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ANITA M. SCHAFER
Paralegal

VIA OVERNIGHT MAIL

October 3, 2003

CINERGY®

Mr. Thomas Dorman
Executive Director,
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED
OCT 06 2003
KENTUCKY PUBLIC SERVICE COMMISSION

Re: Case No. 2003-00252

Dear Mr. Dorman:

Enclosed please find an original and 10 copies of The Union Light, Heat and Power Company's Interrogatories propounded to the Office of the Attorney General pursuant to the procedural schedule dated August 20, 2003.

If you have any questions, please feel free to contact me at (513) 287-3842.

Sincerely,


Anita M. Schafer
Paralegal

AMS/mak

Enclosures

Cc: Elizabeth Blackford

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

OCT 06 2003

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT,)
HEAT AND POWER COMPANY FOR A)
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY TO ACQUIRE CERTAIN)
GENERATION RESOURCES AND RELATED)
PROPERTY; FOR APPROVAL OF CERTAIN)
PURCHASE POWER AGREEMENTS; FOR)
APPROVAL OF CERTAIN ACCOUNTING)
TREATMENT; AND FOR APPROVAL OF)
DEVIATION FROM REQUIREMENTS OF)
KRS 278.2207 AND 278.2213(6))

CASE NO. 2003-00252

**THE UNION LIGHT HEAT AND POWER COMPANY'S
FIRST SET OF INTERROGATORIES AND
REQUEST FOR PRODUCTION OF DOCUMENTS
DIRECTED TO THE ATTORNEY GENERAL**

The Union Light Heat and Power Company (ULH&P) submits the following Interrogatories and Requests for Production of Documents to the Attorney General to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

DEFINITIONS AND INSTRUCTIONS

These Discovery Requests are continuing in nature. Therefore, with respect to any of the following interrogatories or requests for production of documents as to which the Attorney General acquires additional knowledge or information, ULH&P asks that the Attorney General immediately serve on the undersigned further answers fully setting forth any such additional knowledge or information.

When an interrogatory or request for production of documents does not specifically request a particular fact or document, but such fact or document is necessary to make the response comprehensive, complete, or not misleading, such interrogatory or

request for production of documents shall be deemed to specifically request that fact(s) or document(s).

The requests for production of documents include, without limitation, all documents that are in the possession, custody, or control of the Attorney General, including any and all documents obtained by the Attorney General from any source whatsoever.

For the purposes of these Discovery Requests, unless otherwise stated, the following terms shall have the meanings indicated:

Person is any human being, corporation, association, joint venture, government, governmental agency, public corporation, board, commission, regulatory authority, committee, partnership, group, firm, or any other organization or entity cognizable at law;

You, your, or yours means the Attorney General;

The term *document* is intended to be comprehensive and includes, without limitation, the original and any non-identical copy, regardless of origin or location, of any data, correspondence, internal correspondence, statement, report, record book, record, account book, account, pamphlet, periodical, discovery, letter, memorandum, internal memorandum, telegram, telex, cable, study, stenographic or handwritten note, paper, working paper, facsimile, invoice, bill, voucher, check, statement, chart, graph, drawing, voice recording, tape, microfilm, microfiche, computer disk, floppy disk, tape data sheet, or data processing card or disk, electronic mail, or any other written, recorded, transcribed, punched, taped, filmed or graphic matter, however stored, produced or reproduced, to which you have or have had access or which location is known to you;

The term *identify* when used with reference to a natural person, means to state: (a) that person's full name, (b) that person's present (or last known) position and business affiliation, (c) that person's present (or last known) residence address and telephone number, and (d) the nature of that person's past and present relationship with you;

The term *identify* when used with reference to an entity other than a natural person, means to state the full name, and present (or last known) address and telephone number of the entity;

The term *identify* when used with reference to a document, including any document relied upon in any answer to any interrogatory or request for production of documents, or that corroborates any such response, means to state: (a) the type of document, (b) its title or subject matter, (c) the date of the document, (d) the identity of the document's author, sender, and every recipient of the document or of a copy thereof, and (e) the present location and custodian of the document and every known copy thereof. When the document is a written agreement or contract, *identify* also means to state the date such written agreement or contract was entered into and its effective date, the name of each party thereto, the identity of each person who signed such agreement on behalf of each party thereto, the date of termination and the date of every amendment or modification thereto;

Relating to means constituting, defining, containing, mentioning, embodying, reflecting, regarding, referencing, identifying, stating, concerning, referring to, dealing with, generated wholly or partly in response to or because of, or in any way pertaining to.

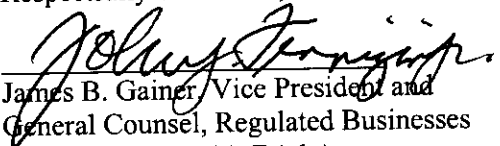
If any information called for by an interrogatory or request for production of documents is withheld on the basis of a claim of privilege, the nature of the information

with respect of which privilege is claimed shall be set forth in answers hereto, together with the type of privilege claimed and a statement of all circumstances upon which plaintiff will rely to support such a claim of privilege. Any documents that are allegedly privileged or otherwise unavailable shall be identified in writing by indicating the following:

- (1) the date of the document;
- (2) the author of the document;
- (3) the recipient(s) of the document;
- (4) the general subject matter of the document;
- (5) the identity of any and all persons to whom the contents of the document have already been revealed;
- (6) the identity of the person or entity now in possession or control of the document; and
- (7) the basis upon which the document is being withheld or the reason why it cannot be produced.

ULH&P expressly reserves the right to request more information to determine whether such documents are privileged or otherwise not subject to production.

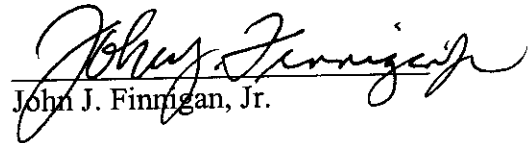
Respectfully Submitted,


James B. Gainer, Vice President and
General Counsel, Regulated Businesses
Michael J. Pahutski, Trial Attorney
John J. Finnigan, Jr., Senior Counsel
THE UNION LIGHT HEAT AND
POWER COMPANY
139 East Fourth Street, Room 25 ATII
Cincinnati, OH 45202
(513) 287- 3075

CERTIFICATE OF SERVICE AND NOTICE OF FILING

I hereby give notice that this the 3rd day of October, 2003, I have filed the original and ten copies of the foregoing with the Executive Director of the Kentucky Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky, 40601 and certify that this same day I have served the parties by mailing or sending via overnight delivery a true copy of same, postage prepaid, to those listed below.

ELIZABETH E. BLACKFORD
ASSISTANT ATTORNEY GENERAL
Office for Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601


John J. Finnigan, Jr.

Interrogatories and Production of Documents

Testimony of David H. Brown Kinloch

1. At page 5, lines 18-20, you state: "It is no surprise that the offer made by CG&E was less expensive than building new generation because it included partially depreciated generating assets." Based on this statement, is it your opinion that the least cost alternative for ULH&P to be able to serve its load would be an option where ULH&P either purchased existing generating plants or purchased wholesale power, or some combination of purchasing existing generating plants and purchasing wholesale power?

RESPONSE:

2. At page 4, lines 22-23, you state: "ULH&P should be encouraged to move toward getting at least a portion of its power from regulated generating assets and away from complete dependence on the volatile electric market."

a. What is the optimum portion of its power that ULH&P should obtain from regulated generating assets?

RESPONSE:

b. How did you determine that this was the optimum portion of its power that ULH&P should obtain from regulated generating assets?

RESPONSE:

c. Do you agree that, based on the current volatility in electric markets, as a general principle, the more of its power that ULH&P can obtain through regulated generating assets, the better this will be for ULH&P's customers?

RESPONSE:

d. Do you agree that ULH&P should attempt to obtain existing base load generating assets as part of its regulated generating assets, if it is able to do so at a reasonable cost?

RESPONSE:

e. Do you agree that ULH&P should attempt to obtain existing intermediate load generating assets as part of its regulated generating assets, if it is able to do so at a reasonable cost?

RESPONSE:

f. Do you agree that ULH&P should attempt to obtain existing peak load generating assets as part of its regulated generating assets, if it is able to do so at a reasonable cost?

RESPONSE:

g. Do you agree that ULH&P should attempt to obtain some existing coal-fired generating assets as part of its regulated generating assets, if it is able to do so at a reasonable cost?

RESPONSE:

3. At page 6, lines 9-11, you state: “When looking for generating capacity, utilities commonly issue a Request for Proposals (RFP) in an attempt to ascertain what options are available.” Are you aware of any other electric distribution utility (EDU) with a load greater than or equal to the load served by ULH&P that owned no generating assets when they issued an RFP, and issued an RFP for the purpose of obtaining a complete set of base load, intermediate load and peaking generating assets?

RESPONSE:

4. If your response to the preceding data request is in the affirmative, please state:

a. the name of the EDU;

RESPONSE:

b. the date the RFP was issued;

RESPONSE:

c. the amount of load to be served;

RESPONSE:

d. the responses the EDU received to the RFP;

RESPONSE:

e. the caption of the case and the case number in which any public service commission reviewed the results of the RFP; and

RESPONSE:

f. produce all documents relating to the RFP.

RESPONSE:

5. Are you aware of any transactions in which an existing, deregulated coal-fired generating plant was transferred into an EDU's regulated generating assets?

RESPONSE:

6. If your response to the preceding data request is in the affirmative, please state:

a. the name of the EDU that acquired the plant;

RESPONSE:

b. the nameplate rating of the plant;

RESPONSE:

c. whether the EDU acquired the plant through an RFP process;

RESPONSE:

d. the name of the entity that sold the plant;

RESPONSE:

e. the acquisition cost of the plant per kilowatt; and

RESPONSE:

f. the case name and case number where any public service commission reviewed whether the acquisition was in the best interests of the EDU's ratepayers.

RESPONSE:

7. Are you aware of any transactions in which an existing, deregulated coal-fired generating plant was transferred into an EDU's regulated generating assets at the plant's depreciated net book value?

RESPONSE:

8. If your response to the preceding data request is in the affirmative, please state:

a. the name of the EDU that acquired the plant;

RESPONSE:

b. the nameplate rating of the plant;

RESPONSE:

c. whether the EDU acquired the plant through an RFP process;

RESPONSE:

d. the name of the entity that sold the plant;

RESPONSE:

e. the acquisition cost of the plant per kilowatt; and

RESPONSE:

f. the case name and case number where any public service commission reviewed whether the acquisition was in the best interests of the EDU's ratepayers.

RESPONSE:

9. If ULH&P is to acquire regulated generating assets, do you have an opinion as to whether it is in the best interests of ULH&P's ratepayers that ULH&P should acquire a set of generating assets that rely on a single type of fuel, or that ULH&P should acquire a set of generating assets that rely on more than a single type of fuel?

RESPONSE:

10. Please state the basis for your answer to the preceding data request.

RESPONSE:

11. Based on your knowledge of the electricity market, approximately what proportion of EDUs' generating assets throughout the United States are currently deregulated at the retail level?

RESPONSE:

12. If ULH&P were to issue an RFP for generating assets, are you aware of any gas-fired generating assets that are located in or near to ULH&P's service area that recently have been or currently are available for purchase?

RESPONSE:

13. If your response to the preceding data request is in the affirmative, please state:

a. the name of the party offering the generating plant for sale;

RESPONSE:

b. the name, location and nameplate rating of the generating plant;

RESPONSE:

c. the source of your information;

RESPONSE:

d. produce all documents relating to this matter.

RESPONSE:

14. If ULH&P were to issue an RFP for generating assets, are you aware of any coal-fired generating assets that are located in or near to ULH&P's service area that recently have been or currently are available for purchase?

RESPONSE:

15. If your response to the preceding data request is in the affirmative, please state:

a. the name of the party offering the generating plant for sale;

RESPONSE:

b. the name, location and nameplate rating of the generating plant;

RESPONSE:

c. the source of your information;

RESPONSE:

d. produce all documents relating to this matter.

RESPONSE:

16. How long would you expect an RFP process to take for ULH&P, from the time it begins designing the RFP until the time the RFP process is completed and a bid is accepted?

RESPONSE:

17. If ULH&P were to issue an RFP to acquire regulated generating assets, do you agree that the likelihood is remote that ULH&P would acquire responsive bids for comparable generating assets to those offered by CG&E, at a price lower than offered by CG&E?

RESPONSE:

18. Please state the basis for your response to the preceding data request.

RESPONSE:

19. If there is a risk that CG&E would no longer be willing to sell this mix of generating assets to ULH&P at net book value after a time delay during which an RFP is conducted, would it still be your opinion that ULH&P should nevertheless still conduct an RFP before agreeing to acquire these generating assets from CG&E?

RESPONSE:

20. If your response to the preceding data request is in the affirmative, please state the basis for your opinion that the benefits of an RFP process would outweigh the risk that CG&E might no longer be willing to offer this package of generating assets for sale to ULH&P after the RFP process is completed.

RESPONSE:

21. Is it your opinion that an EDU should always conduct an RFP prior to acquiring existing generating assets, regardless of the economic merits of a proposal to sell existing generating assets that is made to the EDU?

RESPONSE:

22. If your response to the preceding data request is in the negative, please describe the circumstances under which the EDU should forego the RFP due to the economic merits of the proposed sale.

RESPONSE:

23. Is it your opinion that an EDU should always conduct an RFP prior to acquiring existing generating assets, regardless of whether the delay attributable to the RFP process might lead the prospective seller to withdraw an existing offer to sell the generating assets to the EDU?

RESPONSE:

24. If your response to the preceding data request is in the negative, please describe the circumstances under which the EDU should forego the RFP due to the risk that the delay attributable to the RFP process might lead the prospective seller to withdraw an existing offer to sell the generating assets to the EDU?

RESPONSE:

25. At page 6, line 23 through page 7, line 12, you discuss an RFP issued by East Kentucky Power Cooperative (EKPC) for peaking power.

a. do you agree that EKPC's RFP is different than the RFP that you recommend that ULH&P should issue, and that you describe at page14, line 17 through page 15, line 13?

RESPONSE:

b. if your response to data request No. 25 (a) is in the affirmative, then how would the response to EKPC's RFP be an indication that ULH&P should expect a meaningful response to the RFP that you recommend it should issue?

RESPONSE:

26. At page 8, lines 13 through 23, you discuss an RFP issued by LG&E/KU.

a. do you agree that LG&E/KU's RFP is different than the RFP that you recommend that ULH&P should issue, and that you describe at page14, line 17 through page 15, line 13?

RESPONSE:

b. if your response to data request No. 25 (a) is in the affirmative, then how would the response to LG&E/KU's RFP be an indication that ULH&P should expect a meaningful response to the RFP that you recommend it should issue?

RESPONSE:

27. Do you agree that the results of the EKPC and LG&E/KU RFPs caused both entities to have a greater reliance on natural gas-fired generating plants than they had before the RFP?

RESPONSE:

28. Do you agree that the natural gas market is currently very volatile?

RESPONSE:

29. If your response to the preceding request is in the affirmative, do you agree that an EDU should not seek to obtain gas-fired generating plants to serve its base load under present conditions?

RESPONSE:

30. Are you aware of any transactions in which an EDU acquired generating capacity to meet its base load, intermediate load and peak load requirements through an RFP process at a price per kilowatt that is equal to or less than the price offered by CG&E for these generating assets?

RESPONSE:

31. If your response to the preceding data request is in the affirmative, please state:

a. the name of the EDU that acquired the plant;

RESPONSE:

b. the nameplate rating of the plant;

RESPONSE:

c. the name of the entity that sold the plant;

RESPONSE:

d. the acquisition cost of the plant per kilowatt; and

RESPONSE:

e. the case name and case number where any public service commission reviewed whether the acquisition was in the best interests of the EDU's ratepayers.

RESPONSE:

32. Is it your opinion that ULH&P is likely to obtain a better price per kilowatt to acquire a comparable mix of generating assets if it follows an RFP process?

RESPONSE:

33. Please state the basis for your response to the preceding data request.

RESPONSE:

34. Please state the basis for your response to the preceding data request.

RESPONSE:

35. Are you aware of any RFP process that can evaluate tradeoffs between the reliability of transmission service versus expected power cost?

RESPONSE:

36. Please explain your response to the preceding data request.

RESPONSE:

37. Given the risk of blackouts such as the August 14, 2003 blackout, do you agree that the reliability of transmission service should be an important consideration in an EDU's evaluation of options to acquire generating assets?

RESPONSE:

38. Are you aware of any generating assets that are available for sale that would have better transmission reliability for ULH&P's customers than the generating assets offered for sale by CG&E?

RESPONSE:

39. If your response to the preceding data request is in the affirmative, please state:

a. the nameplate rating of the plant;

RESPONSE:

b. the name of the entity that owns the plant;

RESPONSE:

c. the offering price of the plant per kilowatt; and

RESPONSE:

d. produce all documents related to this matter.

RESPONSE:

40. Do you agree that many energy merchant companies have had their credit rating downgraded by investment ratings agencies in recent months?

RESPONSE:

41. If your response to the preceding data request is in the affirmative, do you agree that this would increase the credit risk that an EDU would face if it decided to purchase power from an energy merchant company?

RESPONSE:

42. At page 11, lines 21-22, you state: "...Ms Jenner estimates the cost of new peaking capacity to be in the range of \$414 per Kilowatt. This estimate may very well be high..."

a. Please provide your opinion as to the cost of new peaking capacity, and explain the basis for your opinion.

RESPONSE:

b. Provide all documents that support the opinion provided in response to the preceding data request.

RESPONSE:

43. At page 12, lines 1-2, you state: “The Commission must ask whether it makes more sense to install brand new peaking generation in the ULH&P service territory ...” Please state:

a. explain the siting risk inherent in building new peaking generation; and

RESPONSE:

b. are you aware of any instances during the past three years where a company has attempted to site a peaking plant within ULH&P’s service area, but has been unsuccessful in getting the necessary approvals to do so?

RESPONSE:

44. At page 12, line 18 you state: “There are 18 Cinergy plants that are dispatched before East Bend.” Please state the basis for your opinion.

RESPONSE:

45. If East Bend were dispatched among the top five Cinergy plants, would you still hold the opinion that CG&E is trying to cull its generating fleet of its least attractive units?

RESPONSE:

46. At page 13, line 10 you state: "This is a very good time to be looking for capacity." Did you mean this statement to include coal-fired generating plants?

RESPONSE:

47. If your response to the preceding data request is in the affirmative, please list any transactions involving coal-fired generating plants that form the basis for your opinion.

RESPONSE:

48. Do you have an opinion regarding whether another set of generating assets exists or, in the alternative, another set of generating assets and purchased power opportunities exists, that would provide a least cost alternative to the generating assets offered for sale by CG&E?

RESPONSE:

49. If your response to the preceding data request is in the affirmative, please state:

a. a description of the asset mix;

RESPONSE:

b. the seller;

RESPONSE:

c. the offering price per kilowatt.

RESPONSE:

50. At page 14, lines 13 through 15, you state: “The easiest way to demonstrate to the Commission that this sale is in the best interest of ratepayers is to do what other utilities in a similar position have done: issue a Request for Proposals.” Please state the name of other utilities that have acquired a complete set of base load, intermediate load and peaking plants through a single RFP process.

RESPONSE:

51. What was the estimated cost per kilowatt of the generating plant that EKPC acquired through the RFP process described at pages 6 through 7 of your testimony?

RESPONSE:

52. What was the estimated cost per kilowatt of the generating plant that LG&E/KU acquired from its affiliate following the RFP process described at page 8 your testimony?

RESPONSE:

53. Please provide any information to indicate that coal-fired generating plants are available for sale at a price per kilowatt less than the price stated in your response to the preceding data request.

RESPONSE:

54. In an arm's length transaction between non-affiliates, would you expect the parties to transfer a generating plant at market value or net book value?

RESPONSE:

Testimony of Charles W. King

55. At page 3, lines 22-25, you state that you agree with Mr. Kinloch's recommendation that ULH&P should not acquire the CG&E generating assets until "a full investigation has been made into the alternatives available to ULH&P." Are you aware of any other electric distribution utility (EDU) with a load greater than or equal to the load served by ULH&P that owned no generating assets when they issued an RFP, and issued an RFP for the purpose of obtaining a complete set of baseload, intermediate load and peaking generating assets?

RESPONSE:

56. If your response to the preceding data request is in the affirmative, please state:

a. the name of the EDU;

RESPONSE:

b. the date the RFP was issued;

RESPONSE:

c. the amount of load to be served;

RESPONSE:

d. the responses the EDU received to the RFP;

RESPONSE:

e. the caption of the case and the case number in which any public service commission reviewed the results of the RFP; and

RESPONSE:

f. produce all documents relating to the RFP.

RESPONSE:

57. Are you aware of any transactions in which an existing, deregulated coal-fired generating plant was transferred into an EDU's regulated generating assets?

RESPONSE:

58. If your response to the preceding data request is in the affirmative, please state:

a. the name of the EDU that acquired the plant;

RESPONSE:

b. the nameplate rating of the plant;

RESPONSE:

c. whether the EDU acquired the plant through an RFP process;

RESPONSE:

d. the name of the entity that sold the plant;

RESPONSE:

e. the acquisition cost of the plant per kilowatt; and

RESPONSE:

f. the case name and case number where any public service commission reviewed whether the acquisition was in the best interests of the EDU's ratepayers.

RESPONSE:

59. Are you aware of any transactions in which an existing, deregulated coal-fired generating plant was transferred into an EDU's regulated generating assets at the plant's depreciated net book value?

RESPONSE:

60. If your response to the preceding data request is in the affirmative, please state:

a. the name of the EDU that acquired the plant;

RESPONSE:

b. the nameplate rating of the plant;

RESPONSE:

c. whether the EDU acquired the plant through an RFP process;

RESPONSE:

d. the name of the entity that sold the plant;

RESPONSE:

e. the acquisition cost of the plant per kilowatt; and

RESPONSE:

f. the case name and case number where any public service commission reviewed whether the acquisition was in the best interests of the EDU's ratepayers.

RESPONSE:

61. If ULH&P is to acquire regulated generating assets, do you have an opinion as to whether it is in the best interests of ULH&P's ratepayers that ULH&P should acquire a set of generating assets that rely on a single type of fuel, or that ULH&P should acquire a set of generating assets that rely on more than a single type of fuel?

RESPONSE:

62. Please state the basis for your answer to the preceding data request.

RESPONSE:

63. Based on your knowledge of the electricity market, approximately what proportion of EDUs' generating assets throughout the United States are currently deregulated at the retail level?

RESPONSE:

64. If ULH&P were to issue an RFP for generating assets, are you aware of any gas-fired generating assets that are located in or near to ULH&P's service area that recently have been or currently are available for purchase?

RESPONSE:

65. If your response to the preceding data request is in the affirmative, please state:

a. the name of the party offering the generating plant for sale;

RESPONSE:

b. the name, location and nameplate rating of the generating plant;

RESPONSE:

c. the source of your information;

RESPONSE:

d. produce all documents relating to this matter.

RESPONSE:

66. If ULH&P were to issue an RFP for generating assets, are you aware of any coal-fired generating assets that are located in or near to ULH&P's service area that recently have been or currently are available for purchase?

RESPONSE:

67. If your response to the preceding data request is in the affirmative, please state:

a. the name of the party offering the generating plant for sale;

RESPONSE:

b. the name, location and nameplate rating of the generating plant;

RESPONSE:

c. the source of your information;

RESPONSE:

d. produce all documents relating to this matter.

RESPONSE:

68. How long would you expect an RFP process to take for ULH&P, from the time it begins designing the RFP until the time the RFP process is completed and a bid is accepted?

RESPONSE:

69. If ULH&P were to issue an RFP to acquire regulated generating assets, do you agree that the likelihood is remote that ULH&P would acquire responsive bids for comparable generating assets to those offered by CG&E, at a price lower than offered by CG&E?

RESPONSE:

70. Please state the basis for your response to the preceding data request.

RESPONSE:

71. If there is a risk that CG&E would no longer be willing to sell this mix of generating assets to ULH&P at net book value after a time delay during which an RFP is conducted, would it still be your opinion that ULH&P should nevertheless still conduct an RFP before agreeing to acquire these generating assets from CG&E?

RESPONSE:

72. If your response to the preceding data request is in the affirmative, please state the basis for your opinion that the benefits of an RFP process would outweigh the risk that CG&E might no longer be willing to offer this package of generating assets for sale to ULH&P after the RFP process is completed.

RESPONSE:

73. Is it your opinion that an EDU should always conduct an RFP prior to acquiring existing generating assets, regardless of the economic merits of a proposal to sell existing generating assets that is made to the EDU?

RESPONSE:

74. If your response to the preceding data request is in the negative, please describe the circumstances under which the EDU should forego the RFP due to the economic merits of the proposed sale.

RESPONSE:

75. Is it your opinion that an EDU should always conduct an RFP prior to acquiring existing generating assets, regardless whether the delay attributable to the RFP process might lead the prospective seller to withdraw an existing offer to sell the generating assets to the EDU?

RESPONSE:

76. If your response to the preceding data request is in the negative, please describe the circumstances under which the EDU should forego the RFP due to the risk that the delay attributable to the RFP process might lead the prospective seller to withdraw an existing offer to sell the generating assets to the EDU?

RESPONSE:

77. Are you aware of any transactions in which an EDU acquired generating capacity to meet its base load, intermediate load and peak load requirements through an RFP process at a price per kilowatt that is equal to or less than the price offered by CG&E for these generating assets?

RESPONSE:

78. If your response to the preceding data request is in the affirmative, please state:

a. the name of the EDU that acquired the plant;

RESPONSE:

b. the nameplate rating of the plant;

RESPONSE:

c. the name of the entity that sold the plant;

RESPONSE:

d. the acquisition cost of the plant per kilowatt; and

RESPONSE:

e. the case name and case number where any public service commission reviewed whether the acquisition was in the best interests of the EDU's ratepayers.

RESPONSE:

79. Is it your opinion that ULH&P is likely to obtain a better price per kilowatt to acquire a comparable mix of generating assets if it follows an RFP process?

RESPONSE:

80. Please state the basis for your response to the preceding data request.

RESPONSE:

81. Are you aware of any RFP process that can evaluate tradeoffs between the reliability of transmission service versus expected power cost?

RESPONSE:

82. Please explain your response to the preceding data request.

RESPONSE:

83. Given the risk of blackouts such as the August 14, 2003 blackout, do you agree that the reliability of transmission service should be an important consideration in an EDU's evaluation of options to acquire generating assets?

RESPONSE:

84. Are you aware of any generating assets that are available for sale that would have better transmission reliability for ULH&P's customers than the generating assets offered for sale by CG&E?

RESPONSE:

85. If your response to the preceding data request is in the affirmative, please state:

a. the nameplate rating of the plant;

RESPONSE:

b. the name of the entity that owns the plant;

RESPONSE:

c. the offering price of the plant per kilowatt; and

RESPONSE:

d. produce all documents related to this matter.

RESPONSE:

86. Do you agree that many energy merchant companies have had their credit rating downgraded by investment ratings agencies in recent months?

RESPONSE:

87. If your response to the preceding data request is in the affirmative, do you agree that this would increase the credit risk that an EDU would face if it decided to purchase power from an energy merchant company?

RESPONSE:

88. Do you have an opinion regarding whether another set of generating assets exists or, in the alternative, another set of generating assets and purchased power opportunities exists, that would provide a least cost alternative to the generating assets offered for sale by CG&E?

RESPONSE:

89. If your response to the preceding data request is in the affirmative, please state:

a. a description of the asset mix;

RESPONSE:

b. the seller;

RESPONSE:

c. the offering price per kilowatt.

RESPONSE:

90. In an arm's length transaction between non-affiliates, would you expect the parties to transfer a generating plant at market value or net book value?

RESPONSE:

91. At page 3, lines 28 through 30 you state: "I cannot make a recommendation on item no. 5 because it is not adequately explained in ULH&P's filing." In item no. 5, ULH&P requests that the Commission grant a deviation from the affiliate pricing statutes to allow ULH&P to receive an assignment from CG&E of certain contracts to which CG&E is a party, and the other party is an affiliate of CG&E and ULH&P. Absent the Commission approving a deviation from the affiliate pricing statutory pricing requirements, ULH&P could not enter into these contracts. These contracts are related to the fuel supply for the Woodsdale plant, and are described in the testimony of ULH&P witness John J. Roebel. Given this additional background, do you recommend that the Commission should accept item no. 5?

RESPONSE:

92. Please explain your response to the preceding data request.

RESPONSE:

93. At page 7, lines 2 through 6, you state that Ms. Jenner did not study, as a possible least cost alternative, a continuation of the current contract between ULH&P and CG&E. Please state:

a. why should Ms. Jenner have studied this alternative if CG&E has not expressed any willingness to continue the present contract?

RESPONSE:

b. if CG&E were willing to continue the contract, isn't it reasonable to expect that Ms. Jenner would have studied this option as a possible least cost alternative?

RESPONSE:

c. since Ms. Jenner did not study this alternative as a possible least cost alternative, isn't this a reasonable indication that CG&E was not willing to continue the contract?

RESPONSE:

d. do you agree that if CG&E were not willing to continue the present contract between ULH&P and CG&E, then it would make no sense for Ms. Jenner to study this option as a possible least cost alternative?

RESPONSE:

94. At page 7, lines 23 through 28, you state that Ms. Jenner did not study, as a possible least cost alternative, a variation of the current contract, in which the contract would have a fixed capacity charge and a variable energy charge based on CG&E's cost. Please state:

a. why should Ms. Jenner have studied this alternative if CG&E has not expressed any willingness to continue the present contract?

RESPONSE:

b. if CG&E were willing to enter into this variation of the current contract isn't it reasonable to expect that Ms. Jenner would have studied this option as a possible least cost alternative?

RESPONSE:

c. since Ms. Jenner did not study this alternative as a possible least cost alternative, isn't this a reasonable indication that CG&E was not willing to enter into this variation of the current contract?

RESPONSE:

d. do you agree that if CG&E were not willing to enter into this variation of the present contract between ULH&P and CG&E, then it would make no sense for Ms. Jenner to study this option as a possible least cost alternative?

RESPONSE:

e. what incentives would exist for CG&E to continue to sell ULH&P power at a below market rate?

RESPONSE:

f. how should the capacity charge be determined?

RESPONSE:

95. Assume that after the current contract between ULH&P and CG&E expires on December 31, 2006, the Commission has no authority to require CG&E to sell power to ULH&P at cost-based rates. Based on this assumption, would you recommend that the Commission should approve ULH&P's application to acquire CG&E's generating assets?

RESPONSE:

96. Please explain your response to the preceding data request.

RESPONSE:

97. Assume that the Commission rejects any of the conditions described by Ms. Jenner, then CG&E would withdraw its offer to sell the generating assets to ULH&P. Based on this assumption, would you recommend that the Commission should approve ULH&P's application to acquire CG&E's generating assets?

RESPONSE:

98. Please explain your response to the preceding data request.

RESPONSE:

99. At page 9, lines 29 through 30, you state: "Such rejection [of certain CG&E conditions for the sale of the generating assets] should not be considered as tantamount to rejection of the entire asset plan." Please state:

a. what is the basis for your assumption that CG&E would still be willing to sell the generating assets to ULH&P if the Commission fails to approve any of the conditions?

RESPONSE:

b. assume that rejection of one or more conditions would be tantamount to rejection of the entire asset plan, because CG&E would then withdraw its offer to sell the generating assets to ULH&P. Based on this assumption, would you still recommend that the Commission reject any of the conditions?

RESPONSE:

c. please explain your response to the preceding sub-part.

RESPONSE:

100. At page 10, lines 29 through 31, you state: “If the plants’ generate profits in excess of a reasonable rate of return, then I recommend that the excess profits be applied against the recovery of transactions costs.” Please state:

a. how would “profits” be measured?

RESPONSE:

b. do you recommend that if the plants generate either under-earnings or “losses” according to this measurement methodology, then ULH&P should be permitted to defer and recover these under-earnings or “losses” through rates?

RESPONSE:

c. please explain your response to the previous sub-part.

RESPONSE:

101. At page 12, lines 15 through 16, you state that the wholesale power agreements “probably should be approved.” If FERC is asked to approve these contracts, should the Kentucky Public Service Commission support FERC approval of these contracts?

RESPONSE:

102. Please explain your response to the previous data request.

RESPONSE:

103. At page 13, lines 4 through 8, you state: “CG&E gets something in return. That is the assurance provided by regulation that all expenses associated with these plants will be covered, that every cent of investment in them will be recaptured, and that in the meantime they will yield fair and reasonable after-tax return on all outstanding investment.”

RESPONSE:

a. do you agree that CG&E also surrenders the opportunity to earn market rates for the rate of power generated by these plants?

RESPONSE:

b. do you agree that CG&E also loses the opportunity to sell the plants at the market price?

RESPONSE:

c. do you an opinion as to whether the benefits to CG&E of selling the generating assets to ULH&P outweigh these lost opportunity costs?

RESPONSE:

d. please state the basis for your response to the preceding sub-part.

RESPONSE:

104. At page 13, lines 9 through 21, you state that ULH&P ratepayers should receive the revenues from off-system sales because "ratepayers will fully support these plants." Assume that CG&E increases the sale price of the plants by an amount equal to the present value of the net revenues from off-system sales. Further assume that ratepayers would now receive the benefit of the revenues from off-system sales. If the terms of CG&E's offer to ULH&P are adjusted in this manner, please state whether this should affect how the Commission should evaluate the proposed transaction.

RESPONSE:

105. Please explain your response to the preceding data request.

RESPONSE:

106. What is the basis for your recommendation at page 14 that revenues from off-system sales should be split with 90% to ratepayers and 10% to ULH&P?

RESPONSE:

107. At page 16, lines 6 through page 17, line 17, you discuss your recommendation that the Commission should reject Application item 7. Would you recommend approval instead of a regulatory asset valued at the difference between (a) the value of the revenue

requirement in future rate cases requested by the net book value of the plants, the costs of the purchase power agreements and the transaction costs less (b) the actual amounts allowed by the Commission in the revenue requirement for these items?

RESPONSE:

108. Please explain your response to the preceding data requests.

RESPONSE:

109. At page 8, lines 4 through 7, you state that the proposed sale results in “lumpiness” because it only involves “these units.” Please state:

a. are you aware that the proposed sale involves seven units: one each at Fort Bend and Miami Fort, and five at Woodsdale?

RESPONSE:

b. assume that the proposed sale involves seven units, with units with nameplate ratings as described by Mr. Roebel and Mr. Ege. Based on this assumption, would the proposed sale result in lumpiness?

RESPONSE:

Testimony of Michael J. Majoros, Jr.

110. Are you assuming that the existing book and tax basis difference will carryover from CG&E to ULH&P in the proposed transaction?

RESPONSE:

111. If the answer to the preceding data request is in the affirmative, please explain the basis for this assumption.

RESPONSE:

112. If you are not assuming that the book and tax basis difference will carryover in this transaction, please explain in detail your understanding of the tax deduction available to UHL&P for depreciation in a transaction wherein the tax basis of the assets is stepped up to the book basis.

RESPONSE:

113. If the tax basis is stepped up to the book basis, do you agree that the Kentucky ratepayers will receive the benefit of that step up through future depreciation deductions?

RESPONSE:

114. If your answer to the preceding data request is in the negative, please explain in detail why this is not the case.

RESPONSE:

115. Do you agree that no investment tax credit (ITC) is currently available in the event that the assets in question are simply purchased or constructed?

RESPONSE:

116. If your answer to the preceding data request is in the negative, please explain in detail how such a credit is obtained.

RESPONSE:

117. Do you agree that if the assets in question were sold to another party by CG&E that the remaining ADITC would be simply written off?

RESPONSE:

118. If your answer to the preceding data request is in the negative, please explain in detail why this is not the case and what treatment Mr. Majoros believes is proper and the relevant accounting support for the proposed treatment.

RESPONSE:

119. If you agree that ITC is not currently available and that the seller of such assets would write off any remaining ADITC, please explain in detail why the transfer of these assets from CG&E to ULH&P should give rise to a different result.

RESPONSE:

120. Please include examples of all transactions of which you are aware wherein previously deregulated assets of one base of ratepayers become re-regulated under a completely different base of ratepayers through an intercompany transfer and the unamortized ADITC was re-established above the line.

RESPONSE:

121. What, if any, consideration have you given to the tax normalization rules of the Internal Revenue Code? Please explain in detail.

RESPONSE:

122. If these rules were not taken into consideration, please explain in detail why no consideration was given.

RESPONSE:

123. If these rules were taken into consideration, please explain in detail how these rules were taken into account in developing your testimony and recommendations.

RESPONSE:

124. Are you familiar with the ramifications of a normalization violation?

RESPONSE:

125. If so, please explain in detail why amortization of ADITC and ADFIT through cost of service is not a normalization violation given the fact that these assets are currently deregulated and the remaining amounts are properly being amortized below the line.

RESPONSE:

126. Did you evaluate the merits of this proposed transaction with respect to any factors besides the Company's proposed treatment of ADIT and ADITC?

RESPONSE:

127. If the answer to the preceding data request is in the affirmative, please list the other factors and explain in detail how they affected your consideration of the merits of the proposed transaction?

RESPONSE:

128. Do you recommend that the Commission should evaluate this transaction solely on the basis of the Company's proposed treatment of ADIT and ADITC, or that the Commission should evaluate this transaction on the basis of all of the costs and benefits to ratepayers?

RESPONSE: