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In the Matter of:

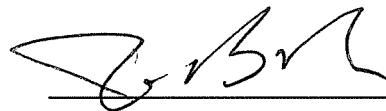
An Investigation of Natural Gas Retail
Competition Programs

Case No. 2010-00146

**Response of
Retail Energy Supply Association
to the AARP's 7/14/10 Data Requests**

Retail Energy Supply Association ("RESA") hereby responds to the data requests propounded by the AARP on July 14, 2010. RESA's response consists of one bound volume of text responses and one CD-ROM containing the attachments. The CD-ROM contains attachments for the responses to the AARP, Duke Energy Kentucky, Inc. and ACM.

Respectfully submitted,



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CERTIFICATE OF FILING AND SERVICE

I hereby certify that on this the 29th day of July, 2010, the original and ten (10) copies of the foregoing were hand delivered to the Commission for filing, and a copy was served, via U.S. Mail, first-class, postage prepaid, on each person at the address shown on the attached Service List.



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Request:

1. Regarding the testimony of Theresa Ringenbach at p. 5, please provide any analysis or other evidence that proves the accuracy of each of the following statements: (a) with retail choice, customers become more engaged in what appears on their energy bill, (b) this in turn leads towards customer concentration on choice and energy usage, (c) this in turn has led to the development of new choice options in other states, (d) that Ohio and Texas customers have an increased interest in home services products such as home energy audits and home energy manager tools, and (e) the mere recognition that “choice” exists often prompts the customer to more closely scrutinize their options and thus make a more informed decision on their energy bill.

Response:

- a. There are many studies that indicate price is a factor in customers’ energy use and energy efficiency. By choosing to shop, the customer becomes engaged in the price decision, which in turn impacts energy usage. See the studies provided as Attachments 20, 21, and 22.
- b. See response to Request No. 1.a.
- c. The following are links to the multiple pricing options available in Ohio, Texas, Illinois, and Georgia
<http://www.puco.ohio.gov/PUCO/ApplesToApples/index.cfm>
<http://www.icc.illinois.gov/ags/products.aspx>
http://powertochoose.org/content/compare/understand_your_choices.asp
<http://www.psc.state.ga.us/gas/marketerpricing/2010/Jul10/jul10gmpl.asp>
- d. Direct Energy offers both energy supply and energy efficiency products. This includes a program with Direct Energy, CenterPointe and the City of Houston. See the following websites for information on products and participation in the program.

<http://residential.directenergy.com/EN/energy-efficiency/Quebec/Pages/Residential-Energy-Efficiency-Program.aspx>

<http://www.houstonpowertopeople.com/partners.htm>

- e. The statement was made based on Ms. Ringenbach's ten years in the energy industry. This includes work as a Customer Service and Marketing Specialist with Integrys Energy Services. During that time, Ms. Ringenbach assisted customers with making decisions and understanding what portion of their electric or gas bills would change.

Request:

2. Regarding the testimony of Theresa Ringenbach at p. 5, lines 13-17, please provide any analysis or other evidence that the costs of establishing an [sic] operating the businesses of new suppliers, marketers and brokers in the state, and new net tax revenues, are greater than the savings, if any, in gas prices to choice customers.

Response:

See the Intelometry report provided as Attachment 1 for customer choice savings in Ohio. See the Illinois Chamber of Commerce study on energy industry benefits provided as Attachment 6. No analysis has been done specific to Kentucky taxes. Any savings versus tax benefits would vary based on market conditions.

Request:

3. Regarding the testimony of Theresa Rigenbach at p. 6, please explain how gas procurement and supply could be a non-core function if it has been performed by natural gas utilities for decades, and still is performed by many natural gas utilities around the country.

Response:

A core function should be in direct relation to the natural monopoly of the regulated natural gas utility. As the wholesale natural gas supply market has become fully competitive, bringing gas supply from supply centers no longer correlates to the natural monopoly of distribution. Thus, even today the utility purchases its gas commodity through markets and upstream contracts. The difference is that a supplier purchases and delivers the gas to the city gate rather than the utility. The utility takes the gas at the city gate to deliver to customers but does not take title to the gas. Suppliers who do not deliver properly are subject to penalties and/or being removed from the program. Suppliers who wish to participate in the program are subject to balancing and operation processes under the utility's tariff to ensure system integrity. If a supplier does not flow gas into the system then either the utility must procure for customers or there must be a designated supplier of last resort function in place (such as all suppliers being jointly responsible). Costs for this emergency supply function can be recovered from credit posted by suppliers who choose to operate on the system and commonly keep gas in storage.

While utilities have performed this function for decades, the movement of the gas supply function to suppliers has been shown to work. Just as telephone companies are competitive, pipelines are now competitive, and electric wholesale markets are open with open retail markets in many states, the expansion of choice to customers with retention of the delivery mechanism by a regulated company can work.

Request:

4. Regarding the testimony of Theresa Ringenbach at p. 6, please identify all differences between the terms, conditions and regulatory policies applicable to small customer gas choice suppliers in Ohio and Pennsylvania.

Response:

Ohio consumer protection rules are located in OAC 4901:1-29.

Pennsylvania gas consumer protection rules are located in 52 Pa. Code § 62.75(g)(2) and also in 73 P.S. (Public statutes).

Both states' rules tie auto renewals to early termination fees and the renewal price; require clear disclosure of fees; require prices in the measurement used by the utility; and clear and defined terms. In Ohio, an auto renewal must be on similar terms and conditions, a similar rate structure, and not to exceed a \$25 fee. A higher fee or changes in terms and conditions under various scenarios may require affirmative consent. In Pennsylvania, the difference is an auto renewal can only take place if there is no early termination fee on the renewal or if there is an early termination fee, the new price must be lower.

Request:

5. Regarding the testimony of Theresa Ringenbach at p. 8, please identify the annual costs of the offices for retail market development in Ohio and Pennsylvania, respectively.

Response:

Ohio does not have an office of retail market development. The testimony referred to Illinois and Pennsylvania.

The Illinois ORMD is for electric only and costs are part of the ICC operating budget. There does not appear to be any publicly available information on the costs of the ORMD section by itself, but here is an estimate. For the direct costs of ORMD in FY11: \$327,600 for salaries and fringe benefits for three staff members, and \$2,000 for other costs (such as travel and telecom). This does not factor in indirect things such as IT expenditures, HR, admin, rent, etc.

The Pennsylvania office is for both electric and gas and costs are part of the PUC operating budget. See the PA PUC Annual Report 2008-2009 provided as Attachment 7.

Request:

6. Regarding the testimony of Theresa Ringenbach at p. 10-p. 11, is it your testimony that the difference in choice rates you describe is due entirely to differences in customer education? If it is not, please identify all other differences and state the relative contribution of each. If so, please identify all differences in customer education.

Response:

This question is unclear. The testimony on pages 10-11 discussed that there are many different product types available (regardless of customer education), and that customers should be educated on all of the different options available to them.

Request:

7. Regarding the testimony of Theresa Ringenbach at p. 11 starting at line 15, please provide a detailed description of the difference in capacity and storage costs experienced by Wisconsin gas utility customers who took supply from competitors and those who took supply from the utility, along with the reasons given by the utility or Commission for those differences.

Response:

The testimony regarding the Wisconsin market for small volume customers was based on the recollection of the witness that suppliers behind the program lost interest when the costs for capacity and storage exceeded the utility costs. The Wisconsin PSC order regarding the program does not appear to be publicly available, and is not in the possession of RESA. For more information on the Wisconsin experience, see Attachment 10.

Request:

8. Regarding the testimony of Theresa Ringenbach at p. 13, please identify all exceptions to the statement that, in general, the wholesale auction approach to SOLR provides a relatively smooth transition to competitive markets.

Response:

Ohio has had a smooth transition to wholesale auctions on the gas side. On the electric side, the only state that had a transition to auctions issue would be Illinois, where below-market rate caps were replaced by an auction. Currently, Illinois Power Authority conducts RFP's for wholesale supply.

Request:

9. Regarding the testimony of Theresa Ringenbach at p. 13, please state whether and to what extent competitive gas suppliers use hedges to protect against swings in market prices.

Response:

The extent to which competitive gas suppliers use hedges to protect against swings in market prices is supplier specific. Because this information is proprietary and confidential, and is not shared among competitors who are members of RESA, RESA does not possess the information necessary to answer this request.

Witness: Teresa L. Ringenbach

Request:

10. Regarding the testimony of Theresa Ringenbach at p. 15, line 11, is it your position that storage and capacity should be made available by competitive suppliers to all other competitors and the utility (in the event the utility remains in the supply function to any extent) on reasonable terms and conditions? Please explain how your proposal would work in practice.

Response:

The capacity should move with the customer – meaning between utility and suppliers or from supplier to supplier with that customer. Storage should be sold at reasonable rates between utility and suppliers or between suppliers. The storage fees could be based on a formula using fixed costs and commodity costs so that all parties are paying the same rate.

Request:

11. Regarding the testimony of Theresa Ringenbach, how do you reconcile the assertion on page 12, lines 13-14 of your testimony to the effect that supply and distribution functions should be strictly separated, from your position on p. 15 to the effect that the distribution utility should be require [sic] to buy competitive suppliers' receivables and provide billing services for the competitive suppliers?

Response:

The billing systems and functions have been paid for by all customers and customers should continue to have access to those systems just as they have access to the distribution system as an iron in the ground asset. While the billing systems should become competitive businesses eventually, in new and emerging markets the most customer friendly approach is to continue with a single bill. In addition, billing is not a distribution or supply function.

Request:

12. Regarding the testimony of Theresa Ringenbach at p. 15, how should partial payments be allocated between distribution and supply balances, and why?

Response:

Partial payments outside of a purchase of receivables program should be allocated as follows:

- Supplier past due
- Utility past due
- Utility current
- Supplier current

This does two things:

- 1) It ensures a supplier arrearage does not accrue while utility charges are paid first leaving the customer with a supplier arrearage in collections.
- 2) It ensures that the utility charges, which are subject to shut off, are paid and that the collection incentive of shutoff remains to encourage payment of all energy charges.

See also Ohio PUCO Case 02-1944-EL-CSS, which walks through the reasons this is the optimal payment priority and provides an example of an actual customer who accrued an electric supplier arrearage due to supplier last payment priority. The Ohio PUCO later changed the rules for electric payment priority to match the settlement reached in this case.

Request:

13. Regarding the testimony of Theresa Ringenbach at p. 18, please identify all jurisdictions and utilities where stranded costs: (a) have been funded by customers and/or (b) have been funded through sales of assets, and describe the levels of such funding and how the funding was accomplished.

Objection: This request overly broad and unduly burdensome. Without waiver of the objection, RESA provides the following response.

Response:

Treatment of stranded costs is utility specific. For an example of one utility's proposal for dealing with costs associated with exiting the merchant function, see Dominion East Ohio's application to the Ohio Public Utilities Commission in Case 05—474-GA-ATA, which is available on the Commission's website.

Request:

14. Regarding the testimony of Theresa Ringenbach at p. 20, lines 8-9, and at p. 21, is it your testimony that the utilities should perform a balancing, storage or other system integrity function on a cost basis, rather than a cost-plus basis? If so, why?

Response:

The witness did not testify whether utilities should perform balancing, storage or other system integrity function on a cost basis or a cost-plus basis. It is RESA's position that the utility should continue to provide balancing and maintain system integrity on a cost basis. The utility, however, should continue to be allowed a rate of return on the functions just as it would in a fully regulated regime. The rate of return should be the same for shopping and non-shopping customers so the costs are the same.

For information on the basis on which utilities perform system integrity functions, see the Vectren Energy Delivery of Ohio standard service offer plan contained in Attachment 19, and the Michigan Consolidated Gas Company Section D Rate Schedules provided as Attachment 18. Also, the following cases approved the current standard service offers for Dominion East Ohio Gas (07-1224-GA-EXM), Vectren (07-1285-GA-EXM) and Columbia Gas of Ohio (08-1344-GA-EXM).

Request:

15. To the extent that the testimony filed on behalf of RESA includes calculations of savings that any of your members have provided to customers over the costs they would otherwise have paid under regulated utility gas service, please provide all workpapers of each such calculation or estimate, in executable spreadsheet form, with identification of all relevant source material.

Response:

See Attachment 1.

Request:

16. To the extent that the testimony filed on behalf of RESA asserts that terms and conditions for retail gas choice in Kentucky are more onerous and fees and charges are higher than in other jurisdictions, please provide any analysis or other evidence that demonstrates that the Kentucky terms, conditions, fees or charges are: (a) not cost-based; (b) unjust; or (c) unreasonable.

Response:

This statement was made in the context of what would in theory be a perfect market and not specific to any utility.

Request:

17. Is it the position of RESA that supervision by the Kentucky Public Service Commission of the competitiveness of the retail supply market in Kentucky is: (a) within the jurisdiction of the Commission, and (b) provides a state action protection against application of anti-trust laws to that market? Please provide your reasoning and relevant citations to support your position on these questions.

Objection: This request appears to call for a legal conclusion or analysis. Without waiver of the objection, RESA provides the following response through its counsel.

Response:

RESA has not taken a position on these two questions.