COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT, HEAT AND POWER COMPANY TO IMPLEMENT A PILOT PROGRAM TO EVALUATE THE USE OF A HEDGING PROGRAM TO MITIGATE PRICE VOLATILITY IN THE PROCUREMENT OF NATURAL GAS	))))))	CASE NO. 2001-00128

FIRST DATA REQUEST OF COMMISSION STAFF
TO THE UNION LIGHT, HEAT AND POWER COMPANY

The Union Light, Heat and Power Company (ULH&P), 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 April 22, 2002. 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. Explain the objective of ULH&P s hedging program. Identify and describe the specific risks that ULH&P targeted in developing its hedging program.

2. Provide any customer surveys (including results) that ULH&P has conducted to determine customer understanding and acceptance of its hedging activity.

3. Identify and describe ULH&P s natural gas price expectations for the summer of 2002 and the winter of 2002-2003. Explain the basis for the expectations.

4. Identify the personnel who participated in the analysis and decision-making to implement the hedging program. Describe their previous experience with hedging activity.

5. Describe ULH&P s internal review process for deciding to approve and implement its proposed hedging plan.

6. Describe ULH&P s reporting process for the hedging plan and identify all personnel (ULH&P or Cinergy) who receive the reports.

7. Provide ULH&P s existing risk management procedures.

8. Identify any employees whose compensation is related to the performance of the hedging plan. Describe how their compensation is related to the plan.

9. Describe the status of ULH&P s report for the 2001-2002 Winter Season.

10. Refer to page 1, Hedging Plan for the 2002-2003 Winter Season.

a. ULH&P states that the plan should not be measured in purchased gas cost savings. Describe how ULH&P believes the plan should be measured and evaluated.

b. ULH&P proposes to eliminate price caps as a hedging option and decrease the range of base gas volumes to be hedged. Provide the rationale for this proposal.

c. ULH&P states that the price of natural gas has declined throughout the U.S. as a result of soft demand due to an economic downturn, a warmer than normal heating season and a mild summer. Explain whether or not ULH&P considered suspending its hedging activities when the price decline trend became evident.

11. Refer to page 3, Hedging Plan for the 2002-2003 Winter Season, Types of Hedging Products.

a. ULH&P states that it will hedge using a combination of fixed price and no-cost collar contracts. Provide the number of suppliers and/or brokers ULH&P contacted for its 2001-2002 hedging plan and the number it expects to contact for the 2002-2003 hedging plan, if approved.

b. Provide, on a monthly basis, the range of prices ULH&P received from suppliers for its 2001-2002 hedging plan.

c. ULH&P states that the basis will either be locked-in or will remain open at the discretion of ULH&P. Explain why ULH&P would leave the basis open rather than locking it in.

12. Refer to page 4, Hedging Plan for the 2002-2003 Winter Season.

a. Explain ULH&P s understanding of how no-cost collars are priced.

b. Since the ceiling of a collar range is usually set at a greater distance from the current NYMEX price than the floor, provide the probability of the market price exceeding the ceiling and the probability of the market price being less than the floor.

c. Provide ULH&P s analysis of each bid it received on collars in order to determine the best deal for its hedging program during the 2001-2002 winter along with any necessary narrative description of the analysis.

d. ULH&P proposes a maximum price for the winter strip. Explain how ULH&P determined the maximum price for the contracts.

e. Describe the actions ULH&P will take if the price for the winter strip is higher than its proposed maximum price.

Thomas M. Dorman
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Public Service Commission
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DATED _April 16, 2002___

cc: All Parties