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January 12, 2006

Mr. John J. Finnigan, Jr.
Senior Counsel
The Union Light, Heat and Power Company
P.O. Box 960
Room 250, Atrium II
139 East Fourth Street
Cincinnati, Ohio 45201-0960

RE: January 10, 2006
Informal Conference
Case Nos. 2003-00252 and 2005-00228

Dear Sir:

Enclosed please find a memorandum that has been filed in the record of the above-referenced cases. Any comments regarding the contents of the memorandum should be submitted to the Commission within seven days of receipt of this letter. Any questions regarding this memorandum should be directed to Mr. Jeff Shaw of the Commission Staff at 502-564-3940, Extension 237.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".


Beth O'Donnell
Executive Director

CC: Parties of Record

Attachment

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File - Case Nos. 2003-00252 and 2005-00228

FROM:  Jeff Shaw, Division of Financial Analysis

DATE: January 12, 2006

SUBJECT: January 10, 2006 Informal Conference

An informal conference held January 10, 2006 at the Commission's offices was attended by representatives of The Union Light, Heat and Power Company ("ULH&P"), the Attorney General of the Commonwealth of Kentucky ("AG"), and Commission Staff ("Staff"). A representative of Kroger Co. participated in the conference via telephone. An attendance list for the conference and a copy of the handout provide by ULH&P are attached hereto. The purpose of the conference was to discuss the following issues:

1. The timing of ULH&P's next general electric rate case.
2. Given changes in electric markets, the need for a back-up power supply contract.
3. The effective closing date for ULH&P's asset transfer transaction – Jan. 1, 2006.
4. ULH&P's request for deviations from the Commission's affiliate pricing rules.
5. Reporting requirements pursuant to the Commission's merger approval order.

First, ULH&P explained that, after considering a possible delay in filing its next rate case, it had decided to follow the decision set out in Case No. 2003-00252, which requires it to file its next rate case so that, after suspension, its proposed rates would be effective January 1, 2007. Second, ULH&P explained that, due to changes in FERC's code of conduct rules and the start of MISO's Day 2 market, (1) it could not implement its originally proposed back-up power supply contract with its parent, CG&E, whose generation is deregulated but (2) it believed MISO's energy market could adequately provide back-up power during times when its units were out of service. However, ULH&P noted that it could not say at what price back-up power from MISO would be available. Given that ULH&P has a retail electric rate freeze in effect until January 1, 2007, it was understood that the lack of a back-up power supply contract posed no harm to ratepayers in the near future. However, Staff recommended that ULH&P look into other potential back-up power arrangements and conduct further discussion with Staff on this issue.

Third, ULH&P stated that, based on its January 1, 2006 closing date, it would be filing with the Commission in the near future, various transaction documents as required by the Commission's interim and final orders in Case No. 2003-00252. Fourth, ULH&P explained that it believed its proposed transactions with CG&E for items such as coal, lime and inventory parts complied with the Commission's affiliate pricing rules, but that it had requested deviations from those rules in the event the Commission determined that the transactions did not comply with its affiliate pricing rules.

Fifth, ULH&P and Staff discussed possible alternative FERC and SEC reports that ULH&P could file with the Commission, in lieu of SEC reports previously filed, that would still satisfy the reporting requirements ordered by the Commission in the recent merger docket, Case No. 2005-00228.

The conference was adjourned with the understanding that ULH&P would provide the AG and Staff with copies of specific information filed in FERC's PUHCA reform docket, which might identify possible alternative FERC and SEC reports that could be filed with the Commission. It was also understood that another conference would be scheduled to further discuss the issues of (1) reports that might satisfy the merger-related reporting requirements that had been approved by the Commission and (2) a possible future back-up power supply contract.

Attachment

KENTUCKY PUBLIC SERVICE COMMISSION

ATTENDEES – INFORMAL CONFERENCE OF JANUARY 10, 2006

THE UNION LIGHT, HEAT AND POWER COMPANY – CASE NOS. 2003-00252 & 2005-00228

NAME	WITH
Jeff Shaw	PSC - FIN. ANALYSIS
ISAAC SCOTT	PSC - FINANCIAL ANALYSIS
Amita Mitchell	BAC
Betsy Blackford	OAG
JACK STEFFEN	ULH + P
DOUG ESAMANN	ULH + P
GREG FICKE	ULH & P
JOHN FINNIGAN	ULH & P
Kate Moriarty	ULH + P
Mike Kurtz	Did not Attended telephonically

CINERGY[®]

The Union Light, Heat and Power
Company

Informal Conference

January 10, 2006

Topics

- Next Electric Base Rate Case – 1/1/07
- Back-up Supply Contract
- Plant Transfer Closing Date: January 1, 2006



Next Electric Base Rate Case



Back-up Supply Contract

Back-up Supply Contract Original Terms

- Term: through 12/31/2009
- Capacity Charge: EB - \$359,729/mo.; MF6 - \$61,866/mo.
- Energy Charge: avg. variable operating costs per MWh for prior month
- Contemplates Full Communication between CG&E and ULH&P on Planned and Unplanned Outages

Changed Conditions

- Availability of MISO Day 2 Markets
- Separation of Reg. vs. Non-reg Operations
- Re-Pricing due to Congestion Costs from MISO Day 2
- Two-Year Delay for SEC Approval



Plant Transfer Closing Date:

January 1, 2006

