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MICHAEL J. PAHUTSKI
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VIA OVERNIGHT MAIL

December 22, 2003



Thomas Dorman
Executive Director,
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: Case No. 2003-00252

Dear Mr. Dorman:

Enclosed please find an original and 12 copies of ULH&P's Acceptance of Decision and Application for Rehearing for filing with the Commission in the above-referenced case. Please file-stamp the extra 2 copies and return them to me in the overnight envelope provided.

If you have any questions, please do not hesitate to contact me at (513) 287-3075.

Sincerely,

A handwritten signature in cursive script that reads "Michael J. Pahutski".

Michael J. Pahutski

MJP/mak

Enclosures

REC-1
DEC 23 2003
COMM. OF PUBLIC UTILITIES
FRANKFORT, KY

COMMONWEALTH OF KENTUCKY

DEC 23 2003

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of the Application of The Union)
Light, Heat and Power Company for a)
Certificate of Public Convenience and Necessity)
to Acquire Certain Generation Resources and)
Related Property; for Approval of Certain)
Purchase Power Agreements; for Approval of)
Certain Accounting Treatment; and for)
Approval of Deviation from Requirements of)
KRS 278.2207 and 278.2213(6))

Case No. 2003-00252

**THE UNION LIGHT, HEAT AND POWER COMPANY'S
ACCEPTANCE OF DECISION
AND
APPLICATION FOR REHEARING**

The Union Light, Heat and Power Company (ULH&P), on behalf of itself and The Cincinnati Gas & Electric Company (CG&E), hereby notifies the Commission that it finds the Commission's decision issued in its Interim Order dated December 5, 2003, including all conditions and modifications, to be acceptable. Notwithstanding this acceptance of the Commission's decision, ULH&P respectfully seeks rehearing with regard to the filing date of its next general rate application and the effective date of the resulting change in rates.

In its Interim Order issued in this proceeding, the Commission conditionally approved ULH&P's Amended Application, paving the way for stable electric generation prices for ULH&P's customers predicated on ULH&P's ownership of generating assets. Although the Commission's approval was subject to a number of conditions and modifications to ULH&P's Amended Application, ULH&P accepts these conditions, and

will plan to consummate the proposed transaction pursuant to the Commission's Interim Order, subject to additional required regulatory approvals.

However, ULH&P requests that the Commission reconsider its condition that ULH&P file a general rate application to effect a change in rates "on January 1, 2007." Although ULH&P is committed to the rate freeze through the year 2006 that it agreed to in Case No. 2001-00058, it requires some level of flexibility in determining the test period and effective date of its next change in rates. In order to file an application for a change in rates in the time period prescribed by the Commission, ULH&P may have to elect a test year beginning as early as September 30, 2004. For reasons of efficiency and accuracy, ULH&P would prefer to have the generating assets (Plants) in rate base for the duration of the test year, so that it can more readily and accurately represent the actual costs of owning and operating the Plants. This would avoid the cumbersome and potentially controversial process of allocating various expenses between ULH&P and CG&E for a portion of the test year. Additional adjustment to revenues and expenses in a rate case tend to breed contention between the parties. In order to have a full year with the Plants in rate base, ULH&P would potentially have to complete the closing of the transaction by September 30, 2004.

As the Commission knows, the proposed acquisition of the Plants requires the approval of the Federal Energy Regulatory Commission (FERC) and the Securities and Exchange Commission (SEC). While ULH&P will diligently strive to obtain these approvals in as timely a manner as possible, it cannot predict with any accuracy when these approvals may be granted, particularly given FERC's recent scrutiny of apparent "re-integration" transactions. If the federal approvals are not obtained by September 30,

2004, ULH&P will have to delay the acquisition of the Plants, and thus miss its test year window.

In anticipation of this possibility, ULH&P requests the Commission to amend its condition with regard to the filing date of ULH&P's next general rate application. ULH&P proposes to file its next general rate application to effect a change in rates during 2007, but no later than January 1, 2008. ULH&P will not unnecessarily delay the filing of its next rate application, but the flexibility afforded by the change in this condition will allow ULH&P to elect a test year that fully includes the financial impacts of ownership of the Plants, and to fashion a rate application that more accurately reflects the effects of the Plants on customer rates.

Since ULH&P does not expect the proposed transaction to have a significant effect on rates,¹ albeit the transaction will likely result in an increase in rates, the flexibility ULH&P seeks should not harm customers. In fact this request could delay for a short period any potential increase in customers' rates.

Finally, it is difficult to plan and execute a base rate case to be effective precisely on a specific date. Allowing a range of dates during which new rates can be effective provides a practical alternative.

¹ See Trans. Vol. I at 185 – 186.

WHEREFORE, The Union Light, Heat and Power Company, on behalf of itself and The Cincinnati Gas & Electric Company, accepts the Commission's decision set forth in its Interim Order, including all conditions and modifications, and respectfully requests the Commission to amend the decision with regard to the effective date of ULH&P's next general rate change as described herein.

Respectfully submitted,

THE UNION LIGHT, HEAT AND
POWER COMPANY



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CERTIFICATE OF SERVICE

I hereby give notice that on this 22nd day of December, 2003, I have filed an original and ten true copies of the foregoing Acceptance of Conditions and Application for Rehearing with the Kentucky Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky, 40601, and I further certify that this same day I have served the parties listed below by overnight mail at the addresses listed.


Michael J. Pakutski

Elizabeth E. Blackford
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