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ANITA M. SCHAFER
Paralegal

VIA OVERNIGHT MAIL

September 9, 2003



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

RECEIVED

Re: Case No. 2003-00252

SEP 10 2003

Dear Mr. Dorman:

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PUBLIC SERVICE
COMMISSION

Please find an original and 12 copies of The Union Light, Heat & Power Company's supplemental responses to data requests to be filed in the above-captioned case. Specifically, KyPSC-DR-01-053c-Supplemental and KyAG-DR-01-045-Supplemental. Neither of these responses is confidential in nature. Please return 2 file-stamped copies to me in the enclosed overnight mail envelope.

If you have any questions, please feel free to contact me at (513) 287-3842.

Sincerely,

A handwritten signature in cursive script that reads "Anita M. Schafer".

Anita M. Schafer

AMS/mak

Enclosures

KyPSC Staff Data Requests Set No. 1

Case No. 2003-00252

Date Received: August 21, 2003

Response Due Date: September 2, 2003

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COMMISSION

KyPSC-DR-01-053c-Supplemental

REQUEST:

53. Refer to Attachment JPS-1 to the Steffen Testimony. Provide the following information for each of the three generating facilities:

c. A discussion of why there are no references in Attachment JPS-1 to retirements or replacements at the three generating facilities.

RESPONSES:

No future retirements were included on schedule JPS-1 since retirements have no impact on net plant. Replacements are included in the capital additions number on Attachment JPS-1.

WITNESS RESPONSIBLE: John P. Steffen

KY AG Data Requests Set No. 1
Case No. 2003-00252
Date Received: August 22, 2003
Response Due Date: September 2003

KyAG-DR-01-045-Supplemental

REQUEST:

1-45 Please provide copies of all internal correspondence which deals in any way with these plant transfers.

RESPONSES:

See attachments for additional information responsive to this request.

WITNESS RESPONSIBLE: N/A

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ULH&P Electric Supply

June 2003

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ULH&P Electric Supply

Objectives

- **Satisfy Commission's desire for ULH&P to own generation**

"The Commission expects ULH&P's next integrated resource plan to include analyses of bids to purchase power from non-affiliated suppliers as well as detailed analyses of constructing generation to lock in prices for the long term. The Commission intends to take all steps necessary to ensure that the northern Kentucky areas served by ULH&P have an assured long-term power supply at the lowest reasonable cost."
- Commission Order, Case 2001-00058

"Since CG&E's generation is being deregulated and will be sold at market-based prices, ULH&P will soon need to address the issue of meeting its post-2006 power requirements in the most reasonable, least costly manner. While it has committed to filing a stand-alone IRP in 2004, the Commission anticipates initiating a review of ULH&P's long-term power supply requirements at some earlier date."
- Commission Order, Administrative Case 387

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ULH&P Electric Supply

Objectives

- Provide long-term solution for ULH&P's electric supply requirements after 2006
- Shield customers from volatility of the wholesale marketplace

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ULH&P Electric Supply

Background

- CG&E currently provides ULH&P with 100% requirements for electric energy through 12/31/06
 - FERC-approved market-based contract
 - ULH&P takes transmission service under the MISO OATT
 - ULH&P generation and transmission rates, including fuel, frozen through 12/31/06
 - ULH&P distribution rates frozen through 12/31/03

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ULH&P Electric Supply

Proposal

- Transfer ownership of generation assets from CG&E to ULH&P
 - East Bend (CG&E share) - 447 MW base load
 - Miami Fort 6 - 168 MW intermediate load
 - Woodsdale - 490 MW peaking load
- Back-up Power Sale Agreement
 - Mimics operation of East Bend, Miami Fort 6
 - Monthly demand charge
 - Energy charge set to each plant's variable O&M
- Continue to jointly and economically dispatch units
- Cinergy continues to retain benefits of second call
- ULH&P continues to take transmission under MISO OATT

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ULH&P Electric Supply

Proposal

Peak load by month (2007)

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ULH&P Electric Supply

Proposal

- Acquisition of plants at net book value as of July 1, 2004
- Cancellation of existing ULH&P-CG&E Power Sale Agreement
- Freeze of generation and transmission charges continues through 2006

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ULH&P Electric Supply

Proposal

- Least-cost alternative
 - Studied Proposal against full requirements purchase power arrangement, cost of new construction
 - Preliminary analysis shows that Proposal is least cost alternative over 20 year planning horizon
 - \$200 - \$450 million less PVRR than full requirements purchase power arrangement
 - \$500 - \$600 million less PVRR than new construction alternatives
- Effect on rates
 - Preliminary analysis shows that this proposal will result in a 4% increase in overall rates in 2007

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ULH&P Electric Supply

Other Approvals

- FERC
 - Application for approval to transfer assets
 - Application for approval of Back-up Power Sale Agreement, joint dispatch (205 filing)
- SEC
 - Approval to transfer/acquire assets
- Other Activities
 - DP&L consent
 - Transfer/Sale Agreement
 - Real Estate
 - Environmental Permits
 - FCC Licenses
 - Identification and assignment of contracts
 - Release from mortgage indentures

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ULH&P Electric Supply

Conclusion

- Secures proven, reliable generating assets for ULH&P
 - Plants backed-up by Cinergy system
- Mitigates market risk
 - Volatility of prices
 - Credit risk
 - Transmission constraints
- Mitigates new construction risk
 - Over-runs and delays
 - Operational risks
 - Timing
- Proposal is in the best interest of customers

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2003 Legal Retreat

Project Caleb

Presented by
Valerie P. Smith

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2003 Legal Retreat

Project Caleb

Objectives

- Provide long-term solution for ULH&P's load requirements
- Satisfy KyPSC's desire for ULH&P to own generation
- Address Kentucky's desire to burn Kentucky coal

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2003 Legal Retreat

Project Caleb

Background

- CG&E currently provides ULH&P with 100% requirements for electric energy through 12/31/06
 - ↳ \$7200 per MW month
 - ↳ \$24 per MWH
 - ↳ Projected average: \$38/MWH
- ↳ In 2002:
 - Revenue = \$100,215,474
 - 822 MW peak (7/29/02), 4,091,199 MWHs

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2003 Legal Retreat

Project Caleb

Background (con't)

- ULH&P takes transmission service from CG&E under the MISO OATT
- ULH&P generation and transmission rates, including fuel, frozen through 12/31/06
- ULH&P distribution rates frozen through 12/31/03
- Need for/limiting of rate case not yet determined, but not currently anticipated in 2003/2004 timeframe

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2003 Legal Retreat

Project Caleb

Background (con't)

- ULH&P must provide stand-alone IRP to KypSC by June, 2004
- ↳ "The Commission expects ULH&P's next integrated resource plan to include analyses of bids to purchase power from non-affiliated suppliers as well as detailed analyses of constructing generation to lock in prices for the long term"

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2003 Legal Retreat

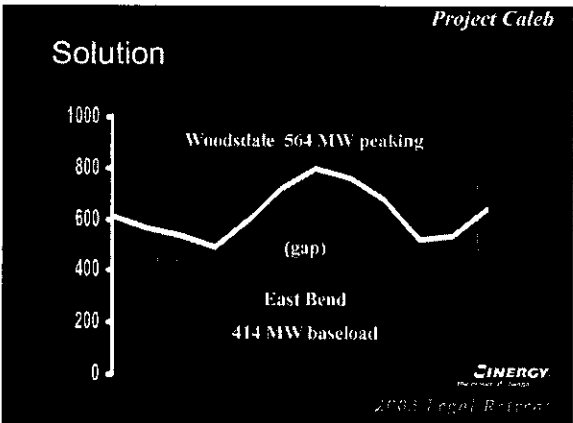
Project Caleb

Solution

- Transfer ownership of East Bend and Woodsdale from CG&E to ULH&P
 - ↳ East Bend (CG&E share) = 414 MW base load
 - ↳ Woodsdale = 464 MW peaking
 - ↳ East Bend and Woodsdale to continue to be economically dispatched
- Purchase Power Agreements
 - ↳ To provide for appropriate planning reserve margin
 - ↳ To recognize lack of diversity in ULH&P generation
- Maintains current revenue requirement

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2003 Legal Retreat



- Project Caleb*
- ### Project Caleb
- Regulatory Requirements
 - KyPSC
 - Application for CPCN
 - Least cost alternative
 - Application for financing authority
 - FERC
 - Application for approval to transfer assets (203 filing)
 - Application for approval of PPAs (205 filing)
 - SEC
 - Uncertain whether a filing is necessary
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The Power of Energy
2003 Legal Review

- Project Caleb*
- ### Project Caleb
- Other Activities
 - Transfer/Sale Agreement
 - Real Estate Transfer
 - Environmental Permits
 - FCC Licenses
 - Identification and assignment of contracts
- CINERGY**
The Power of Energy
2003 Legal Review