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John J. Finnigan, Jr.
Senior Counsel

VIA OVERNIGHT MAIL

April 25, 2005

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RECEIVED
APR 26 2005
PUBLIC SERVICE COMMISSION

Re: Earl Thomas Mitts vs. ULH&P (Cinergy)
Case No. 2005-~~00135~~ 00096

Dear Ms. O'Donnell:

Enclosed please find an original and six (6) copies of The Union Light, Heat and Power Company's responses to the first set of data requests from the KyPSC Staff to be docketed in the above-referenced case. Also enclosed are six (6) copies of ULH&P's responses to the Attorney General's first set of data requests in the same case.

Should you have any further questions, please do not hesitate to call me.

Very truly yours,

John J. Finnigan, Jr.
Senior Counsel

JJF/sew
Enclosures

cc: The Honorable Elizabeth Blackford with enclosure

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APR 6 2005

PUBLIC SERVICE
COMMISSION

KyPSC-DR-01-001

REQUEST:

1. Explain in detail why the Midwest Independent Transmission System Operator, Inc. ("MISO") revenues and expenses should be deferred and amortized over some future period rather than recorded as revenues and expenses immediately.

RESPONSE:

ULH&P believes these new, incremental revenues and expenses, incurred on behalf of ULH&P's retail customers, are material and are outside the control of ULH&P. These revenues and expenses are also not currently reflected in ULH&P's retail rates.

WITNESS RESPONSIBLE: Paul K. Jett

KyPSC-DR-01-002

REQUEST:

2. Explain whether the MISO revenues and expenses that are proposed to be deferred are:

   a. Nonrecurring or recurring in nature.
   b. Related to service provided currently or service to be provided in some future period.

RESPONSE:

a. The MISO revenues and expenses are recurring in nature but are not currently included in the retail rates for ULH&P retail customers.

b. The MISO revenues and expenses are related to service provided concurrent with incurring the revenue and expense.

WITNESS RESPONSIBLE: Paul K. Jett

REQUEST:

3. Explain in detail how ULH&P's request to establish regulatory assets and liabilities related to incremental costs incurred and revenues received from MISO is consistent with the treatment of transmission costs included in the settlement agreement approved by the Commission in Case No. 2001-00058.[1]

RESPONSE:

The settlement in the above-referenced case provided for a freeze to ULH&P's retail electric rates through December 31, 2003, and limited ULH&P from certain rate increases through December 31, 2006. The settlement permitted ULH&P to seek increases to its retail transmission and distribution-related rates any time after July 1, 2003, but only if such costs exceed an $8 million floor.

In this proceeding, ULH&P seeks to defer MISO transmission costs beginning April 1, 2005. These MISO charges represent a significant increase over ULH&P's transmission expenses prior to the start of the MISO Day 2 energy markets. Additionally, the magnitude of this increase was not foreseeable when the parties entered into the settlement agreement in Case No. 2001-00058.

It is good public policy for the Commission to approve changes to settlement agreements in rate proceedings if the changes result from unanticipated conditions which cause significant cost increases, the magnitude of which was unforeseeable at the time the settlement was agreed upon. This would encourage parties to enter into settlement agreements which contain rate freeze provisions, and would probably result in fewer cases being fully litigated before the Commission.

In other proceedings where parties have reached a settlement agreement on a certain rate treatment, the Commission has expressed willingness to consider allowing changes in the case of unexpected changes in circumstances which cause significant cost increases. For example, in its December 3, 2001 Order in Case No. 2001-00055, the Commission approved a settlement agreement which provided for changes in the methodology for calculating the earnings sharing mechanism (ESM) for Louisville Gas & Electric Company (LG&E) and Kentucky Utilities Company (KU). The change allowed LG&E and KU to establish deferred debits for workforce reduction expenses, with the debits to be recognized in the companies' ESM during the following year for electric expenses and

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[1] Case No. 2001-00058, The application of The Union Light, Heat and Power Company for Certain Findings Under 15 U.S.C. § 79Z, final Order dated May 11, 2001.

at the time of the companies' next rate case for gas expenses. Additionally, the Commission stated that if LG&E or KU would incur significantly increased costs for increasing numbers of employees or contractors, then the Commission would consider opening a formal investigation to determine whether such increased costs should be included in the ESM calculations.

WITNESS RESPONSIBLE: Paul K. Jett

REQUEST:

4. Provide ULH&P's total distribution and retail transmission costs as of December 31, 2004 and for the most current 12-month period in 2005.

RESPONSE:

ULH&P's total distribution and transmission costs are shown below:

	2004	2005 (projected)
Total Transmission Costs	$16,039,864	$18,692,579 [a]
Total Distribution Costs	$6,861,559	$5,975,675

(a) Assumes ULH&P takes service under MISO "Day 1" OATT for first three months of 2005 and under MISO TEMT for the remainder of 2005.

WITNESS RESPONSIBLE: Paul K. Jett

KyPSC-DR-01-005

REQUEST:

5. Refer to the Direct Testimony of Paul K. Jett, page 16. ULH&P has estimated that it will incur $1,540,000 for MISO Schedule 10, Schedule 10-FERC, Schedule 16, and Schedule 17 costs for 2005.

    a. Has this estimate been impacted by the delay in the completion of the transfer of generating plant from The Cincinnati Gas and Electric Company to ULH&P? Explain the response and if necessary include a revised estimate of the MISO schedule costs for 2005.
    b. Provide the estimated cost for the listed MISO schedules for 2006.

RESPONSE:

a. No. The estimated costs are based on the ULH&P usage of the Cinergy transmission system and are not impacted by the specific source of generation. The billing determinants will remain the same after the transfer of the generating plants. The estimated costs for 2005 have changed slightly based on a more recent budget using a new load forecast. The new amounts for 2005 are listed below:

Schedule 10	$875,832
Schedule 10-FERC	196,904
Schedule 16	253,666
Schedule 17	255,483
Total	$1,581,885

b. The estimated costs by Schedule for 2006 are listed below:

Schedule 10	$896,022
Schedule 10-FERC	200,861
Schedule 16	377,681
Schedule 17	311,117
Total	$1,785,681

WITNESS RESPONSIBLE: Paul K. Jett

KyPSC Staff First Set Data Requests
ULH&P Case No. 2005-00096
Date Received: April 12 2005
Response Due Date: April 26 2005

KyPSC-DR-01-006

REQUEST:

6. Concerning the $1,540,000 estimated MISO costs in 2005:

   a. Does ULH&P consider these additional costs to be of a material nature? Explain the response.
   b. Provide the percentage the estimated MISO costs represent of the total estimated electric operating expenses for 2005.
   c. Describe the future benefits of creating the regulatory assets and liabilities for these MISO costs that will be available to ULH&P's ratepayers and shareholders.
   d. Are these costs directly related to the transmission service to be received in 2005? If yes, explain in detail how deferring these 2005 costs to a future period will result in a proper match of the costs with the 2005 transmission service that generated these costs.

RESPONSE:

a. Yes. In addition to the estimated MISO cost in 2005 of $1,540,000, beginning on April 1, 2005, ULH&P will incur additional costs for the MISO Day 2 Market including, but not limited to, congestion, losses and uplift charges all net of associated revenues.

b. The estimated MISO costs of approximately $1.54 million are 0.91% of the estimated electric operation and maintenance expenses, including fuel and purchased power, for 2005 of $168,553,000. This estimate is based on costs estimated to date, and does not include additional costs for congestion, losses and uplift.

c. By creating the regulatory assets and liabilities the MISO revenues and expenses incurred by ULH&P will match the recovery of costs with the expensing of those costs.

d. Yes. Deferring these costs for future recovery will match the revenues and the expenses related to these new, incremental costs.

WITNESS RESPONSIBLE: Paul K. Jett