

Commonwealth of Kentucky
Before the Public Service Commission

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PUBLIC SERVICE
COMMISSION

In the Matter of:)
THE JOINT APPLICATION OF DUKE ENERGY)
CORPORATION, DUKE ENERGY HOLDING)
CORP., DEER ACQUISITION CORP., COUGAR)
ACQUISITION CORP., CINERGY CORP., THE)
CINCINNATI GAS AND ELECTRIC COMPANY,)
AND THE UNION LIGHT, HEAT AND POWER)
COMPANY FOR APPROVAL OF A TRANSFER)
AND ACQUISITION OF CONTROL)

Case No. 2005-00228

ATTORNEY GENERAL'S SUPPLEMENTAL REQUEST
FOR INFORMATION TO THE JOINT APPLICANTS

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, submits this Supplemental Request for Information to the Joint Applicants.

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the company witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

GREGORY D. STUMBO
ATTORNEY GENERAL

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Notice of Filing and Certificate of Service

Counsel certifies filing of the original and ten copies of this Supplemental Request for Information by hand delivery to Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601. Service of the filing was by mailing a true and correct copy of the same, first class postage prepaid, to John J. Finnigan, Jr., The Union Light, Heat and Power Company, 139 East Fourth Street, Cincinnati, Ohio, 45202; Kodwo Ghartey-Tagoe, Duke Power, P. O. Box 1244, Mail Code: PB05E, Charlotte, North Carolina 28201; Michael L. Kurtz, Boehm, Kurtz, & Lowry, 36 East Seventh Street Suite 1510, Cincinnati, Ohio 45202; Paul R. Newton, Duke Power P. O. Box 1244, Mail Code: PB05E, Charlotte, North Carolina 28201; Kate E. Moriarty, The Union Light, Heat and Power Company, 139 East Fourth Street, Cincinnati, Ohio 45202; and Robert M. Watt III, Stoll, Keenon & Park, LLP, 300 West Vine Street, Suite 2100, Lexington, Kentucky 40507-1093, all on this 8th day of September 2005.

David Edward Spenard
Assistant Attorney General

Attorney General's
Supplemental Request for Information
PSC Case No. 2005-00228

1. RE: Joint Application, Numbered Paragraph 23. The Joint Application indicates that "the merger creates additional benefits for investors in Duke Energy (a Reference: AG 1.2. Please provide an electronic version of the Microsoft Excel file or files used to create attachment AG 1.2-A, with all formulas, references, and links intact. If the file or files contain links to – or rely on information from – other files, please also provide electronic versions of those other files with all formulas, references, and links intact.

2. Reference: Flaherty workpapers (Attachment CS 1.17-A). Please provide electronic versions of the following Microsoft Excel files, with all formulas, references, and links intact. If the file contains links to – or relies on information from – other files, please also provide electronic versions of those other files with all formulas, references, and links intact.
 - a) 10YR Model – backup book.xls
 - b) Labor Summary.xls
 - c) A and G overhead.xls
 - d) Association Dues.xls
 - e) Benefits.xls
 - f) Directors.xls
 - g) Facilities.xls
 - h) Insurance.xls
 - i) Inventory.xls
 - j) Professional Services.xls
 - k) Transportation.xls
 - l) IT Panda.xls
 - m) Contract Services.xls
 - n) Purchasing.xls

- o) CTA.xls
3. Reference: Flaherty workpapers (Attachment CS 1.17-A). Pages 214-239 of the Attachment (Section Q) are not readable. If this section is not contained in the electronic files requested above, please provide an electronic version of the information on these pages, with all formulas, references, and links intact. If the file contains links to – or relies on information from – other files, please also provide electronic versions of those other files with all formulas, references, and links intact.
 4. Reference: CS 1.46. Please provide an electronic version of the Microsoft Excel file used to create the attachment (CS 1.46-A), with all formulas, references, and links intact. If the file contains links to – or relies on information from – other files, please also provide electronic versions of those other files with all formulas, references, and links intact:
 5. Reference: Ficke testimony, page 12. The witness states: “The merger savings estimates do not reflect closing any specific call centers.” Concerning this statement:
 - a) What does the witness mean by “specific” call centers?
 - b) Do the companies have any plans, or are they considering any plans, to close any call centers?
 - c) If so, when do the companies intend to decide which “specific” call center or centers will be closed?
 - d) What is the location of each call center that currently serves UHL&P customers? If there is more than one such call center, please describe the types of services rendered by each such call center.
 6. Reference: Blackwell testimony, Attachment BFB-1 (Service Company Utility Service Agreement). Concerning this draft agreement:
 - a) It does not appear that the agreement is structured to allocate costs to a combination gas/electric distribution company. For example, the allocation of rights of way costs does not mention miles of gas distribution or transmission mains. Please explain in detail how costs associated with serving UHL&P gas customers will be treated by the Service Company and, if necessary, provide a red-lined, revised version of the agreement to address gas-related issues.

- b) Will a combined gas/electric customer of UHL&P be treated as one customer or two customers for purposes of the Number of Customers Ratio? Please explain your answer.
 - c) Will this agreement be used to allocate costs between CG&E and UHL&P? If not, please explain how such costs will be allocated and provide a copy of the agreement that is proposed to be used to allocate such costs.
7. Reference: Blackwell testimony, Attachment BFB-5. Please provide an electronic version of the Microsoft Excel file used to create the attachment, with all formulas, references, and links intact. If the file contains links to – or relies on information from – other files, please also provide electronic versions of those other files with all formulas, references, and links intact.
8. Reference: CS 1.42(c). Please explain in detail why the Applicants believe that Section 482 of the Internal Revenue Code might not permit them to allocate Service Company costs based on costs incurred. In addition to other matters addressed:
- a) Discuss why provisions in 26 CFR § 1.482-7 that appear to allow for cost-sharing agreements would not be applicable.
 - b) Have Duke or Cinergy ever been notified by their outside auditors or the Internal Revenue Service that a service company cost-sharing agreement would not meet the requirements of section 482? If so, please provide a copy of all documents referring to such notifications.
 - c) Are Duke or Cinergy aware of any other public utility that uses a service company that has been notified by an outside auditor or the Internal Revenue Service that a service company cost-sharing agreement would not meet the requirements of section 482? If so, please provide a copy of all documents in the possession of Duke or Cinergy that refers to such notification and any explanations related thereto.
 - d) Are Duke or Cinergy aware of any Private Letter Ruling, Revenue Procedure, court ruling, or other document from the Internal Revenue Service or relevant judicial authorities that discusses whether a service company cost-sharing agreement would meet the requirements of section 482? If so, please provide a copy of all such documents.

9. Reference: Duke's Hart-Scott-Rodino filing, document 4(c)(29). Page 3 of the document refers to an "updated synergy study" that apparently was sent to Duke's directors between April 20, 2005, and May 7, 2005. Please provide a copy of this updated synergy study.
10. Reference: Duke's Hart-Scott-Rodino filing, document 4(c)-P6 (minutes of Duke board meeting on May 7, 2005). Page 6 of the document states (with dollar amounts deleted due to the alleged proprietary nature of document): "Mr. Barry ... reviewed the assumptions that had changed since a preliminary synergy savings report was presented to the Board at its meeting on April 20. Mr. Barry stated that 10-year gross savings, pre-sharing, are now estimated to be \$#. # billion rather than \$#. # billion." Please provide a copy of the synergy savings analysis presented to and discussed with Duke's board on May 7, 2005, as well as all workpapers and other documents used to create that synergy savings analysis.
11. Reference: Duke's Hart-Scott-Rodino filing, document 4(c)-P3 (Ernst & Young financial due diligence report, April 15, 2005). Pages 79 and 80 of the document discuss the accounting treatment for costs to achieve. The table on page 79 shows that approximately 75% (65% if change-in-control payments are excluded) of the costs to achieve in year 1 would be capitalized. It appears that Mr. Flaherty's workpapers assume that most of these costs (with the exception of information technology costs) will be expensed. Concerning this:
 - a) Please state the specific percentage of costs to achieve that Mr. Flaherty assumes will be capitalized.
 - b) For each category of costs, please reconcile Mr. Flaherty's assumption about capitalization with Ernst & Young's assumption about capitalization.
 - c) Has Mr. Flaherty prepared a justification similar to that provided by Ernst & Young for the accounting treatment of each category of costs to achieve? If so, please provide it (or provide a reference to where it is contained in Mr. Flaherty's workpapers). If not, please explain why not.
 - d) For each category of costs to achieve, please state whether the Applicants actually intend to capitalize or expense costs based on the advice received from Ernst & Young, the advice received from Mr. Flaherty, or some other accounting method. Please provide a detailed justification for selecting one method over the other.

