



an *e-on* company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED
SEP 07 2010
PUBLIC SERVICE
COMMISSION

**Louisville Gas and Electric
Company**
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Rick E. Lovekamp
Manager - Regulatory Affairs
T 502-627-3780
F 502-627-3213
rick.lovekamp@eon-us.com

September 7, 2010

**RE: AN INVESTIGATION OF NATURAL GAS RETAIL
COMPETITION PROGRAMS
Case No. 2010-00146**

Dear Mr. DeRouen:

Enclosed please find and accept for filing the original and ten (10) copies of Louisville Gas and Electric Company's Response to the Commission Staff's Second Request for Information dated August 20, 2010 in the above referenced docket.

Should you have any questions please contact me at your convenience.

Sincerely,

A handwritten signature in black ink that reads 'Rick E. Lovekamp'. The signature is written in a cursive, flowing style.

Rick E. Lovekamp

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**AN INVESTIGATION OF NATURAL GAS
RETAIL COMPETITION PROGRAMS**

)
)
)
)

**CASE NO.
2010-00146**

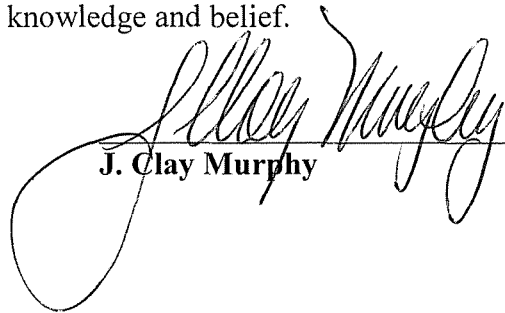
**RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO THE
COMMISSION STAFF'S SECOND INFORMATION REQUEST
DATED AUGUST 20, 2010**

FILED: September 7, 2010

VERIFICATION


COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **J. Clay Murphy**, being duly sworn, deposes and says that he is Director – Gas Management, Planning, and Supply for Louisville Gas and Electric Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



J. Clay Murphy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 1st day of September 2010.



Notary Public (SEAL)

My Commission Expires:

Feb. 28, 2014

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Pamela L. Jaynes**, being duly sworn, deposes and says that she is Gas Supply Manager for Louisville Gas and Electric Company, and that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Pamela L. Jaynes
Pamela L. Jaynes

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 2nd day of September 2010.

Rashelle W. Gaines (SEAL)
Notary Public

My Commission Expires:

Feb 28, 2010

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00146

**Response to Commission Staff's
Second Information Request
Dated August 20, 2010**

Question No. 1

Responding Witness: J. Clay Murphy / Pamela L. Jaynes

Q-1. Refer to the response to Item 4 of the Commission Staff's First Information Request and the response to Item 4 of Staff's First Request to Columbia Gas of Kentucky, Inc. ("Columbia"). Considering that 75 percent of the participants in Columbia's Customer Choice Program want the ability to choose their gas supplier even if they do not save money, explain whether LG&E would consider offering a retail choice program in order to afford its customers the ability to choose their gas suppliers.

A-1. LG&E has reviewed Columbia's response to Question No. 4 of the Commission's First Data Request indicating that in 2008, when the survey was performed, "75% of the Choice participants who responded to the survey indicated they wanted the ability to choose their natural gas supplier, even if they learned they had not saved money in the program." Based on Columbia's response, LG&E is unable to fully evaluate the survey in terms of either the number of responses to the survey or if that number is a representative sample of Columbia's retail choice participants. Also, LG&E is unable to evaluate whether or not the design of the survey accurately reflects either the customer's sentiments or the customers' full understanding of the repercussions of retail choice.

Notwithstanding the fact that LG&E is unable to fully evaluate the results of Columbia's survey, it is LG&E's observation that simply asking customers whether or not they favor retail choice could be misleading. Customers might alternatively be asked if they favor the ability to choose an alternate gas supplier if having the mere ability to choose would impose incremental costs and risks on the customer. This alternative question might result in a different response, particularly if customers are informed of the expected costs to implement and to operate a retail choice program in addition to the potential impact of such costs on their monthly bill.

In considering retail choice, customers need to understand and evaluate the distinction between (1) an optional choice available with no risks or costs, and (2) an optional choice that could create permanent, incremental risks and costs for all

customers irrespective of whether an actual choice is made by any particular customer. These incremental risks and costs to implement and operate a retail choice option would be outside of, and in addition to, any losses that might be incurred after the choice was actually made by the customer. Incremental risks affecting all customers whether or not they choose an alternate supplier could include reliability risks. Examples of incremental costs that may be charged to customers whether or not they choose an alternate supplier could include transition and stranded costs and may include on-going consolidated billing costs, receivables management costs, educational costs, increased costs to regulate the market, and other similar operational costs.¹

As to Columbia's 2008 survey, it is not clear if, and to what extent, customers taking the 2008 survey believed they had saved or lost money compared to Columbia's otherwise applicable tariff rates. It is also unknown if the position of these same customers would be any different now given the recent 2010 report indicating significant customer losses under Columbia's program. However, even awareness by customers that they have lost money as a result of choice may not lead them to admit in a survey or otherwise that they made the wrong choice. Justification of choices by consumers is a well known and observed phenomenon, because "[c]onsumers exist in a social environment, and they must often justify their choices to themselves and others."²

Interestingly, Columbia's survey reveals nothing about the opinions of the majority of Columbia's residential and commercial customers which have chosen not to participate in the retail choice program. For example, it is not known if these customers would favor retail choice and be willing to pay the costs to operate a retail choice program even if there is no guarantee they will ever save the first dollar. It is not known if these customers would be willing to pay for retail choice programs to exist even if they do not plan on participating in the programs. Additionally, this survey reveals nothing about the opinion of the thousands of Columbia customers that have tried retail choice and have since returned to the LDC for the purpose of receiving tariffed gas supplies.

LG&E believes the more telling percentages with respect to Columbia's choice program are reflected in declining residential and commercial participation levels over time. For example, it appears from Columbia's annual reports that its retail choice program achieved peak enrollment of 50,834 customers in 2002 and has

¹ For example, Columbia states in its response to Question No. 2 of the Commission's First Data Request: "Transition and stranded costs identified in the early stages of the Choice program included Columbia's pipeline demand costs, information technology costs, and consumer education costs. These costs amounted to approximately \$32,708,000."

² See p. 598 of Chapter 23 entitled "Consumer Decision Making: A Choice Goals Approach" by James R. Bettman, Mary Frances Luce, and John W. Payne, pp. 589 - 610 from Handbook of Consumer Psychology; Curtis P. Haugtredt, Paul M. Herr, and Frank R. Kardes, eds.; Psychology Press, Taylor and Francis Group, 2008.

since fallen to 32,356 customers. Following is a breakdown of enrollment by customer class as of May 2002 and March 2010:

	<u>May 2002</u>	<u>March 2010</u>
Residential	45,570	28,888
Commercial	<u>5,264</u>	<u>3,468</u>
Total	50,834	32,356

As the above data indicates, since 2002, residential enrollment has declined 37%, commercial enrollment has declined 34%, and total enrollment has declined by 36%. This data shows that customer interest has declined since the early stages of the program indicating that customer expectations may not have been realized.

Based on March 2010 enrollment it appears that the customers who are responsible for about 25% of Columbia's eligible residential and commercial throughput have selected the choice option. That means that the customers who are responsible for about 75% of Columbia's eligible residential and commercial throughput are not participating in the choice option. This data indicates that most of Columbia's residential and commercial customers are not interested in retail choice and are taking merchant service from the utility. Customers not participating in the retail choice program did not participate in Columbia's survey but they expressed their opinion by "voting with their feet" and walking away from the retail choice option.

Similarly, data presented in the report of the Energy Information Administration entitled "Status of Natural Gas Residential Choice Programs by State as of December 2009" and other sources do not present a compelling case for retail choice. Despite the fact that most programs have been in place for several years, less than 15% of the approximately 35 million customers across the nation that have access to choice programs are participating in those programs.

Notwithstanding whether or not customers think they may prefer the option to choose choice, an expressed preference not based on a complete understanding of the process and potential ramifications of retail choice does not comport with LG&E's criteria for offering a retail choice program. Therefore, the numbers in Columbia's survey do not themselves cause LG&E to believe that offering a retail choice program is either warranted or prudent.