

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND)
ELECTRIC COMPANY FOR AN ORDER)
APPROVING AN AGREEMENT AND PLAN OF) CASE NO. 89-374
EXCHANGE AND TO CARRY OUT CERTAIN)
TRANSACTIONS IN CONNECTION THEREWITH)

O R D E R

IT IS ORDERED that Louisville Gas and Electric Company ("LG&E") 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 20 days after the date of this Order. If the information cannot be provided by this date, LG&E 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. LG&E 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.

1. Provide a statement of goals of contemplated diversification activities including types of utility and non-utility activity, both in-state and out-of-state, and expected time frames to the extent known to date.

2. Provide a description of the evaluation systems to be used to track transfers of property, personnel, and other utility assets between utility and non-regulated affiliates. Include in

the description how the financial impact of these transfers will be monitored by LG&E.

3. Provide the proposed holding company policy regarding:

a. divestiture of non-regulated subsidiaries which consistently experience net operating losses; and

b. divestiture of regulated subsidiaries in the event that their ability to attract capital is in danger of being impaired by losses sustained by non-regulated subsidiaries.

4. Provide a summary time schedule envisioned by LG&E for the formation of LG&E Energy, Corporation ("Holding Company"), including the merger with Ohio Valley Transmission Corporation ("OVTC") and the reduction of ownership in Ohio Valley Electric Corporation ("OVEC").

5. Provide a detailed analysis of the total costs incurred and the total estimated expenses to be incurred in the formation of the Holding Company, including the OVTC merger and reduction of OVEC ownership. Indicate which expenses have actually been paid as of the date of the response. The analysis should be in sufficient detail to be able to identify all costs whether direct charges or allocated through the Financial Management Information System ("FMIS"). Include the accounts charged with each amount included in the analysis.

6. Provide copies of the applications or requests made to the Federal Energy Regulatory Commission, the Indiana Utility Regulatory Commission, and the Internal Revenue Service relating to the formation of the Holding Company, including the OVTC merger and the ownership reduction of OVEC. Include the current status

of the applications and requests, as well as any responses or approvals received as of the date of this response. Explain why approval from the Ohio Public Utilities Commission is not required for the OVEC transaction.

7. Provide the accounting entries required to complete the proposed reorganization with a thorough explanation for each entry.

8. Provide copies of any board of directors' minutes or resolutions which relate to the formation of the Holding Company, the OVTC merger, or the OVEC ownership reduction.

9. Provide a discussion of how LG&E will address the risk that the utility will be used as an employer or purchaser of last resort, a "dumping ground," for employees and products associated with a failed affiliate venture.

10. Explain what consideration LG&E 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. The portion of Trimble County Unit #1 to be excluded from rate base.

f. Landholdings for economic development.

g. Marketing and referral services.

11. Provide details and an explanation of the FMIS and show that it is capable of performing the required allocations.

12. Explain why LG&E was included in the name of the Holding Company.

13. Under the Holding Company organization, explain how LG&E's name and reputation will be protected from possible negative consequences of risky ventures, and how LG&E the regulated entity and its ratepayers are to be compensated for the use of its name, history, and reputation.

14. Concerning the exchange of common stock described in paragraph 10, page 6, of the application, provide an explanation as to whether LG&E has estimated the percentage of common stock holders who will dissent to the proposed exchange and will receive payment for those shares of common stock. Include in the explanation LG&E's estimate of the percentage of stock holders who will dissent to the exchange.

15. Concerning the reduction of LG&E's equity interest in OVEC, provide:

a. An indication of whether LG&E intends to sell its share of OVEC to an existing sponsoring company or a new sponsoring company.

b. An explanation of whether the current Inter-Company Power Agreement between OVEC, LG&E, and OVEC's Sponsoring Companies will need to be revised, amended, or renegotiated. If

no changes will be needed, include the reasoning for that determination.

c. An indication of the percentage of OVEC surplus electric power to which LG&E will have a right, after the reduction in the equity interest. If the percentage is different from the equity percentage, explain LG&E's right to this different percentage of OVEC electricity.

16. In paragraph 19, page 10, of the application, LG&E stated it expects that the Holding Company will only develop or acquire other businesses which are closely related to its core business of providing gas and electric service. LG&E further states in paragraph 22 that the holding company structure will allow it to respond to expected increased risks in the electric industry by developing non-utility subsidiaries, which will enable the Holding Company to diversify its sources of income. If the Holding Company establishes subsidiaries that are closely related to LG&E's core business, explain how the Holding Company has diversified its sources of income.

17. Concerning paragraph 23, page 12, of the application, provide a detailed explanation of what safeguards are to be implemented to prevent LG&E's dividend policy or the investment policies of the Holding Company from harming LG&E's equity position.

18. Concerning paragraph 32, page 15, of the application, indicate how long FMIS has been in place and on line at LG&E.

19. Concerning paragraph 37, page 18, of the application, regarding access to the books and records, indicate if LG&E means its external auditor would be the independent source to verify the lack of subsidiary or affiliate company transactions with LG&E. Also indicate the form of the verification such as a special audit report.

20. Concerning paragraph 41, page 19, of the application, explain how LG&E would define "significant nature" in describing transactions between itself and the Holding Company. Include dollar values in the definition, if possible.

21. Paragraphs 37 through 41, pages 17 through 20 of the application, address the Commission's monitoring of the Holding Company. The following items were not included in the discussion. For each item indicate whether LG&E would or would not be willing to provide the information. If the answer is no, provide an explanation of the reasons.

a. The filing of annual balance sheets and income statements of any non-consolidated subsidiaries of the Holding Company.

b. The quarterly filing of the number of employees of the Holding Company and each subsidiary on the basis of payroll assignment.

c. The years of service at LG&E and/or the salaries of professional employees transferred from LG&E to the Holding Company or its subsidiaries.

d. The filing of the cost allocation factors that would be in use.

e. The filing of summaries of any cost allocation studies conducted and the basis for the methods used to determine the cost allocations in effect.

f. The methods used to update or revise the cost allocation factors in use.

g. The submission of the Articles of Incorporation and bylaws of affiliated companies which would be in businesses related to the electric or gas industry or that would be doing business with LG&E.

h. The submission of the Articles of Incorporation of affiliated companies involved in non-related businesses.

Done at Frankfort, Kentucky, this 26th day of February, 1990.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director