of Mr. Roy. Mr. Roy states that, all things being equal, the lower the embedded cost of gas in the incumbent utility's rates, the easier the transition toward an unbundled service structure and the lessened risk of stranded costs. By embedded cost of gas is Mr. Roy referring to Western's GCA? If no, explain what is meant by embedded cost of gas.

11. Refer to page 2 of the Report of Performance-Based Ratemaking Pilot Program in Exhibit A. Western states that it believes that retaining key operational controls and establishing strict performance requirements for the supplier would be necessary to ensure that limiting itself to a single source of supply would not jeopardize the reliability of its supply. Describe the operational controls retained by Western and the performance requirements for the supplier.

12. Refer to pages 6 and 7 of Exhibit A. Western states that it had to pay more than the benchmark price for some of its gas supplies in December 2000. Explain in detail why this occurred.

13. Refer to page 7 of Exhibit A, which discusses Western's difficulty in obtaining pipeline discounts.

a. Since Western is served by 2 pipelines, Texas Gas Transmission and Tennessee Gas Pipeline, explain the reasons why it is difficult to Western to obtain discounts.

b. Identify which pipelines provided discounts to Western.

14. Refer to page 8 of Exhibit A. Western states that it had been releasing under-utilized pipeline capacity for several years when the PBR began.

a. Explain why Western should receive 50 percent of the revenues from capacity release under the PBR if it is continuing a practice that was already in place.

b. Explain how administrative costs associated with the sale of capacity release were recovered, both before and after the PBR.

c. Before the PBR, would 100 percent of capacity release revenues been passed on to ratepayers?

15. Refer to page 9 of Exhibit A. Western states that the design of the Off-System Sales ("OSS") portion of the PBR was designed to encourage it to sell an under-utilized resource. Explain how, why, and when gas purchased by Western was not needed by Western's own customers.

16. Refer to page 10 of Exhibit A. Western states that it did not utilize the OSS mechanism in order to exchange the OSS revenue for a more deeply discounted cost of gas commodity without incurring any additional administrative costs.

a. Provide an estimate of the amount of revenue and the associated administrative costs Western believes would have resulted from OSS activity during the 3-year pilot.

b. Provide an estimate of the additional discount attributable to the inclusion of the OSS.

17. Refer to page 12 of Exhibit A. Western proposes enhancing the OSS mechanism by including such services as balancing services, parking and loan service, peaking and other miscellaneous storage services. Western states that these enhancements would further enhance the efficiency of gas supply services to its customers.

a. If it does not plan to use this mechanism, explain why Western proposes to enhance it.

b. Explain under what circumstances Western believes it would use the OSS mechanism if it continues as part of the PBR.

c. Did Western offer these services to any customers outside the PBR during the period of the PBR pilot?

d. If so, provide the amount of revenue generated by these services in each 12-month period from July 1, 1998 through June 30, 2001.

18. Refer to pages 12 and 13 in Exhibit A.

a. Provide an estimate of the cost savings ratepayers would experience under the proposed Storage Development and Cost Recovery (“SDCR”) mechanism in lieu of paying for NNS from Texas Gas.

b. Provide an estimate of the increase in storage capacity Western foresees upon approval of the SDCR mechanism.

19. Refer to page 14 of Exhibit A. Western states that it is disadvantaged compared to unregulated natural gas providers since it cannot recover incremental storage development costs concurrently.

a. Describe in more detail the unregulated natural gas providers that can recover these costs concurrently.

b. Explain how these providers put Western at a disadvantage since Western is the only LDC supplying gas to its customers.

c. Explain whether the other gas providers would offer higher prices since their prices would include the cost of incremental storage development costs and how this would put Western at a disadvantage.

20. Refer to page 16 of Exhibit A.

a. Explain how Western determined that 30 days should be the time period for Commission review of proposed storage development projects.

b. Identify any reasons why Western would not be agreeable to a review period longer than 30 days.

21. Provide a description of any specific storage development projects Western is considering at this time. If the proposed SDCR mechanism were approved and if any specific projects are currently under consideration, how soon after such approval would Western anticipate submitting its first storage development project for Commission review?

22. Refer to Exhibit A, page 13. Explain how recovery of the costs related to new storage facilities outside a full-blown rate proceeding benefits customers.

23. With the potential of enhanced injection and withdrawal from its own storage as a result of storage development projects, explain in detail whether Western expects its on-system storage could meet its winter capacity requirements and eliminate or substantially reduce its requirements for NNS on Texas Gas's system.

24. Provide the current maximum flow for injections into and withdrawals from Western's underground storage fields.

25. Refer to Exhibit A, page 21, regarding the proposed extension of the term of the PBR for 5 years.

a. Explain how the longer term without the uncertainty of expiration might enable Western to achieve greater savings.

b. Identify any such savings opportunities that were lost during the 3-year pilot period.

c. Would these opportunities exist without the SDCR mechanism?

26. Refer to page 20 of Exhibit A, where Western proposes a rate of return that reflects an average of the return on equity ("ROE") awards from the most recent general rate cases of Delta Natural Gas ("Delta") and Louisville Gas and Electric Company ("LG&E") for use in the SDCR mechanism. Delta's ROE award was higher than the Commission would normally award in recognition of Delta's poor financial situation. Explain whether or not Western is experiencing the level of financial problems that Delta was experiencing at the time of its last rate case.

27. Since Western's last general rate case was settled and did not include a specific ROE award, explain whether or not Western would be able to state an implied ROE from that settlement.

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DATED 10/26/01

cc: All Parties