



Cinergy Corp.
139 East Fourth Street
Rm 25 AT II
P.O. Box 960
Cincinnati, OH 45201-0960
tel 513.287.3601
fax 513.287.3810
jfinnigan@cinergy.com

John J. Finnigan, Jr.
Senior Counsel

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VIA HAND DELIVERY

June 24, 2005

The Honorable Elizabeth Blackford
Attorney General's Office
1024 Capital Center Drive
Frankfort, KY 40601-8204

Re: The Application of The Union Light, Heat and Power Company Relating to Sale
of 7200 Industrial Road Construction/Maintenance Center Building
Case No. 2005-00199

Dear Ms. Blackford:

Please find enclosed the responses of The Union Light, Heat and Power Company to the
Attorney General's first set of Data Requests in the above-referenced case.

Please call me at (513) 287-3601 should you have any questions.

Very truly yours,

John J. Finnigan, Jr.
Senior Counsel

cc: Elizabeth O'Donnell, Esq. ✓
The Kentucky Public Service Commission

Enclosure

JJF/sew

Attorney General's First Set Data Requests
ULH&P Case No. 2005-00199
Date Received: June 20, 2005
Response Due Date: June 24, 2005

AG-DR-01-001

REQUEST:

1. Union bought the building at 7200 Industrial Road, Florence, Kentucky, in 1994 for \$2.5 million and put another \$2.5 million into it for a total Union investment of \$5 million. There were 65 electric and 34 gas employees in the building, suggesting a 1.3rd gas and 2/3rd electric use of the building. This would suggest that the portion of the building allocated to gas would be 1/3rd x \$5 million, or \$1.7 million. Union states that as of March 2005, the building's net book value is \$2.9 million, which is all allocated to Gas.

- a. Was the entire building allocated to Gas?
- b. If so, why?
- c. If so, why would the entire profits from any sale not be allocated to Gas?

RESPONSE:

[The \$2.9 million net book value reported at paragraph 4(e) of the Application as being in ULH&P's base rates is incorrect. The correct amounts are provided in ULH&P's response to KyPSC-DR-01-001.]

- a. No. The entire building is not allocated to Gas Operations. Only \$1.4 million or 38.13% of the jurisdictional portion of the building and land is used for gas jurisdictional operations. See ULH&P's response to KyPSC-DR-01-001.
- b. Not applicable.
- c. Not applicable.

WITNESS RESPONSIBLE: Lee T. Howe

Attorney General's First Set Data Requests
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Date Received: June 20, 2005
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AG-DR-01-002

REQUEST:

2. With reference to the \$21 million in improvements made to 7200 Industrial Road made by a tenant:
- a. Was Union the owner of the building at the time the improvements were made?
 - b. Were any of the improvements permanent in nature?
 - c. Were the improvements of a nature to increase the value of the building on resale?
 - d. If the answer to c. is yes, will the increase in value be attributed to Union? If not, why not?

RESPONSE:

Paragraph 4(c) of the Application states that Cinergy Services spent \$21 million in improvements to the building; however, ULH&P paid for the improvements and the amount was \$18.6 million. The \$18.6 million that ULH&P spent was neither included for recovery in the previous rate case in 2001 nor is it included for recovery in the current rate case.

- a. ULH&P was the owner of the building at the time of the improvements.
- b. Yes.
- c. Yes.
- d. The increase in value is attributed to ULH&P. The proceeds from the sale of the building and land will be allocated between jurisdictional operations and non-jurisdictional operations in proportion to the net book value of jurisdictional versus non-jurisdictional operations when the building and land are sold.

WITNESS RESPONSIBLE: Lee T. Howe

Attorney General's First Set Data Requests
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AG-DR-01-003

REQUEST:

3. At the top of page two it states, "Because one-half of the Industrial Road building is subject to a long-term lease to Cincinnati Bell, ULH&P would sell the Industrial Road building at net book value to Tri-State...."

- a. Does this mean that ULH&P is only selling one half of the building?
- b. Why not sell directly to the general public rather than selling to the affiliate Tri-State?

RESPONSE:

- a. ULH&P proposes to sell the entire building.
- b. Although ULH&P's Application proposed that it would sell the building to Tri-State, which would sell the building to the general public, ULH&P now proposes to sell the building directly to the general public.

WITNESS RESPONSIBLE: Stephen A. Ruehlman

Attorney General's First Set Data Requests
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AG-DR-01-004

REQUEST:

4. How will Union credit the customers in case of any gain in the sale of the building? Will this be immediately by one-time refund or will the Company establish a regulatory liability for refund in the next base rate case?

RESPONSE:

See response to KyPSC-DR-001-003(a).

WITNESS RESPONSIBLE: Lee T. Howe

Attorney General's First Set Data Requests
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AG-DR-01-005

REQUEST:

5. Does the gas rate base reflected in the forecasted period in the current rate case, Case No. 2005-00042, include the investment of \$2.9 million for the Industrial Road building?

RESPONSE:

See responses to AG-DR-01-001 and KyPSC-DR-01-001.

The amount reflected in ULH&P's response to KyPSC-DR-01-001 for Gas Operations is included in the forecasted period in the current rate case.

WITNESS RESPONSIBLE: Lee T. Howe

Attorney General's First Set Data Requests
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AG-DR-01-006

REQUEST:

6. The new Cox Avenue building will replace the Industrial Road building. The total cost of the new Cox Avenue building, including anticipated improvements, will be \$4.1 million. However, this would be for both Union's gas and electric operations.

- a. What is the gas portion of the \$4.1 million and to what extent does this gas portion differ from the \$2.9 million currently included in the gas rate base that will no longer be there?
- b. Does ULH&P intend to reflect the differential for ratemaking purposes in the current gas base rate case, and if so, how?

RESPONSE:

- a. See response to KyPSC-DR-01-001 and KyPSC-DR-01-002.
- b. See response to KyPSC-DR-01-003.

WITNESS RESPONSIBLE: Stephen A. Ruehlman

Attorney General's First Set Data Requests
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AG-DR-01-007

REQUEST:

7. Who is the lessor on the lease for one half of the building to Cincinnati Bell Technology Solutions, Inc. mentioned on page two of the application? If it is ULH&P, are the lease payments or some portion of the lease payments included in the current rate case, Case No. 2005-00042? If so, how will those revenues be treated in the event of the transfer of the building to Tri-State?

RESPONSE:

ULH&P is the current lessor. The current lease payments ULH&P is receiving are not included in the current rate case because the lease payments are for the non-jurisdictional portion of the property, which is not included in rate base in Case No. 2005-00042. ULH&P no longer plans to sell the building to Tri-State. When the building is sold, the new owner will become the lessor and will receive the revenues from the lease payments.

WITNESS RESPONSIBLE: Stephen A. Ruehlman

Attorney General's First Set Data Requests
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AG-DR-01-008

REQUEST:

8. Does ULH&P claim that the building is no longer useful as a building? If not, on what basis may the building be deemed obsolete?

RESPONSE:

The Cox Avenue building is more suitable as a location for ULH&P's construction/maintenance facility because it is centrally located within ULH&P's service territory; has better access to the interstate highways, which should allow ULH&P to respond to customer outages more quickly; and would allow ULH&P service vehicles to be stored inside.

WITNESS RESPONSIBLE: Stephen A. Ruehlman