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John J. Finnigan, Jr.
Senior Counsel

VIA OVERNIGHT MAIL

May 20, 2005

RECEIVED
MAY 23 2005
PUBLIC SERVICE COMMISSION

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: In the Matter of the Application of The Union Light, Heat and Power Company for Approval of Modifications to Accounting Practices to Establish Regulatory Assets and Liabilities Related to Certain MISO-Related Costs and Revenues Not Already Included in Existing Base Rates
Case No. 2005-00096

Dear Ms. O'Donnell:

I have enclosed an original and six copies of The Union Light, Heat and Power Company's responses to the Staff's second set of data requests in the above-referenced case.

If you have any questions, please do not hesitate to contact me at (513) 287-3601.

Sincerely,

John J. Finnigan, Jr.
Senior Counsel

JJF/sew

cc: The Honorable Elizabeth Blackford (w/enc.)

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PUBLIC SERVICE
COMMISSION

KyPSC Staff Second Set Data Requests
ULH&P Case No. 2005-00096
Date Received: May 10, 2005
Response Due Date: May 24, 2005

KyPSC-DR-02-001

REQUEST:

1. Refer to the response to the Commission Staff's First Data Request dated April 12, 205 ("Staff's First Request"), Item 1. Explain in detail how ULH&P concludes that the new incremental Midwest Independent Transmission System Operator, Inc. ("MISO") revenues and expenses are material. Include citations to the Uniform System of Accounts or any other accounting pronouncement that supports ULH&P's conclusion.

RESPONSE:

Based on the calendar year 2005 amounts shown in the responses to KyPSC-DR-01-004 and KyPSC-DR-01-005, the projected MISO transmission expenses of $1,581,885 are 8.46% of the projected transmission cost of $18,692,579. ULH&P believes that this is a material amount in comparison to the total transmission expense.

WITNESS RESPONSIBLE: Kent K. Freeman

KyPSC-DR-02-002

REQUEST:

2. Refer to the response to the Staff's First Request, Item 2(b). The response did not address the issue raised in the original question. Do the MISO revenues and expenses that are proposed to be deferred relate to MISO transmission services being provided currently or to MISO transmission services to be provided in a future period? Explain the response.

RESPONSE:

The MISO revenues and expenses that are proposed to be deferred relate to service currently being provided. These amounts are currently not included in rates for ULH&P retail customers.

WITNESS RESPONSIBLE: Kent K. Freeman

KyPSC-DR-02-003

REQUEST:

3. Refer to the response to the Staff's First Request, Item 3. In the response ULH&P states, "These MISO charges represent a significant increase over ULH&P's transmission expenses prior to the start of the MISO Day 2 energy markets." What is the basis for ULH&P's contention that the MISO charges represent "a significant increase"? Explain the response.

RESPONSE:

See response to KyPSC-DR-02-001.

WITNESS RESPONSIBLE: Kent K. Freeman

KyPSC-DR-02-004

REQUEST:

4. Refer to the response to the Staff's First Request, Item 3. The last paragraph of ULH&P's response cites the Commission's decision concerning the establishment of deferred debits for workforce reductions undertaken by Louisville Gas and Electric Company and Kentucky Utilities Company. ULH&P's responding witness, Paul K. Jett, states that the Commission permitted the two utilities to recognize the deferred debits in their earnings sharing mechanism during the following year.

   a. What is the basis for Mr. Jett's conclusions contained in this response?
   b. Has Mr. Jett reviewed all the provisions of the settlement agreement approved in the Commission's December 3, 2001, Order in Case No. 2001-00169?[1]
   c. Was Mr. Jett aware that the settlement agreement in Case No. 2001-00169 provided that the amortization of the workforce reduction deferred debits was to be a component in a "Value Delivery Surcredit" mechanism, with the amortization offsetting the estimated savings that were to be returned to ratepayers, and that the effects of the Value Delivery Surcredit were to be removed from the calculations of the annual earnings sharing mechanism? Explain the response.

RESPONSE:

a. This statement was based on a review of the Commission's December 3, 2001 Order in Case No. 2001-00169.

b. No.

c. No.

WITNESS RESPONSIBLE: Paul K. Jett

[1] Case No. 2001-00169, Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Approving Proposed Deferred Debits and Declaring the Amortization of the Deferred Debits to be Included in Earnings Sharing mechanism Calculations.

KyPSC-DR-02-005

REQUEST:

5. Refer to the response to the Staff's First Request, Item 6(a) and the response to the Attorney General's First Data Request dated April 12, 2005 ("AG's First Request"), Item 6. In the response to Staff's First Request, ULH&P contends that the 2005 additional MISO costs are of a material nature because the costs include the estimated $1.5 million incremental costs plus additional costs for the MISO Day 2 Market. However, in the response to the AG's First Request, ULH&P has indicated that it cannot estimate the 2005 amounts for annualized LMP charges, settlement of FTRs, uplift charges, MISO Schedule 22 charges, and other miscellaneous charges. Explain in detail how ULH&P can contend the 2005 additional MISO costs are of a material nature, when it cannot provide estimates of any of the additional costs.

RESPONSE:

ULH&P believes that 8.46%, the percentage of projected MISO transmission expenses to total projected transmission expenses, as shown in response to KyPSC-DR-02-001, is material and will only increase with the addition of the annualized LMP charges, settlement of FTRs, uplift charges, MISO Schedule 22 charges and miscellaneous charges.

WITNESS RESPONSIBLE: Kent K. Freeman

KyPSC Staff Second Set Data Requests
ULH&P Case No. 2005-00096
Date Received: May 10, 2005
Response Due Date: May 24, 2005

KyPSC-DR-02-006

REQUEST:

6. Refer to the response to the Staff's First Request, Item 6(c). Based on the response, is ULH&P stating that the future benefits of creating the regulatory assets and liabilities for the MISO costs are available only to ULH&P's shareholders? Explain the response.

RESPONSE:

In the short run, the shareholder is harmed if costs to serve customers are incurred, and customers are not required to pay those costs. By matching the MISO revenues and expenses incurred by ULH&P, the shareholder is made whole. Over the long run, both shareholders and customers benefit from a Commission policy which allows utility companies to create accounting deferrals to recover the costs of providing new services to customers because this would incentivize utility companies to provide necessary or innovative services and could reduce the frequency of costly, time consuming rate proceedings.

WITNESS RESPONSIBLE: Kent K. Freeman

KyPSC-DR-02-007

REQUEST:

7. Refer to the response to the Staff's First Request, Item 6(d). The response does not answer the question. ULH&P's response appears to argue that since the incremental MISO revenues and expenses would be kept together, a proper match had been achieved. This was not the focus of the request. The request asked for ULH&P to explain how deferring the costs for transmission service actually received in 2005 results in a proper match of those costs with the transmission service that gave rise to those costs. With this clarification, provide the originally requested explanation.

RESPONSE:

No mechanism currently allows ULH&P to recover these MISO costs from retail customers; therefore, current matching of cost recovery with the transmission service provided is impossible. Cost deferrals are one tool available to provide recovery of such prudently incurred costs and have been used by this and other Commissions in the past. The cost deferrals would allow ULH&P to record charges for the transmission service at the same time ULH&P's retail customers pay for the service, although customers would actually pay for the service after the actual service was provided.

WITNESS RESPONSIBLE: Kent K. Freeman

KyPSC-DR-02-008

REQUEST:

8. Provide a detailed description of Mr. Jett's work education and experience relating to regulatory accounting and regulated utility rate-making practices.

RESPONSE:

Mr. Jett is employed by Cinergy Services, Inc. as Director, RTO Activities. His chief responsibilities primarily relate to RTO activities and support of Cinergy Corp. and its subsidiaries (collectively, "Cinergy"), including The Union Light, Heat and Power Company ("ULH&P"), initiatives regarding the RTO. Key responsibilities include; supporting the Midwest ISO ("MISO") Transmission Owners, providing input into business practices supporting the MISO, monitoring MISO filings and business practices, monitoring regulatory environment for changes in rules, and representing Cinergy's interests concerning MISO.

Mr. Jett earned an Associate Degree of Applied Science in Electrical Engineering Technology from the University of Cincinnati in 1991. He earned a Bachelor of Science Degree in Electrical Engineering Technology from the University of Cincinnati in 1998, and he earned a Masters of Business Administration Degree from Thomas More College in 2000.

Mr. Jett joined The Cincinnati Gas & Electric Company ("CG&E") in March 1987 as a substation operator. He then progressed through a variety of positions of increasing responsibility.

In 2001, Mr. Jett served as Cinergy's project manager to prepare for the transfer of functional control of the operation of Cinergy's transmission systems to the MISO. In February 2002, the MISO began providing services as a "Day 1" regional transmission organization under its own Open Access Transmission Tariff. As Cinergy's Day 1 project manager, Mr. Jett oversaw the establishment of Cinergy's business practices, systems, and interfaces necessary to do business with the MISO following the Day 1 startup in February 2002.

In March 2003, Mr. Jett was promoted to Director, Federal Regulatory Policy. Among other duties, his primary responsibilities included helping Cinergy analyze and prepare for the launch of MISO's "Day 2" initiative, which established a centralized security-constrained economic dispatch platform supported by a day-ahead and real-time energy market design, including locational marginal pricing (sometimes referred to as "LMP") and financial transmission rights (sometimes referred to as "FTRs").

If this matter proceeds to hearing, Mr. Freeman would adopt Mr. Jett's testimony and data requests relating to ULH&P's expenses relating to MISO Day 2 services. Mr. Freeman is employed by Cinergy Services, Inc. as Manager, Rate Services. His chief responsibilities include jurisdictional separation studies, retail cost of service studies and other rate related cost allocation matters for PSI Energy, Inc. ("PSI"), CG&E and ULH&P. Mr. Freeman has also been in involved in various rate related MISO issues.

Mr. Freeman earned a Bachelor of Science Degree in General Management with a Specialization in Accounting from Purdue University in 1981.

Mr. Freeman joined PSI in August 1981 as a Staff Accountant assigned to the Rate Department. He has progressed through a variety of positions of increasing responsibility.

Mr. Freeman has presented testimony before the Indiana Utility Regulatory Commission ("IURC") in PSI's last three retail electric rate case proceedings. He has also sponsored testimony before the IURC in three quarterly filings for recovery of MISO costs under a rate rider approved by the IURC. He has sponsored testimony in a CG&E gas retail rate case and electric retail rate case before the Public Utility Commission of Ohio. He also sponsored testimony before the Federal Energy Regulatory Commission in two of PSI's general wholesale rate proceedings and one of CG&E's general wholesale rate proceedings.

WITNESS RESPONSIBLE: Paul K. Jett/Kent K. Freeman