

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)	
COMPANY TO ENTER INTO AN AGREEMENT AND)	CASE NO.
PLAN OF EXCHANGE AND TO CARRY OUT CERTAIN)	10296
TRANSACTIONS IN CONNECTION THEREWITH)	

O R D E R

IT IS ORDERED that Kentucky Utilities Company ("KU") shall file an original and 12 copies of the following information with the Commission with a copy to all parties of record no later than September 16, 1988. If the information cannot be provided by this date, KU should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission. KU shall furnish with each response the name of the witness who will be available at a public hearing, if required, for responding to questions concerning each item of information requested.

Information Request No. 2.

1. Explain how increased financing flexibility for non-utility activities, identified in the response to Item No. 1 of the August 2, 1988 Information Request, will benefit KU.

2. Provide the proposed holding company's business plan, articles of incorporation, bylaws and any other legal documents, which are relevant to understanding the proposed restructuring.

3. With reference to the response to Item No. 10 of the August 2, 1988 Information Request, explain in detail how KU will have access to capital markets to obtain needed common equity should it not be provided by the holding company.

4. Provide the accounting entries required by the proposed reorganization with a thorough explanation for each entry.

5. Provide a complete narrative discussion and any organization charts available that reflect the officers, management, and administrative positions tentatively planned for the holding company, the utility, and other subsidiaries. With this information, explain the approximate amount of time each employee will spend in each segment of the company upon the initial reorganization.

6. Discuss thoroughly the method of allocation of holding company overhead, labor, and other operating costs to subsidiaries. Also explain how the holding company costs will be allocated prior to establishment of other subsidiaries.

7. Provide a copy of KU's filings with FERC and the SEC.

8. With reference to the long-range goals listed on page 2 of Exhibit A of KU's response, provide the following information:

a. Define what is meant by a balanced capital structure, and what KU considers to be an optimum capital structure.

b. Define what is meant by increasing competition and explain how reorganization will strengthen KU's ability to deal with increasing competition.

9. With reference to Exhibit B, page 3, please discuss the conversion of employee benefit and other plans targeted for May 1, 1989.

10. Provide a transcript, if available, and copies of any additional handouts or exhibits used in Dr. C. F. Haywood's presentation to the board of directors.

11. Provide a copy of the Finance Committee's report on the appropriate corporate structure of KU referred to on page 1 of 5 of Exhibit A of the response to the Information Request of August 2, 1988.

12. Provide all reports, resolutions or other documents related to the "Recommendation" contained on page 2 of 5 of Exhibit A to the response to the Information Request of August 2, 1988.

13. Please discuss how KU will address the risk that the utility will be used as an employer or purchaser of last resort for employees and products associated with a failed affiliate venture.

14. Explain what consideration KU has given to the spin-off of the following business activities:

- a. Generation and Transmission facilities.
- b. Various personnel services.
 - (1) Management services.
 - (2) Computer-data processing services.
 - (3) Meter reading - billing services.
 - (4) Land and property management services.
 - (5) Maintenance and construction services.

- c. Office space leasing services.
- d. Transportation and equipment leasing services.
- e. Old Dominion Power.
- f. Electric Energy Inc.
- g. Landholdings for economic development.
- h. Marketing and referral services.

Also provide a discussion of which of the above activities will do business with KU, and how the prices for goods and services obtained from each affiliate will be established.

15. For each business activity to be undertaken by the holding company or spun-off from the utility, provide the following:

- a. Explain how the utility will benefit by obtaining the services from an affiliated company rather than obtaining the services in the present manner.

- b. The anticipated affect on the costs of KU.

16. Provide details and an explanation of the "responsibility reporting system" that show that it is capable of performing the required allocations.

17. Explain in detail which assets of KU will be utilized by the holding company upon the initial reorganization and provide a detailed explanation of how KU will be compensated by the holding company for each of the assets identified.

18. Provide a detailed analysis of the total cost incurred by KU in pursuit of the holding company organization. The analysis should be in sufficient detail to be able to identify all

costs whether direct charges or allocated through the responsibility reporting system. This analysis should go back to the summer of 1986 or earlier if applicable. Include the accounts charged with each amount included in the analysis. Include the items contained in Exhibit C of the response to the August 2, 1988 data request and indicate to which account the costs which have not yet been incurred will be charged.

19. On page 11 of KU's response to the Commission's request for information, KU states that "Access to the books and records of affiliates will be provided to the extent necessary to follow the audit record of any transactions between an affiliate and KU." May the Commission interpret "to the extent necessary" to mean it will have access whenever, in the Commission's judgment, it is in the public interest to investigate any non-regulated activity of a holding company subsidiary?

20. Has KU developed, or is it planning to develop, criteria for evaluating expansion alternatives as recommended by Dr. Haywood?

21. Refer to the top paragraph of Exhibit A, page three, of KU's response to the August 2, 1988 data request.

a. Quantify in dollars the "buildup of assets which are not currently needed for investment in utility operations."

b. What portion of this buildup is projected to be released as a "special dividend" to the holding company?

c. What is the time frame for the release of these funds?

d. Provide the long-range financing plan for KU over a range of growth rates, integrating it with the projected release of funds to the holding company.

e. Explain the effect of the projected release of funds on KU's financial statement, bond ratings, and other financial and credit ratings.

22. Explain any current plans to use any part of the name Kentucky Utilities in naming the holding company or any subsidiaries of that company?

23. Under the holding company organization, will KU's name and reputation be protected from possible negative consequences of risky ventures, and how will KU be compensated for the use of its name, history, and reputation?

24. Provide any documentation in the form of market analysis, investment service reports, consultant studies, research reports, etc., that reflect that the objectives KU seeks to accomplish through the holding company structure and that the benefits expected to be gained for the ratepayers, have been achieved by other public utility holding companies.

25. Provide a copy of the request and the response of the IRS to the request for a ruling as to the Federal Income Tax consequences of reorganization. If this document has not been received, provide any correspondence relating to this and the expected date for a response.

Done at Frankfort, Kentucky this 2nd day of September, 1988.

PUBLIC SERVICE COMMISSION


For The Commission

ATTEST:

Executive Director