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VIA HAND DELIVERY

August 31, 2005

RECEIVED
AUG 31 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: Joint Application of Duke Energy Corporation, Duke Energy Holding Corp., Cougar Acquisition Corp., Cinergy Corp., The Cincinnati Gas & Electric Company, and The Union Light, Heat and Power Company for Approval of a Transfer and Acquisition of Control, Case No. 2005-00228

Dear Ms. O'Donnell:

This is a follow-up letter to my letter dated August 30, 2005 regarding the Joint Applicants' responses to the Commission's first set of discovery requests and the Attorney General's first set of discovery requests. Today we are filing all remaining items requested by the Attorney General, except for some additional due diligence reports, which we expect to file no later than September 2, 2005.

Accordingly, we are filing today the following information:

- The original and eight copies of Joint Applicants' supplemental response to AG 1.3;
- One set of additional due diligence reports filed under seal, which respond to AG 1.19, and are subject to the petition for confidential treatment, which Joint Applicants filed on August 30, 2005;
- The original and eight copies of redacted versions of all due diligence reports produced to date, including the ones filed under seal today.

Joint Applicants note that they have entered into confidentiality agreements with the intervenors, and are making arrangements for the intervenors to inspect the confidential documents in an expedited manner, in order to provide intervenors with timely access with this information.

If you have any questions regarding either of these filings, please call me at (513) 287-3601. Thank you for your consideration in this matter.

Sincerely,

John Finnigan

John J. Finnigan, Jr.
Senior Counsel

JJF/sew

cc: All Parties of Record (with enclosures)

Attorney General of Kentucky
Cinergy/Duke Merger
Request for Information, Set No. 1
PSC Case No. 2005-00228
Request Received August 16, 2005

SUPPLEMENTED 8/31/05
(Supplemented text is in bold)
AG 1.3

Request:

RE: Kentucky Public Service Commission Case No. 2005-00228, 30 June 2005 Informal Conference materials. Page 7 of the materials distributed by the Joint Applicants at the informal conference contains Merger Cost Savings information. With regard to this presentation, please answer the following.

a. The materials project that approximately 50% of the savings are for non-regulated operations and approximately 50% of the savings are for regulated operations. Please update these projections to reflect the current projections.

b. Please indicate whether the costs-to-achieve includes transaction costs or is limited to costs-to-achieve cost savings post-transaction.

c. The materials indicate that approximately 40% of the costs-to-achieve will be expensed.

    (i) Please update this projection to reflect the current projection;

    (ii) By year, for Year 1 through Year 10, please provide the amount of costs-to-achieve that will be expensed attributable to non-regulated operations;

    (iii) By year, for Year 1 through Year 10, please provide the amount of costs-to-achieve that will be expensed attributable to regulated operations;

    (iv) Please indicate whether the Joint Applicants will seek deferral treatment for ULH&P for any amount of costs-to-achieve that are expensed. If yes, please indicate the amount; and

    (v) For each year of the ten-year period, provide the costs-to-achieve for ULH&P that will be expensed for that year.

(vi) Provide a schedule that shows the costs-to-achieve that will be expensed by year for Year 1 though Year 10 and separately show the amounts attributable to or allocated to ULH&P's retail electric jurisdictional operations and ULH&P's retail gas jurisdictional operations.

d. The materials indicate that approximately 60% of the costs-to-achieve will be capitalized.

(i) Please update this projection to reflect the current projection;

(ii) By year, for Year 1 through Year 10, please provide the amount of costs-to-achieve that will be capitalized attributable to non-regulated operations;

(iii) By year, for Year 1 through Year 10, please provide the amount of costs-to-achieve that will be capitalized attributable to regulated operations;

(iv) Please identify the amount of capitalized costs-to-achieve for which deferral treatment is sought for ULH&P; and

(v) Please indicate whether the Joint Applicants will seek deferral treatment for ULH&P for any amount of costs-to-achieve that are capitalized. If yes, please indicate the amount; and

(vi) For each year of the ten-year period, provide the costs-to-achieve for ULH&P that will be capitalized for that year.

(vii) Provide a schedule that shows the costs-to-achieve that will be capitalized by year for Year 1 though Year 10 and separately show the amounts attributable to or allocated to ULH&P's retail electric jurisdictional operations and ULH&P's retail gas jurisdictional operations.

Response:

a. **The updates are provided the testimony of Thomas J. Flaherty.**

b. As described in the supporting workpapers and backup materials, the costs-to-achieve include transaction costs, among a number of areas of incurred costs to produce cost savings for the benefit of customers.

c. (i) **The initial estimate, based on the assumed amount and nature of expenditures, indicated that approximately 40% of the IT costs to achieve would be expensed as O&M. No other additional analysis has**

been performed at this time. The current estimates of the accounting treatment for the costs-to-achieve will continue to be developed as more information related to the nature and timing of costs-to-achieve are determined.

(ii) The company has not prepared a ten-year summary of the costs-to-achieve by entity. However, the five-year costs-to-achieve expense amounts are included in the work papers of Mr. Blackwell.

(iii) See attachments JPS-1 and JPS-2.

(iv) ULH&P is requesting deferral of all jurisdictional costs-to-achieve.

(v) See attachments JPS-1 and JPS-2.

(vi) See attachments JPS-1 and JPS-2.

d. (i) **The initial estimate, based on the assumed amount and nature of expenditures, indicated that approximately 60% of the IT costs to achieve would be capitalized. No other additional analysis has been performed at this time. The current estimates of the accounting treatment for the costs-to-achieve will continue to be developed as more information related to the nature and timing of costs-to-achieve are determined.**

(ii) The company has not prepared a ten-year summary of the costs-to-achieve by entity. However, the five-year costs-to-achieve amounts by entity (on a revenue requirements basis) are included in the work papers of Mr. Blackwell.

(iii) See attachments JPS-1 and JPS-2.

(iv) ULH&P is requesting deferral of all jurisdictional costs-to-to achieve.

(v) See attachments JPS-1 and JPS-2.

(vi) See attachments JPS-1 and JPS-2.

(vii) See attachments JPS-1 and JPS-2

Witness: (a), (b), (c) and (d) – (i) - Thomas J. Flaherty;
(c) and (d) – (ii) – Barry F. Blackwell;
(c) and (d) - (iii) through (vi) and (d) (vii) - John P. Steffen