ProLiance ENERGY

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PUBLIC SERVICE COMMISSION

October 3, 2012

Chairman David L. Armstrong
Vice-Chairman James W. Gardner
Commissioner Linda K. Breathitt
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Louisville Gas & Electric Rate Increase, Case No. 2012-00222

Dear Commissioners,

ProLiance Energy, LLC ("ProLiance") has several concerns with Louisville Gas & Electric's ("LG&E") proposed changes to its transportation services made as part of LG&E's gas rate increase in the above-referenced proceeding. ProLiance requests that the Commission consider these comments when evaluating LG&E's proposed tariff changes.

ProLiance is a natural gas marketer serving several markets throughout the Midwest. ProLiance provides service to commercial and industrial customers behind several Kentucky LDCs, including LG&E. ProLiance has extensive experience in the Kentucky markets. ProLiance believes that LG&E's proposed changes to its transportation services are bad for Kentucky customers, reduce competition in Kentucky's natural gas markets, and conflict with the operational requirements of other Kentucky LDCs.

LG&E proposes, among other things, to replace its existing Rider TS with a new Rider TS-2, to implement a monthly telemetry charge for customers being served under Rider TS-2, to establish a service request date of March 31 under Rider TS-2, and to create an "Action Alert" to manage pool deliveries under Rider TS-2. Additionally, LG&E has elected not to modify its Rate FT volume eligibility requirements. LG&E also proposes to lower the imbalance threshold level for the application of the UCDI from 5% to 2% under Rider PS-FT.

Under the new Rider TS-2, LG&E proposes lowering the eligibility threshold to 25,000 Mcf per year (as opposed to 50,000 Mcf per year under Rider TS). Although lowering the eligibility requirement is a step in the right direction, ProLiance believes that the 25,000 Mcf amount is not low enough. The 25,000 Mcf amount continues to act as a barrier to commercial and industrial customers having the option of using TS service. The eligibility amount should

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be lowered to 5,000 Mcf per year. The 5,000 Mcf amount encourages competition and will benefit commercial and industrial customers in Kentucky. Other Kentucky LDCs have much lower transportation thresholds. For example, Duke Energy Kentucky's minimum requirement is 2,000 Mcf/year. Atmos Energy Corp. has a minimum requirement of 9,000 Mcf/year. LG&E has not justified why its eligibility threshold should be significantly higher than other Kentucky LDCs. The Commission should lower the 25,000 eligibility amount to encourage expanded transportation.

The replacement of Rider TS with Rider TS-2 has significant cost impacts and results in other burdensome requirements. For example, the requirement that customers must notify LG&E by March 31 for service beginning November 1 greatly reduces customer flexibility in choosing its supplier. This requirement prohibits customers from any commodity cost savings that can occur prior to the November 1 start date. Other LDCs allow customers to migrate to transportation with a 30 day notice. The Commission should reject the March 31 notice proposal. Additionally, the significant increase in the administrative costs, along with the monthly telemetry charge, discourages customers from using TS-2 service. Administrative costs are increasing from $153.00 per month under Rider TS to $600.00 per month under Rider TS-2. The monthly telemetry charge adds an additional $300.00 per month to service under Rider TS-2. Perhaps LG&E is attempting to penalize customers for using TS service. The Commission should question how such a substantial increase in monthly fees is consistent with the benefits that expanded transportation service provides.

The proposed "Action Alert" is another burdensome requirement that significantly raises the costs for customers using TS-2 service. Under the proposal, if a Pool Manager fails to comply with the "Action Alert" requirements, LG&E will assess a charge equal to Platts *Gas Daily* plus $5.00 per MMBtu on the difference between the volumes delivered by the Pool Manager and the volume specified by LG&E. This additional penalty appears to be designed to discourage customers from using TS-2 service. The Commission should reject this proposal.

LG&E also proposes to keep the eligibility threshold for Rate FT at the current level of at least 50 Mcf per day (18,250 annually). This high threshold limits the availability of FT service to only large commercial and industrial customers and should be lowered by the Commission. As the Commission noted in Case No. 2010-00146, existing transportation thresholds bear further examination, and each LDC's tariff will be evaluated in the LDC's next general rate proceeding. The Commission found that if the Kentucky General Assembly desires retail natural gas competition, it should authorize expanded transportation service only. The Commission appears to recognize that expanded transportation may have some benefits. LG&E's 50 Mcf per day threshold is inconsistent with the benefits that expanded transportation provides. The 50 Mcf per day requirement is also inconsistent with other Kentucky LDCs who have much lower annual usage requirements.

LG&E suggests in its testimony that the eligibility threshold for Rate FT should not be lowered due to reliability concerns. LG&E's reliability concerns are misplaced. The reliability of supply is not hindered by lowering the eligibility threshold. The supplier still has the obligation to deliver supplies necessary to meet the customer's needs while managing LG&E's daily balancing requirements regardless of the eligibility threshold. Reliability of supply has not been an issue for quite some time. ProLiance and other suppliers have the ability to deliver to the LG&E system as a secondary path without any issues. The Commission should dismiss LG&E's reliability concerns and lower the eligibility threshold for Rate FT to 5,000 Mcf/year.

LG&E proposes to lower the threshold to which the UCDI will apply under Rider PS-FT from +/- 5% to +/- 2%. The Commission should reject this proposal. A 2% tolerance is unheard of. No other LDC has enforced a daily balancing tolerance of less than +/- 5%. Currently, Duke Energy has a balancing tolerance of +/- 7%. Atmos has a balancing tolerance of +/- 10%. Both the Duke and Atmos tolerances are on a monthly basis, not daily. The 5% tolerance is difficult enough to manage. A 2% tolerance will be almost impossible to manage without incurring significant daily imbalances. If LG&E were to lower the eligibility threshold for Rate FT to 5,000 Mcf/year, this would allow suppliers to add more customers to their pool and would increase daily volume into the pool. This would make it easier for suppliers to stay within the 2% tolerance. As the proposal currently stands, however, a 2% tolerance will make it extremely difficult to balance, which will result in LG&E having greater cashouts and larger volumes to reconcile with their own daily supplies.

In addition to the strict daily balancing tolerance of 5%, LG&E also makes daily balancing difficult because of its current telemetry system. Suppliers must use LG&E's software system to dial into each customer's meter to retrieve daily usage. The system does not allow an auto-pull feature, so suppliers must dial into each customer meter and write down the daily usage as there is no download feature available. Other LDCs offer download capabilities from their websites and offer the ability to pull daily usage for all customers at one time. Daily balancing on the LG&E system is already challenging. The Commission should not allow LG&E to make it even more difficult by lowering the tolerance to +/- 2%.

ProLiance is also concerned about the proposed increase to the Administrative Charge under Rate FT. LG&E proposes to raise the Administrative Charge from $230.00 per Delivery Point per month to $600.00 per Delivery Point per month. LG&E has not supported why the substantial increase is necessary. Once again, it appears that LG&E is attempting to penalize customers for using transportation service. The Commission should reject the proposed Administrative Charge increase.

The Commission should not allow LG&E to impose such strict operational requirements or permit the substantial cost increases to LG&E's transportation services. The proposed changes discourage the use of transportation service, are bad for Kentucky customers, and are inconsistent with the operational requirements of other Kentucky LDCs. ProLiance requests that the Commission consider its comments herein when evaluating the proposed tariff changes. ProLiance is available to the Commission in case the Commission wishes to pursue in greater depth the issues raised by these comments.

Very truly yours,

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