Cinergy Services, Inc.
139 East Fourth Street, Rm 25 AT II
P.O. Box 960
Cincinnati, OH 45201-0960
Tel 513.287.3075
Fax 513.287.3810
michael.pahutski@cinergy.com

MICHAEL J. PAHUTSKI
Counsel

VIA OVERNIGHT MAIL

CINERGY®

August 5, 2004

RECEIVED

AUG 0 6 2004

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: Case No. 2004-00253

Dear Ms. O'Donnell:

Enclosed please find an original and seven (7) copies, bound and tabbed, of The Union Light, Heat and Power Company's Responses to Commission Staff's First Data Request for filing with the Commission. In addition, I have enclosed an unbound copy and request that you file-stamp and return it to me in the enclosed self-addressed envelope as proof of filing. ✓ MH

Should you have any questions, please do not hesitate to contact me at (513) 287-3075.

Sincerely,

M. Pahutski

Michael J. Pahtuski

MJP/mak

Enclosures

cc: Elizabeth Blackford
Assistant Kentucky Attorney General
Kentucky Attorney General's Office

KyPSC Staff First Set Data Requests
Case No. 2004-00253
Date Received: July 27, 2004
Response Due Date: August 6, 2004

KyPSC-DR-01-001

REQUEST:

1. In preparing its proposed tariff riders, did ULH&P review the Commission's September 24, 1990 Order in Administrative Case 327 ("Admin. 327")? Explain the response in detail.

RESPONSE:

Candidly, ULH&P failed to recall that the Commission addressed the issue of economic development (ED) rates back in 1990, and therefore did not review the Commission's Order in Administrative Case 327.

Nevertheless, Cinergy desires to implement uniform economic development (ED) programs across its three contiguous service territories. The ED tariffs ULH&P filed in this proceeding are consistent with those filed or planned for its PSI Energy, Inc. and The Cincinnati Gas & Electric Company affiliates. In order to facilitate a fair economic development process across the three states in which Cinergy utilities operate (i.e. not favoring any particular state over another for job creation and other economic benefits), and to manage these programs cost-effectively, Cinergy wishes to propose consistent ED tariffs to each of the three state utility commissions.

In addition to ensuring equitably-administered ED programs across the three jurisdictions, Cinergy believes that filed, public ED tariffs are now essential to the communication and marketing of successful ED programs. In 1990, when ULH&P expressed a desire to handle ED rates through special contracts, utilities were sent complete packages from prospective customers/developers, and asked to propose special ED incentives. Utilities would use this prospect-supplied intelligence to determine how to respond to a given ED opportunity. Contrast that scenario to the present day, and the prevalence of the Internet, in which prospective customers/developers now perform online research of available ED incentives and follow up with the communities and utilities from there. Without public, visible ED programs in place, communities such as Northern Kentucky risk being eliminated from consideration before they even know that an opportunity is present. For these reasons, ULH&P now believes that ED tariffs are an essential part of a successful ED program.

WITNESS RESPONSIBLE: Don Rottinghaus

KyPSC Staff First Set Data Requests
Case No. 2004-00253
Date Received: July 27, 2004
Response Due Date: August 6, 2004

KyPSC-DR-01-002

REQUEST:

2. In Admin. 327, ULH&P stated that economic development rates ("EDR") should be negotiated and offered through special contracts and that "circumstances to be encountered in implementing an EDR are too diverse in nature to be covered by a general tariff." The Commission ordered that EDR's should be implemented only by special contracts.
   a. Explain in detail why ULH&P now believes it is necessary to have EDR tariffs. Describe the circumstances that have changed since Adm. 327 to now support having an EDR tariff.
   b. Explain in detail why ULH&P filed an application seeking approval of EDR tariffs when the Commission has ordered that EDRs shall be implemented only by special contract. Explain why ULH&P's application did not address its proposed departure from the Commission's findings in Admin. 327.

RESPONSE:

a. See response to KyPSC-DR-01-001.

b. See response to KyPSC-DR-01-001.

WITNESS RESPONSIBLE: Don Rottinghaus

3

REQUEST:

3. Each of the proposed EDR tariffs indicates that customers will enter into service agreements with ULH&P.
   a. As used in the proposed tariffs does the term service agreement have the same meaning as the term special contract? Explain the response.
   b. Does ULH&P submit its service agreements to the Commission for review and approval?
   c. Explain whether the service agreements referred to in the proposed tariffs will conform to the findings in the September 24, 1990 Order in Admin. 327.
   d. Provide the draft service agreements ULH&P intends to use fro each of the proposed EDR tariffs. Identify the sections of the agreements that address the Commission's findings in Admin. 327.

RESPONSE:

a. No. ULH&P believes that there must be some certainty to ED programs in order to attract the attention of prospective customers/developers. When customers/developers perform site-selection evaluations, they need to understand fairly early on in the process what ED incentives are available. And as indicated in ULH&P's response to KyPSC-DR-01-001, communities that cannot offer some relative certainty of the availability and structure of ED incentives risk being eliminated from further consideration, even before they realize the opportunity has passed them by. For these reasons, ULH&P proposes that the service agreements under its ED tariffs not be submitted for review and approval by the Commission. Rather, ULH&P submits that the Commission's review and approval of ULH&P's filed ED tariffs constitutes the necessary regulatory oversight of these ED incentives.

b. See (a).

c. After reviewing the findings in Admin. Case 327, ULH&P would agree that its ED service agreements will conform to the Commission's findings in this case. That said, however, ULH&P can envision requesting deviation from one or more of these requirements, on a case-by-case basis, depending on the specific circumstances of an ED customer. In those cases, ULH&P would file the ED rate as a special contract.

d. ULH&P has not yet formulated draft ED service agreements.

WITNESS RESPONSIBLE: Don Rottinghaus

4

KyPSC Staff First Set Data Requests
Case No. 2004-00253
Date Received: July 27, 2004
Response Due Date: August 6, 2004

KyPSC-DR-01-004

REQUEST:

4. Describe in detail the analysis ULH&P plans to undertake to demonstrate to the Commission that the customer classes that are not participating under one of the proposed EDR tariffs would be no worse off than if the EDR tariff was not available. Include in the response a discussion of any risk factors considered by ULH&P and how those risks would be shared between shareholders and ratepayers.

RESPONSE:

ULH&P does not expect other customers or customer classes to realize any costs from the implementation of these riders until its next general rate case. At that time ULH&P would put on evidence showing the benefit to other customers and customer classes resulting from the additional capital expenditures, tax dollars and employment opportunities in ULH&P's service territory. With regard to any revenue shortfall resulting from the implementation of these riders, ULH&P, in its next general rate case, ould argue that since the economic growth which results from the use of the proposed riders benefits all customers in its service area, those customers should bear the incremental cost of offering these incentive riders.

WITNESS RESPONSIBLE: Don Rottinghaus

5

KyPSC Staff First Set Data Requests
Case No. 2004-00253
Date Received: July 27, 2004
Response Due Date: August 6, 2004

KyPSC-DR-01-005

REQUEST:

5. ULH&P currently obtains power, under a full requirements contract, from The Cincinnati Gas and Electric Company ("CG&E").
   a. Is ULH&P in what could be termed a "period of excess capacity" as that term was used in Admin. 327? Explain the response.
   b. What is the current reserve margin for ULH&P? For CG&E?

RESPONSE:

a. Given that ULH&P currently purchases its full requirements of power from CG&E, and CG&E is obligated to meet these requirements, ULH&P has the ability to purchases as much power as it needs from CG&E. After ULH&P acquires certain generating stations from CG&E, as proposed in Case No. 2003-00252, ULH&P is currently projected to be in a period of surplus capacity through 2013 (see ULH&P IRP, page 8-77).

b. The term reserve margin cannot be applied to ULH&P given its current situation. However, after purchase of generating stations from CG&E, ULH&P is projected to have a 24% reserve margin (2005). CG&E's current reserve margin is 15%.

WITNESS RESPONSIBLE: Don Rottinghaus

REQUEST:

6. The proposed tariff riders are: (1) Brownfield Redevelopment ("Rider BR"); (2) Economic Development ("Rider ED"); and (3) Urban Redevelopment ("Rider UR"):
   a. Do affiliates of ULH&P in other states have similar EDRs in effect?
   b. Rider BR contains a discount on the demand charge each year for five years. Rider ED contains a discount on the total bill for a 12-month period. Rider UR contains a discount of the monthly billing amount for an unlimited period of time. Explain in detail the reason(s) for the difference in the types of discounts and periods of time the discounts are in effect.
   c. Explain why the proposed riders do not include provisions providing for the recovery of EDR customer-specific fixed costs over some period of time.
   d. For each rider, provide the expected term of the service agreement.
   e. Rider BR includes a discount on the demand charge that is phased out over a 5-year period. Assume for purposes of this question that a customer applies for Rider BR, but the marginal cost associated with serving that customer exceeds the discounted rate offered. Under these circumstances, would ULH&P allow the customer to take service under Rider BR? Explain the response.
   f. Explain in detail why Rider ED includes specific job creation and capital investment requirements.

RESPONSE:

a. Identical tariff riders have been filed with the Indiana Commission for ULH&P affiliate PSI Energy, Inc. The brownfield development rider, Rider BR, has been in use by affiliate CG&E for approximately eight (8) years. CG&E intends to file for approval of Rider ED and Rider UR in the near future.

b. Rider BR's discount is based on the current CG&E Rider BR terms. As noted above, these were developed approximately eight (8) years ago. While current thinking is to use a shorter incentive period of one (1) year, we could not easily change CG&E's Rider BR and the Company desired to have the same incentive program for each of its operating companies and affiliates. The discount period for Rider UR is proposed to be twelve months. However, this term was inadvertently omitted from the final version of the tariff which was submitted for filing. (See also response to KyPSC-DR-01-007).

c. While the proposed riders do not address customer-specific costs, ULH&P's standard tariffs of Rate DS, Rate DP, Rate DT and Rate TT to which these riders would apply, do contain language which provides that the customer pay all costs of any customer-specific equipment.
d. The expected term of the service agreements are as follows: Rider BR – 10 years;Rider ED – two (2) years; Rider UR – two (2) years.
e. The demand rate discounted by Rate BR represents, primarily, the recovery of the fixed costs of serving the customer. Since the rate is being discounted by a maximum of 50 percent (Year 1), it is clear that only fixed costs are being discounted. Thus, ULH&P will continue get recovery of its variable costs through the energy charge of the underlying rate schedule as well as a contribution to its fixed costs. It follows then that the discounted revenue is not less than the marginal cost of serving the customer.
f. The specific job creation and capital investments were included in Rider ED in order to reduce the likelihood of "free riders" and to be able to quantify the benefits to the community and the Commonwealth of the new customer or customer expansion.

WITNESS RESPONSIBLE: Don Rottinghaus

7

KyPSC-DR-01-007

REQUEST:

7. Refer to Rider UR and Attachment B of the Application. Rider UR states that the building must be unoccupied or dormant for two years or more and does not state how long the 50 percent discount on the monthly billing amount will be in effect. The description of Rider UR in Attachment B states that the building will be unoccupied for six months or more and that the 50 percent discount will be in effect for 12 months. Explain the reasons(s) for these contradictions and indicate which document accurately reflects ULH&P's proposal.

RESPONSE:

Both Rider UR and Attachment B of the Application indicate that the incentive period is 12 months (see second paragraph of **Terms and Conditions** – "... for the twelve (12) month incentive period.")

With regard to the period of unoccupancy or dormancy, Appendix B contained a typographical error; the two year period referenced in Rider UR is the intended time frame.

WITNESS RESPONSIBLE: Don Rottinghaus