COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE FINAL REPORT OF WESTERN KENTUCKY GAS ON ITS HEDGING PROGRAM FOR THE 2001-2002 HEATING SEASON AND MOTION TO CONDUCT A HEDGING PROGRAM FOR THE 2002-2003 HEATING SEASON	)	CASE NO. 2002-00093

FIRST DATA REQUEST OF COMMISSION STAFF TO
WESTERN KENTUCKY GAS COMPANY

Western Kentucky Gas Company (Western) is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and seven 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 requested herein has been 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 Western s hedging program. Identify and describe the specific risks that Western targeted in developing its hedging program.

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

3. Identify and describe Western 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 Western s internal review process for deciding to approve and implement its proposed hedging plan.

6. Describe Western s reporting process for the hedging plan and identify all personnel (Western or Atmos Energy) who receive the reports.

7. Provide Western 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. Refer to page 1 of 3 of the Hedging Report of March 22, 2002 (Hedging Report).

a. The third full paragraph includes a statement indicating that Western believes the hedging program has been successful in stabilizing gas costs for its customers. Provide all quantitative and qualitative measurements or parameters and the related analysis used by Western to arrive at this conclusion.

b. The statement indicates the program was successful in achieving its primary goal. Explain who established this goal and how this goal was established.

c. The fourth full paragraph describes the effect of purchasing financial hedges in a weakening market that continued its decline well into the winter.

Explain whether Western considered suspending its hedging activities when the price decline trend became evident. If no, explain why.

10. Refer to page 1 of 3 or the Hedging Report. The first full paragraph refers to a recent survey of Atmos Energy customers in which 50 percent of customers indicated they preferred lowest price as compared to 29 percent that preferred more stable fixed prices.

a. Explain precisely how Western interpreted these results to support a continuation of purchasing financial hedges for the winter of 2002-2003.

b. Isn t it correct that under Western s hedging strategy, as outlined in the second paragraph, that only 25 percent of its natural gas purchases are purchased at market prices?

c. Identify the type of results from its hedging activities that would cause Western to consider discontinuing such activities.

11. Refer to the second paragraph of page 2 of 3 of the Hedging Report which refers to the percentages of gas into storage, purchased at market and financially hedged. For the 2002-2003 heating season provide the projected volumes represented by these percentages.

12. Refer to the third paragraph of page 2 of 3 of the Hedging Report.

a. Western proposes a modification to its program whereby the volumes hedged would be equally divided between futures contracts and costless collars. Western employed only futures contracts in its past winter s program. Explain in detail Western s understanding of how no-cost collars are priced.

b. Describe the extent to which Western has established a range for any collars it might arrange as part of its 2002-2003 hedging plan. If no range has been established at this time, explain why and indicate when Western expects to establish such a range, or ranges.

c. If Western has established a ceiling, or maximum price, for any collars it might arrange, explain how the ceiling was established.

d. Given that the ceiling of the range of a collar 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.

e. Describe the actions Western will take if the market for collars is such that no collars are available with the ceiling price proposed by Western.

13. Explain whether Western expects to seek out multiple suppliers, brokers or marketers in conjunction with its proposed 2002-2003 hedging plan or whether it intends to rely on its current or future natural gas assets manager to be responsible for its 2002-2003 hedging plan. If Western expects to seek out multiple suppliers, etc., describe the extent to which it has begun to shop the market for suppliers, etc.

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DATED April 16, 2002

cc: All Parties