

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF POWERGEN PLC,)	
LG&E ENERGY CORP., LOUISVILLE GAS AND)	CASE NO.
ELECTRIC COMPANY, AND KENTUCKY)	2000-095
UTILITIES COMPANY FOR APPROVAL)	
OF A MERGER)	

O R D E R

IT IS ORDERED that PowerGen, PLC ("PowerGen"), LG&E Energy Corp. ("LGE Energy"), Louisville Gas and Electric Company ("LG&E"), and Kentucky Utilities Company ("KU") shall file the original and 12 copies of the following information with the Commission with a copy to all parties of record no later than March 30, 2000. 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 witness 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.

1. Provide a description of the corporate structure of PowerGen, including all subsidiaries and affiliates as of March 1, 2000. This description should include, but not be limited to, the following information:

a. A description for each subsidiary or affiliate of the nature of that entity's business.

b. A description of the degree of government regulation over the subsidiary or affiliate.

c. The location of each subsidiary or affiliate, both the corporate office and actual operations.

d. The number of customers of each subsidiary or affiliate.

e. The number of employees, for PowerGen in total and for each subsidiary or affiliate.

f. A listing of the senior executive officers for PowerGen and each subsidiary or affiliate, showing the corresponding corporate reporting relationships.

2. Provide a narrative discussing the history of PowerGen since it was privatized. This narrative should include, but not be limited to, the following subjects:

a. The government-owned operations that PowerGen evolved from during privatization.

b. A brief discussion of each acquisition made by PowerGen since 1991, including the date of acquisition, acquired from, acquisition price, method of financing, and, where not previously discussed, the nature of the acquisition's business.

c. A brief description of each business liquidated or disposed of by PowerGen since 1991, including date of liquidation or disposal, selling price, acquiring entity, the nature of business, and the reason(s) for liquidation or disposal.

d. A brief description of all joint ventures PowerGen is participating in, or has participated in, since 1991. Include the name(s) of the business partners and the nature of the business.

3. Provide the following financial information concerning PowerGen, with the responses to parts (a) and (b) stated in United States dollars and reflecting United States generally accepted accounting principles ("US GAAP"):

a. A current balance sheet and income statement for the most recent reporting quarter and annual or fiscal year. This information should be provided for both PowerGen and all subsidiaries and affiliates, to the extent available.

b. The book value of all assets, for both PowerGen and all subsidiaries and affiliates, to the extent available.

c. Financial performance measures and ratios for the most recent reporting quarter and annual or fiscal year. Include, but do not limit the response to, the following measures and ratios:

(1) P/E Ratio (price divided by earnings per share).

(2) Dividend Yield (dividend yield based on present cash dividend rate).

(3) Payout Ratio (primary or basic earnings per share excluding extraordinary items paid to common shareholders in the form of cash dividends).

(4) Quick Ratio (cash plus short-term investments plus accounts receivable, divided by total current liabilities).

(5) Current Ratio (total current assets divided by total current liabilities).

(6) Interest Coverage (earnings before interest and taxes divided by interest expense).

(7) Equity Ratio (total common equity divided by total capitalization).

(8) Return on Equity (income available to common shareholders divided by common equity).

d. Bond and/or debt ratings, for both PowerGen debt instruments and any separately issued debt instruments issued by subsidiaries or affiliates. Identify the rating agency or institution.

e. A comparison of PowerGen's current financial performance measures and ratios and bond/debt ratings with other diversified utilities operating in the United Kingdom.

f. The dividend history of PowerGen since 1991 and the dividend history of each subsidiary and affiliate since 1991.

g. Charts showing the stock price activity for PowerGen since 1991, from both the London Stock Exchange and the New York Stock Exchange. Explain the reason(s) for any significant movements in the stock price during the period.

h. Where not already provided, investor ratings of PowerGen and any subsidiary or affiliate since 1991.

4. Provide a description of the corporate structure of LG&E Energy Corp. ("LG&E Energy"), including all subsidiaries and affiliates as of March 1, 2000. This description should include, but not be limited to, the following information:

a. A description for each subsidiary or affiliate of the nature of that entity's business.

b. A description of the degree of government regulation over the subsidiary or affiliate.

c. The location of each subsidiary or affiliate, both the corporate office and actual operations.

d. The number of customers of each subsidiary or affiliate.

e. The number of employees, for LG&E Energy in total and for each subsidiary or affiliate.

f. A listing of the senior executive officers of LG&E Energy and each subsidiary or affiliate, showing the corresponding corporate reporting relationships.

5. Provide the following financial information concerning LG&E Energy:

a. A current balance sheet and income statement for the most recent reporting quarter and annual or fiscal year. This information should be provided for both LG&E Energy and all subsidiaries and affiliates, to the extent available.

b. The book value of all assets, for both LG&E Energy and all subsidiaries and affiliates, to the extent available.

c. Financial performance measures and ratios for the most recent reporting quarter and annual or fiscal year.

(1) P/E Ratio (price divided by earnings per share).

(2) Dividend Yield (dividend yield based on present cash dividend rate).

(3) Payout Ratio (primary or basic earnings per share excluding extraordinary items paid to common shareholders in the form of cash dividends).

(4) Quick Ratio (cash plus short-term investments plus accounts receivable, divided by total current liabilities).

(5) Current Ratio (total current assets divided by total current liabilities).

(6) Interest Coverage (earnings before interest and taxes divided by interest expense).

(7) Equity Ratio (total common equity divided by total capitalization).

(8) Return on Equity (income available to common shareholders divided by common equity).

d. Bond and/or debt ratings, for both LG&E Energy debt instruments and any separately issued debt instruments issued by subsidiaries or affiliates. Identify the rating agency or institution.

e. A comparison of LG&E Energy's current financial performance measures and ratios and bond/debt ratings with other utilities operating in the United States.

f. The dividend history of LG&E Energy since 1991 and the dividend history of LG&E and KU since 1991.

g. A brief description of all joint ventures LG&E Energy is participating in, or has participated in, since 1991. Include the name(s) of the business partners and the nature of the business.

h. Provide the LG&E Energy annual report to shareholders for 1999, 1998, and 1997.

6. Concerning the proposed acquisition of LG&E Energy by PowerGen, describe the effects and impacts, if any, upon the following obligations:

a. The contract between Kentucky Utilities Company's ("KU") and Owensboro Municipal Utilities.

b. The purchase power contracts between KU and certain Kentucky municipal utilities and Berea College.

c. The lease agreement and associated obligations between Western Kentucky Energy Corp., certain LG&E Energy affiliates, and Big Rivers Electric Corporation.

d. The purchase power agreements between LG&E Energy Marketing Inc. ("LEM"), Kenergy Corp., Alcan Aluminum Corporation, and Southwire Company.

e. The Power Supply System Agreement and the Transmission Coordination Agreement between KU and Louisville Gas and Electric Company ("LG&E").

7. In previous cases involving holding companies and regulated utilities, the Commission has expressed numerous regulatory concerns related to protection of utility resources, monitoring of corporate activities, and reporting requirements. For each of the concerns listed below, state how PowerGen, LG&E Energy, LG&E, and KU have addressed the concern.

a. The potential for cross-subsidization of non-regulated activities by LG&E and KU.

b. The diversion of management talent away from LG&E and KU to the holding company and/or its affiliates.

c. The holding company's ability to adjust the capital structure of LG&E and KU in a manner that could adversely affect their cost of capital and financial integrity.

d. The holding company's ability to adjust the dividend policy of LG&E and KU in a manner that could adversely affect their financing requirements, financing capabilities and financial integrity.

e. The holding company's refusal to provide necessary capital to LG&E and KU, which could severely impair their ability to provide utility services.

f. The guaranteeing of the debt of affiliates and of the holding company by LG&E and KU could unnecessarily place in jeopardy their financial position and resources.

g. LG&E and KU could be used as the "dumping ground" for employees, assets, and products associated with failed or troubled affiliate ventures, causing them to be viewed by the holding company and the non-utility affiliates as the employer or purchaser of last resort.

h. The effects of a failed or failing unregulated affiliate upon the operations and financial condition of LG&E and KU.

i. The need for the Commission to have open access in Kentucky to the books and records of the holding company and its other affiliates and subsidiaries.

j. The ability of the Commission to monitor significant transfers of utility assets, business ventures of the holding company, and other major transactions.

k. The need for periodic and special reports to the Commission in order to assist the Commission with its monitoring activities.

8. In the final Order in Case No. 97-300,¹ the Commission required the periodic filing of certain reports and other information by LG&E and KU. For each report or type of information listed below, state the position and/or commitment PowerGen, LG&E Energy, LG&E, and KU are prepared to make.

a. A quarterly report of the number of employees of LG&E Energy and each subsidiary on the basis of payroll assignment.

b. An annual report of the years of service at LG&E or KU and the salaries of professional employees transferred from LG&E or KU to PowerGen, LG&E Energy or its subsidiaries.

c. At least annually, a report of the cost allocation factors that would be in use.

d. On an "as prepared" basis, summaries of any cost allocation studies conducted and the basis for the methods used to determine the cost allocation in effect.

e. At least annually, the methods used to update or revise the cost allocation factors in use.

f. As needed, copies of the articles of incorporation and bylaws of affiliated companies that would be in businesses related to the electric or gas industry or that would be doing business with LG&E or KU.

g. As needed, copies of the articles of incorporation of affiliated companies involved in non-related businesses.

¹ Case No. 97-300, Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger, final Order dated September 12, 1997.

h. On an annual basis, a report describing the nature of intercompany transactions with specific identification of major transactions, including a description of the basis upon which cost allocations and transfer pricing have been established.

i. An annual report of the activities of PowerGen and LG&E Energy, in a format similar to the Securities and Exchange Commission's ("SEC") Form U-3A-2.

j. On an annual basis, a detailed organization chart of LG&E Energy showing all subsidiaries. On a quarterly basis, an update to the annual chart disclosing and describing any changes since the submission of the annual chart.

k. On a quarterly basis, supplemental financial information for LG&E and KU. For LG&E, a 12-month income statement and balance sheet separately reporting gas and electric operations. For KU, a 12-month income statement and balance sheet separately reporting Kentucky jurisdictional operations and other jurisdictional operations.

9. Refer to pages 5 and 6 of the application, paragraph 8. For each approval or filing referenced, provide the application or filing date and the estimated time for each agency to process the application or filing.

10. Refer to page 9 of the application, paragraph 14.

a. Describe the analysis that LG&E will be required to provide to the SEC concerning the request for LG&E to remain a combined electric and gas utility. Indicate when this information will be filed with the SEC.

b. Indicate where in the application LG&E has provided an explanation discussing the benefits of remaining a combined electric and gas utility.

11. Refer to page 12 of the application, paragraph 22. The applicants state that, “By becoming part of a larger entity with greater resources, LG&E and KU will be better able to utilize new, economically beneficial developments in transmission and distribution technology, information systems, and capital markets.” Provide a list and description of the developments in each of the stated areas that LG&E and KU may not be able to utilize absent the additional size and scale gained as a result of the merger.

12. Refer to pages 15 and 16 of the application, paragraphs 29 and 30.

a. At the March 20, 2000 informal conference, PowerGen appeared to be saying that the Commission’s approval would no longer be required when LG&E and KU issued long-term debt. However, the application notes that LG&E and KU will still have the ability in the future to seek alternative funding, subject to necessary regulatory approval. Provide a clarification of PowerGen’s understanding of what regulatory approvals are necessary if LG&E or KU seek to issue long-term debt.

b. Refer to the Testimony of Caroline Sheers, Exhibit C. This exhibit shows that there will be a large increase in debt in the capital structure of PowerGen following the merger. Does PowerGen plan to maintain and operate with approximately 70 percent debt in its capital structure? Explain the response.

c. After the merger, will LG&E and KU assume the capital structure of PowerGen? Explain the response.

d. What should be the optimal capital structure for LG&E and KU, as subsidiaries of LG&E Energy and PowerGen? Explain the response.

13. Refer to Exhibit A of the application, the Agreement and Plan of Merger (“Merger Plan”). Provide copies of the following documents referenced in the Merger Plan:

- a. Parent Disclosure Letter.
- b. Company Disclosure Letter.
- c. Financing Plan.

14. Refer to Exhibit A of the application, page 3. Prepare a schedule comparing the current by-laws of LG&E Energy with those of the Merger Sub. Explain all differences between the two documents.

15. Refer to Exhibit A of the application, page 10. Concerning LG&E Energy’s contracts with Oglethorpe Power Corporation (“Oglethorpe”):

- a. Indicate when the Oglethorpe contracts expire.
- b. Provide a chart which shows by year the annual revenues and annual expenses for LG&E’s obligations under the Oglethorpe contracts since their inception through December 31, 1999, and also include an estimate of the annual revenues and annual expenses for each remaining year of the contracts.
- c. If LG&E Energy can terminate the Oglethorpe contracts prior to their expiration dates, indicate when a termination is possible and the estimated cost to LG&E Energy to terminate these contracts early.
- d. Provide any analysis, memorandum, notes, or other written documents prepared by or on behalf of LG&E Energy, LG&E, or KU and shared with PowerGen which discusses the Oglethorpe contracts.

16. Provide copies of any reports submitted by the financial advisors to either LG&E Energy or PowerGen related to the merger.

17. Refer to Exhibit A of the application, page 36, ¶ 6.1(b). Describe what is meant by the reference in the Merger Plan to the “incremental benefits of the ‘one utility’ cost initiative.”

18. Refer to Exhibit A of the application, pages 36 through 43. Concerning LG&E Energy’s covenants related to its 2001 budget and interim operations, explain in detail the impact, including any limitations, those covenants will have on the following items:

a. The LG&E Energy affiliates ability to meet obligations to Big Rivers Electric Corporation under the terms of the lease transaction, especially in the areas of capital improvements and pollution control compliance.

b. The application of LG&E for an increase in its retail gas rates.

c. The acquisition by LG&E, KU, or LG&E Capital Corp. of additional combustion turbines.

d. The application of LG&E and KU to refinance pollution control bonds.

19. Refer to Exhibit A of the application, pages 51 through 54. Concerning employee benefits:

a. Provide copies of all materials provided to the employees of LG&E and KU concerning the changes, if any, in each company’s employee benefits plan.

b. Explain the changes that will occur to the employee stock option plans of LG&E and KU after the effective time of the merger.

c. List all collective bargaining agreements in effect at LG&E and KU and indicate when each agreement is scheduled to expire.

20. Provide the following information concerning the boards of directors of PowerGen, East Midlands, LG&E Energy, LG&E, and KU as of March 15, 2000:

a. The names and occupations of each board member.

b. Indicate how long the current board members have served on the respective board of directors.

c. Indicate how the members of the board are selected and describe any eligibility requirements that a candidate must satisfy.

d. Indicate when the term expires for each board member.

21. Refer to Exhibit A of the application, page 54. Concerning the Advisory Board:

a. If the Advisory Board had been formed on March 15, 2000, name the individuals who would be serving on that board.

b. Indicate the anticipated size of the Advisory Board and whether there will be separate Advisory Boards for LG&E Energy, LG&E, and KU.

c. Describe the organizational structure of the Advisory Board. This includes, but is not limited to, a discussion of how officers will be selected, the term of each member, and how the Advisory Board will interact with LG&E Energy and PowerGen.

d. Explain the duties, responsibilities, and compensation of the Advisory Board.

e. Indicate how long PowerGen and LG&E Energy envision the Advisory Board to be operating and identify which entities will be bearing the costs of the Advisory Board.

22. Refer to Exhibit A of the application, page 60.

a. Provide a detailed description of the purpose and functions of the LG&E Energy Foundation, Inc. (“Foundation”).

b. Identify the sources of funding for the Foundation.

c. Identify the current board of directors for the Foundation.

d. Provide a listing of the charitable causes supported by the Foundation during 1999 and the total amount of supported given in 1999.

23. Refer to Exhibit C of the application. For each of the eight entities shown between “PowerGen PLC” and LG&E and KU, indicate which will become registered holding companies under the Public Utility Holding Company Act of 1935 (“PUHCA”).

24. Refer to Exhibit F of the application. Explain why LEM was made a first-tier subsidiary of LG&E Energy, when previously it had been a third-tier subsidiary. Indicate when this change became effective.

25. Refer to the Testimony of E. A. Wallis, page 8. Explain how the acquisition “will make the combined company even more responsive” to LG&E and KU consumer demands.

26. Refer to the Wallis Testimony, page 9. Mr. Wallis states that PowerGen’s international experience in competitive generation markets will help LG&E Energy’s competitive position.

a. Describe PowerGen's position on United States retail electricity restructuring.

b. Does PowerGen's position differ from LG&E Energy's position?

Explain the response.

27. Describe and explain PowerGen's position on Kentucky retail electric restructuring. If PowerGen's position differs from LGE Energy's position, explain the differences.

28. Provide the estimated costs to PowerGen, LG&E Energy, LG&E, and KU of compliance with the requirements of PUHCA. Include a description of the assumptions used to arrive at the estimate.

29. Refer to the Sheets Testimony, page 4.

a. Indicate when PowerGen secured the \$4 billion loan facility.

b. Identify the five international banks that are underwriting the facility.

c. Describe the terms and conditions of the loan facility.

30. Refer to the Testimony of Michael D. Robinson, page 3. Mr. Robinson indicates that a PUHCA-required service company, LG&E Energy Services, Inc. ("LG&E Services"), will be created as a result of the merger. Exhibit F of the application shows a second-tier subsidiary of LG&E Energy by the same name already exists. According to an August 5, 1999 report filed by LG&E and KU concerning LG&E Energy, this second-tier subsidiary was created in July 1998, and does not have a specific corporate purpose.

a. Describe the activities that LG&E Services has been engaged in since its creation in July 1998.

b. Identify the LG&E Energy subsidiary that will be assuming the functions of the existing LG&E Services.

c. Indicate when LG&E Energy anticipates that LG&E Services will be restructured as a service company.

31. The federal debate over the restructuring of the electric industry in the United States has included the possible repeal or significant modification of PUHCA. Provide the viewpoints on PUHCA reform for PowerGen, LG&E Energy, LG&E, and KU.

32. Exhibit C of the application shows LG&E Services as a first-tier subsidiary of LG&E Energy. Pages 3 and 4 of the Robinson Testimony states that PowerGen and LG&E Energy opted to establish LG&E Services to provide centralized administrative and corporate services to various companies in the United States PowerGen system.

a. Based on the statement in Mr. Robinson's testimony, could LG&E Services be providing services to any subsidiary or affiliate of PowerGen, and not just LG&E Energy and its subsidiaries and affiliates? Explain the response.

b. If LG&E Services will be providing services to subsidiaries and affiliates other than those of LG&E Energy, explain why LG&E Services is to be established as a first-tier subsidiary of LG&E Energy, rather than another corporate entity in the PowerGen organization.

c. Describe the rules and regulations that will govern any transaction between any of the subsidiaries or affiliates of LG&E Energy that are not covered by the services provided by LG&E Services.

d. Describe the rules and regulations that will govern any transaction between any of the subsidiaries or affiliates of PowerGen that are not covered by the services provided by LG&E Services.

33. Concerning LG&E Services:

a. Will the creation of LG&E Services create any efficiencies or opportunities for cost savings for LG&E Energy? If yes, describe in detail what efficiencies will be derived.

b. Will the creation of LG&E Services create any efficiencies or opportunities for cost savings for LG&E and KU? If yes, describe in detail what efficiencies will be derived.

c. Will the creation and operation of LG&E Services result in LG&E or KU paying more for the same or similar services that are now provided without a service corporation.

34. Refer to the Robinson Testimony, Exhibit A.

a. Provide a detailed explanation of the distinction between services covered by the Utility Service Agreement and the Non-Utility Service Agreement.

b. Provide copies of the draft Non-Utility Service Agreement.

c. Provide a comparison of the cost allocation methodologies listed on pages A-2 and A-3 with the cost allocation methodologies currently in use by LG&E Energy, LG&E, and KU. Discuss all differences and the reason(s) for any change in the cost allocation methods.

d. When computing the various cost allocation ratios, will LG&E and KU be considered as one or two operating systems? Explain the response.

e. Using the schedule of services listed on pages A-4 and A-5, prepare a schedule indicating whether the service is currently being provided by LG&E Energy, LG&E, KU, or some other LG&E Energy subsidiary or affiliate. Include the estimated cost, by provider, of the service in 1999.

35. Refer to the Robinson Testimony, Exhibit B. Concerning the draft "Form of Service Agreement," Explain how this draft agreement was developed. If it is based on service agreements in use by other PUHCA-required service companies, identify the service companies.

36. In Case No. 94-104,² among the commitments offered by Cinergy, and accepted by the Commission, was a guarantee that any service agreement or amendment between The Cincinnati Gas & Electric Company and The Union Light, Heat & Power Company would be filed with the Commission for review 60 days before filing with the SEC, and if rejected by the Commission, the service agreement or amendment would not be filed with or withdrawn from the SEC.³ In Case No. 99-149,⁴ the Commission-adopted settlement agreement provides that American Electric Power Company, Inc. ("AEP") would provide the Commission with notice at least 30 days prior to any filings that propose new allocation factors with the SEC. The notice would include a description of the proposed factors and the reasons supporting such factors.

² Case No. 94-104, Application of The Cincinnati Gas & Electric Company and Cinergy Corp. for Approval of the Acquisition of Control of The Union Light, Heat & Power Company by Cinergy Corp., final Order dated May 13, 1994.

³ Case No. 94-104, May 13, 1994 Order at 5.

⁴ Case No. 99-149, Joint Application of Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation Regarding a Proposed Merger, final Order dated June 14, 1999.

AEP and the Commission would make a good faith attempt to resolve any differences in advance of a filing being made at the SEC.⁵ Are PowerGen, LG&E Energy, LG&E, and KU prepared to commit to a similar notice provision relating to service agreements between LG&E, KU, and LG&E Services? Explain the response.

37. Refer to the Robinson Testimony, page 8. Concerning the accounting consequences of the acquisition of LG&E Energy's stock by PowerGen:

a. Provide a detailed description of the accounting methodology that PowerGen and LG&E Energy will employ to account for the purchase of LG&E Energy's stock. Include with this response the authoritative accounting pronouncements, United Kingdom generally accepted accounting principles for PowerGen and US GAAP for LG&E Energy.

b. If the purchase methodology of accounting is used for this transaction, describe how PowerGen and LG&E Energy intend to account for any difference between the purchase price and the fair value of the assets.

c. If PowerGen and LG&E Energy record positive goodwill (debit entry) resulting from this transaction, to which assets and/or subsidiaries will the goodwill be allocated? Explain the response.

38. Concerning the outstanding debt of LG&E Energy, LG&E, and KU:

a. Provide a schedule of the total outstanding debt of LG&E Energy and its subsidiaries and affiliates, as of December 31, 1999 and March 15, 2000. The schedule should show the debt for each entity separately, as well as the original amount

⁵ Case No. 99-149, June 14, 1999 Order, Appendix at 6.

of the debt, the amount outstanding as of the specified dates, the maturity date, and the current interest rate.

b. Describe the regulatory and rate-making effects of PowerGen's assumption of all the debt of LG&E Energy.

c. Explain how the assumption of the debt of LG&E Energy will impact LG&E's and KU's current applications before the Commission to refinance its pollution control debt.

39. Provide a schedule showing the excess deferred income taxes for LG&E and KU as of December 31, 1999 and March 15, 2000. Describe the impact the merger of LG&E Energy and PowerGen will have on the excess deferred income taxes.

40. Refer to the Robinson Testimony, page 8. Concerning the reporting requirements established by prior Commission Orders approving corporate reorganizations and the merger of LG&E Energy and KU Energy Corp.:

a. Indicate how long it normally has taken LG&E and KU to prepare and file with the Commission the quarterly supplemental financial information.

b. Can the quarterly supplemental financial information be filed within 45 days of the end of the calendar quarter? Explain the response.

c. Explain why the 1998 annual report on LG&E Energy, a reporting requirement included in Case No. 97-300, was not filed with the Commission until August 1999.

d. Can the annual report on LG&E Energy be filed by March 31st of the year after the reporting year? Explain the response.

41. Refer to the Testimony of Dr. Karl A. McDermott, page 5. Dr. McDermott states that the earnings sharing mechanism (“ESM”) can ensure that utility customers share in benefits of the acquisition. Would Dr. McDermott agree that the sharing mechanism contained in the ESM does not occur until the return on common equity exceeds 12.5 percent? Explain the response.

42. Refer to the McDermott Testimony, page 7, lines 21 through 24. The Commission has jurisdiction over LG&E and KU, subsidiaries of LG&E Energy. Explain how a “combined, diversified company with geographic reach” will benefit Kentucky ratepayers through the ESM.

43. Refer to the McDermott Testimony, page 9. Mr. McDermott describes revenue and risk stability as the result of demand- and weather-diversification as a benefit of consolidation mergers and acquisitions.

a. Will this be a benefit of the PowerGen and LG&E Energy transaction? Explain the response.

b. In general, are there any other benefits of consolidation mergers and acquisitions? Explain the response.

c. Are the benefits listed in the response to part (b) applicable to the PowerGen and LG&E Energy transaction? Explain the response.

44. Concerning the best practices employed by PowerGen in 1997:

a. Describe the best practices used by PowerGen regarding the operation and performance of its generating facilities in 1997.

b. Refer to the McDermott Testimony, page 11. Describe the benchmarks used for performance comparison as mentioned by Dr. McDermott.

- c. Did PowerGen achieve the same success in 1998 and 1999?

Explain the response.

- d. Were these best practices applied to all of PowerGen's generation facilities? If no, explain why not.

45. Refer to the Testimony of Dr. Donald J. Mullineaux, page 2. Dr. Mullineaux states that a primary benefit to the Kentucky economy from the proposed merger is the reduced prospects of business disruption in response to unanticipated changes in the energy market, given the high potential for additional deregulation and the uncertainty associated with private sector initiatives in the energy market.

- a. Based on the current status of retail electric restructuring in Kentucky only, explain the basis for and give examples of the "high potential for additional deregulation."

- b. Based on the current status of retail electric restructuring in Kentucky only, explain the basis for and give examples of the "uncertainty associated with private sector initiatives in the energy market."

46. Concerning LG&E Energy's investments in exempt wholesale generators ("EWG") and foreign utility companies ("FUCO"):

- a. Provide a schedule, by LG&E Energy subsidiary or affiliate, showing LG&E Energy's dollar investment in EWGs. Include the location of each EWG.

- b. Provide a schedule, by LG&E Energy subsidiary or affiliate, showing LG&E Energy's dollar investment in FUCOs. Include the location of each FUCO.

c. Based on its 1999 calendar year financial statements, provide the percentage that LG&E Energy's investments in EWGs and FUCOs represent compared to its consolidated retained earnings.

47. What is the current level of PowerGen's investment in FUCOs, expressed in United States dollars and as a percentage of PowerGen's consolidated retained earnings.

48. Does PowerGen intend to request from the SEC additional authority to invest in FUCOs? If yes, by what amount?

49. Explain PowerGen's position concerning LG&E's and KU's participation in the Midwest Independent System Operator ("ISO"). Indicate whether PowerGen envisions any changes in the decision to participate in the Midwest ISO.

50. Provide the following information concerning the costs of the merger of PowerGen and LG&E Energy:

a. The total cost incurred as of March 1, 2000 by PowerGen, stated in dollars.

b. The total cost incurred as of March 1, 2000 by LG&E Energy.

c. The current estimated total cost of the merger to be borne by PowerGen, stated in dollars.

d. The current estimated total cost of the merger to be borne by LG&E Energy.

51. Will any merger cost be borne by either LGE or KU? If yes, provide the estimated annual merger costs for each year through 2010.

52. Will the merger create benefits that are quantifiable in dollars for either LGE or KU? If yes, provide the estimated annual merger benefits for each year through 2010.

53. Do LGE and KU intend to collect from ratepayers in any year through 2010 merger costs in excess of merger benefits? If no, explain in detail how ratepayers will be insulated from the merger costs.

54. There are numerous references in the application to “benchmarking” and “best practices.” Have any benchmarking or best practices between the companies been identified since acquisition talks began? Describe any identified benchmarking or best practices in detail.

55. Will the acquisition by PowerGen result in any change in control payments to any employee of LG&E? If yes, provide a list of the employees entitled to the payments and the amount of payment to each employee.

56. Is there a specific commitment to maintain LG&E’s corporate offices in Louisville, Kentucky, and KU’s corporate offices in Lexington, Kentucky? If yes, for how many years does this commitment extend?

57. Is there a specific commitment by PowerGen to locate its United States headquarters in Louisville, Kentucky? If yes, for how many years does this commitment extend?

58. Provide copies of any letters, analysis, notes, memorandum, or other written documents prepared by or for LG&E Energy, LG&E or KU which discuss the price to be paid by PowerGen for the LG&E Energy stock.

59. Is there any requirement, other than as set forth in the Hale Employment Agreement, that the position of Chairman and Chief Executive Officer of LGE Energy be maintained? If yes, is there any requirement that the individual appointed to that position reside in the Commonwealth of Kentucky?

60. Refer to the Employment Agreement between LG&E Energy, PowerGen, and Roger W. Hale:

a. Provide copies of the January 5, 1998 Change in Control Agreement between LG&E Energy and Mr. Hale.

b. What is the estimated amount of the lump sum cash payment payable to Mr. Hale under the terms of the January 5, 1998 Change in Control Agreement? Include all assumptions and calculations used to determine the estimate.

c. Indicate how much of this lump sum cash payment will be allocated to LG&E and KU. Describe the allocation methodology used for this allocation and explain fully the reasons why this payment should be considered a rate-making expense for calculating the ESM.

61. a. Provide the following information concerning the total compensation paid to Mr. Hale for calendar year 1999 and the estimated amounts to be paid in each of the three years of the Employment Agreement:

(1) The Base Salary.

(2) The Annual Bonus.

(3) Any Compensation Plans and Programs. This item should show the value, cost, or worth of each plan or program separately.

(4) Restricted Stock.

(5) Other Compensation. List each form of compensation separately.

(6) All Employee Benefits. This item should show the value, cost, or worth of each benefit separately. This item includes, but is not limited to, pensions and expense accounts.

(7) Additional Perquisites, as listed in Exhibit C, page 20, of the Employment Agreement. This item should show the value, cost, or worth of each perquisite separately.

b. Indicate the amount of each component of Mr. Hale's total 1999 compensation that was allocated to LG&E and KU. Explain the allocation methodology used to make the allocations.

c. Indicate how LG&E Energy intends to allocate the costs incurred from the Employment Agreement to LG&E and KU. Explain the allocation methodology expected to be utilized.

d. Assume Mr. Hale's employment is terminated other than for cause. Provide the information requested in a.(1)-(7) above for each of the following contingencies:

(1) Employment is terminated on the date of the merger.

(2) Employment is terminated one year after the date of the merger.

(3) Employment is terminated two years after the date of the merger.

e. If any of the amounts provided in response to (d) above would (if paid) be allocated to LG&E and KU, explain the allocation methodology and the reasons why such payments should be considered rate-making expenses for calculating the ESM.

62. Refer to page 5 of the Employment Agreement. Explain in detail why LG&E and KU are guarantors of the pension benefits provided to Mr. Hale.

63. Refer to page 5 of the Employment Agreement, section 6. Will LG&E and KU be responsible for a portion of Mr. Hale's unlimited expenses for travel and similar items related to his duties and responsibilities under the Employment Agreement? Explain the response.

64. Does PowerGen, including its subsidiaries and affiliates, have any internal standards relating to reliability or service quality? Explain the response and provide copies of any written standards, if not voluminous.

65. Does either LG&E Energy, LG&E, or KU, including subsidiaries and affiliates, have any internal standards relating to reliability or service quality? Explain the response and provide copies of any written standards, if not voluminous.

66. a. Are PowerGen, LG&E Energy, LG&E, and KU willing to establish minimum service quality standards in order to assure the continuation of the high level of reliability and service quality currently provided to LG&E's and KU's customers? Explain the response.

b. If no, what assurances can PowerGen, LG&E Energy, LG&E, and KU provide to ensure that its utility transmission and distribution systems will be adequately funded and maintained?

67. Based on financial and accounting differences between the United States and the United Kingdom, will LG&E, KU, and/or PowerGen incur additional administrative costs to comply with both countries' practices and standards? Explain whether LG&E and KU will need additional accounting personnel to interpret and process PowerGen financial statements, or additional financial personnel to process financial transactions due to international differences. If LG&E and KU will incur such costs, provide an annual cost estimate.

68. Explain in detail whether foreign exchange rates will be an issue in transactions between LG&E, KU, and PowerGen. Will foreign exchange rate fluctuations create any future financial risks or increased costs for LG&E or KU?

69. Provide the name and address of each luncheon club, country club, or other private club membership paid by LG&E Energy, LG&E, or KU in 1999 on behalf of Mr. Hale. Also state the annual membership fee and dues for each club.

70. Mr. Hale's employment Agreement, Exhibit C, item (f), references the "use of Company aircraft." Explain in detail whether any aircraft have been, are now, or will be owned or leased. If yes, provide a description of each aircraft, the total annual cost of each aircraft, a copy of any policies or procedures governing travel on such aircraft, and whether logs are maintained which indicate the origin, destination, business purpose and passengers for each flight.

71. Describe in detail Mr. Wallis's experience as an officer or senior level executive of a utility subject to regulation. The description should include Mr. Wallis's responsibilities for preparing or coordinating regulatory filings, interfacing with regulatory authorities, and securing necessary authorizations from those authorities.

72. On what date did PowerGen first meet with LG&E Energy, LG&E, or KU to discuss a mutually beneficial business arrangement?

73. Will the PowerGen acquisition result in any change in control payments being made to any individual other than Mr. Hale? If yes, provide a list of the individuals and the amounts to be paid to each.

Done at Frankfort, Kentucky, this 24th day of March, 2000.

By the Commission

ATTEST:



Executive Director