COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL OF MERGER	))))	CASE NO. 97-300

<u>O R D E R</u>

This matter arising upon the motion of the International Brotherhood of Electrical Workers, Local 2100 ("IBEW") for full intervention, and it appearing to the Commission that the IBEW has a special interest which is not otherwise adequately represented, and that such intervention is likely to present issues and develop facts that will assist the Commission in fully considering the matter without unduly complicating or disrupting the proceedings, and this Commission being otherwise sufficiently advised,

IT IS HEREBY ORDERED that:

1. The motion of the IBEW to intervene is granted.

2. The IBEW shall be entitled to the full rights of a party and shall be served with the Commission's Orders and with filed testimony, exhibits, pleadings, correspondence, and all other documents submitted by parties after the date of this Order.

3. Should the IBEW file documents of any kind with the Commission in the course of these proceedings, it shall also serve a copy of said documents on all other parties of record.

Done at Frankfort, Kentucky, this 24th day of July, 1997.

ATTEST:

Don Mills

Executive Director

PUBLIC SERVICE COMMISSION

Linda K Breathitt

For the Commission

COMMONWEALTH OF KENTUCKY

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JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL OF MERGER	))) CASE NO. 97-300)

O R D E R

IT IS ORDERED that Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") shall file the original and 10 copies of the following information with the Commission no later than July 30, 1997, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

1. Provide the 1996 Securities and Exchange Commission ("SEC") Form U-3A-2, "Statement by Holding Company Claiming Exemption Under Rule U-3A-2 from the Provisions of the Public Utility Holding Company Act of 1935" for LG&E Energy and KU Energy.

2. Provide the following financial statements. All statements should reflect the 12 months ending or be as of June 30, 1997. The level of detail required for the responses is shown on Format 2, attached.

a. A consolidated balance sheet and income statement for LG&E Energy. These statements should contain columns for the holding company, the first-tier level subsidiaries, adjustments, and consolidated totals.

b. A consolidated balance sheet and income statement for KU Energy. These statements should contain columns for the holding company, the first-tier level subsidiaries, adjustments, and consolidated totals.

c. A balance sheet and income statement for LG&E, on a total company basis. These statements should contain columns for Kentucky jurisdictional operations, other jurisdictional operations (identified), and total company operations. Include descriptions explaining how any allocations were determined.

d. A balance sheet and income statement for KU, on a total company basis. These statements should contain columns for Kentucky jurisdictional operations, other jurisdictional operations (identified), and total company operations. Include descriptions explaining how any allocations were determined.

e. A balance sheet and income statement for LG&E, on a Kentucky jurisdictional basis, separating the electric and gas operations. Include descriptions explaining how any allocations were determined.

3. Provide the Kentucky jurisdictional amounts for the 3 percent investment tax credits and the Job Development Investment Tax Credit, as of June 30, 1997, for both LG&E and KU. Separate the LG&E amounts into electric and gas portions.

4. LG&E and KU have indicated that the merger will be treated as a pooling of interests for accounting purposes. To be classified and accounted for as a pooling

of interest, Accounting Principles Board ("APB") Opinion No. 16 requires that a business combination meet 12 criteria applicable to characteristics of the combining companies, characteristics of the combining interests, and limitations planned on transactions. All 12 of these criteria must be met before a business combination constitutes a pooling of interests. The criteria are outlined in paragraphs 46 through 48 of APB Opinion No. 16. Using the 12 criteria, explain how the proposed merger qualifies as a pooling of interests.

5. APB Opinion No. 16, paragraph 53, specifies certain accounting treatments when the amount of outstanding shares of stock of the combined company at par or stated value exceeds the amount of capital stock of the separate combining companies. Will the proposed merger result in the situation addressed in APB Opinion No. 16, paragraph 53?

6. Refer to the testimony of Victor A. Staffieri, page 7. Mr. Staffieri states that the "cost of the acquisition is the total par or stated value of the capital stock issued by the acquirer to effect the combination. This amount is debited to an investment account and the appropriate capital stock account is credited." However, in a pooling of interests, the investment in the combining company is recorded by the issuing company as the net assets of the combining company.[1]

a. As of June 30, 1997, what was value of the net assets of KU Energy?

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1 *Applying GAAP and GAAS*, Volume 1, by Paul Munter, Ph.D, CPA and Thomas A. Tarcliffe, Ph.D, CPA, 1997, Matthew Bender & Co., Inc., at 6-18.

b. Provide the accounting entries that will be required to record the cost of the acquisition and the investment in the combining company.

7. Assume that the merger was completed on June 30, 1997, and that the proposed surcredit accounting was approved. Provide a consolidated balance sheet and income statement for the newly merged LG&E Energy as of that date. The statements should provide the level of detail outlined in Format 2.

8. Refer to the Application, page 7, paragraph 11. It is stated here that KU will continue to operate under the name "Kentucky Utilities Company." However, the Agreement and Plan of Merger By and Between LG&E Energy Corporation and KU Energy Corporation, Article VII, Section 7.15(b) states that KU will operate under the name "KU Utilities Company." Which statement is correct?

9. Refer to Appendix A, KU Energy's Disclosure Schedule to Agreement and Plan of Merger, Section 4.2, dated May 20, 1997, and Appendix D of the Application. The subsidiaries disclosure contained in Appendix A does not agree with the Corporate Structure chart provided in Appendix D.

a. Explain why these documents are not in total agreement.

b. Provide a revised Appendix D which reflects the information disclosed in Appendix A.

10. Explain how the following activities by LG&E Energy and KU Energy will be impacted by the proposed merger:

a. A joint venture between KU Solutions and Alliance Energy Services, dealing with strategic gas marketing.

b. An agreement between LG&E Energy Marketing and New Energy Ventures, Inc., to provide energy-related services to retail energy customers.

c. The selection by LG&E Energy of the Oracle Corp. as a component of a major information systems initiative at LG&E Energy.

11. Refer to the testimony of Charles F. Haywood. Throughout Professor Haywood's testimony, he appears to be evaluating the merits of the proposed merger using the assumption that a competitive retail electric market will be in full operation. Explain why it is reasonable to base the evaluation on this assumption, when Professor Haywood acknowledges at page 9 that "At the present time, we do not know when or even if the retail market will be deregulated."

12. Describe the requirements that the proposed merger must satisfy if it is to constitute a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Service Tax Code. Explain how the terms and conditions of the proposed merger satisfy these requirements.

13. Refer to the testimony of Wayne T. Lucas, Exhibit WTL-1, the draft Power Supply System Agreement.

a. Where is the Power Supply Control Center expected to be located?

b. Explain how the Power Supply System Agreement impacts KU's contract with Owensboro Municipal Utilities.

c. Based on the 12 months ending June 30, 1997, what would be the proportions used to assign the costs of the Power Supply Control Center to LG&E and KU? Include the calculations and workpapers used to develop the proportions.

14. Refer to the Lucas testimony, Exhibit WTL-2, the draft Transmission Coordination Agreement.

a. Where is the Transmission System Operator expected to be located?

b. Is the concept of the Transmission System Operator outlined in the Transmission Coordination Agreement similar to an Independent System Operator ("ISO"), like the one being discussed for the Midwest? Describe any significant differences between the concepts.

c. As of the date of response to this Order, do LG&E and KU plan to be members in the Midwest ISO?

d. Describe the impact on the draft Transmission Coordination Agreement if the Midwest ISO is approved, established, and LG&E and KU are members. Include the expected impacts on each utility's transmission revenues.

e. Provide the calculations and workpapers used to determine the gross transmission revenue requirements ratios shown on Schedule A.

f. Provide the calculations and workpapers used to determine the annual transmission revenue requirements of $71,663,165, as shown on Schedule C.

15. Refer to the Lucas testimony, Exhibit WTL-3, the Joint Code of Conduct. Using highlights and strike throughs, compare the draft Joint Code of Conduct with the separate codes of conduct adopted by LG&E and KU.

16. Refer to the testimony of A. Joseph Van den Berg. At pages 11 and 12, Mr. Van den Berg describes the differences between created, enabled, and developed cost savings.

a. Was any attempt made by the parties to estimate enabled or developed savings?

b. If yes, what were the results of the attempt? If no, why wasn't an estimate attempted?

17. Refer to the Van den Berg testimony, page 18. Mr. Van den Berg has stated that the capital deferral and avoidance cost savings were determined using a revenue requirements approach rather than a cash flow approach.

a. Which approach was used to determine the other cost savings discussed in Mr. Van den Berg's testimony? Indicate why the selected approach was the most appropriate.

b. If the cash flow approach was used for the other cost savings, what would have been the level of cost savings if the revenue requirements approach had been used for all cost savings analysis? Include any workpapers and calculations used to determine this estimate.

18. Indicate the status of the other regulatory approvals required for the proposed merger. If no action has yet been taken, indicate when the parties intend to make the necessary filings. If the applications are in process, provide copies of any material filed with each regulatory agency.

19. LG&E and KU have proposed that the net savings (identified savings less the costs incurred to achieve those savings) be divided between shareholders and ratepayers on a 50-50 basis. It is also proposed that the ratepayer net savings be split between LG&E and KU on a 50-50 basis.

a. Explain why it is reasonable that the shareholders and ratepayers split the net savings on a 50-50 basis.

b. Were any studies or analyses performed which support the use of a 50-50 allocation? If yes, provide copies of the studies or analyses.

c. Explain why it is reasonable to divide the ratepayers' share of the net savings equally between LG&E and KU.

d. Was any consideration given to estimating which entity would produce the greater level of savings, and allocating the net savings to the ratepayers on that basis?

20. Explain how KU Energy was responding to the "Year 2000" computer system concern and how that response will change if the proposed merger is approved.

21. The testimony of Mr. Van den Berg discusses the various savings expected from the proposed merger due to the consolidation or central coordination of activities previously handled separately. Given this background, was any consideration given to merging LG&E and KU, and possibly achieve even more savings? Describe what consideration was given to this possibility.

22. Refer to the Van den Berg testimony, Exhibit AJV-3, the KU/LG&E Project Team Summary. When evaluating the workforce numbers at the holding company level, was the Western Kentucky Energy Corporation included in the LG&E Energy numbers? If no, explain why not.

23. Refer to the Van den Berg testimony, Exhibit AJV-3, the KU/LG&E Project Team Summary. In the corporate facilities savings area, it appears that the team

assumed all employee relocations would be from the Louisville office to the Lexington office. Is this a correct interpretation of the team's assumptions? If no, provide a clarification of the assumptions.

24. Provide a comparison of KU Energy's current Corporate Policies and Guidelines for Intercompany Transactions with the proposed Guidelines, in a manner similar to that provided in the testimony of M. Lee Fowler, Exhibit MLF-3.

25. Describe the impact the proposed merger will have on LG&E's and KU's compliance with the Clean Air Act Amendments of 1990. Include the following in the response:

a. Will the Environmental Protection Agency ("EPA") continue to view LG&E and KU as separate companies, with separate SO_2 compliance requirements? Explain.

b. Would EPA allow LG&E and KU to consolidate the respective emission allowance inventories? Explain.

c. Have LG&E and KU considered making any changes in the administration of the respective emission allowance inventories as part of the proposed merger? Explain.

26. Provide a schedule showing the percentage of the coal inventory as of June 30, 1997 procured through transactions with:

a. A term of less than one year.

b. A term of more than one year, but less than three years.

c. A term of more than three years.

Provide this information separately for LG&E and KU.

27. With the exception of adjustments mandated by statute and regulation, KU's current base rates are the same as those effective March 12, 1983. Likewise, LG&E's current base rates are the same as those effective January 1, 1991. LG&E and KU have proposed a 5-year base rate freeze in conjunction with the proposed merger.

a. Describe the changes which have occurred in KU's customer base since 1983.

b. Given the changes in KU's customer makeup since 1983, explain why it is reasonable to freeze the base rates until approximately 2003.

c. Describe the changes which have occurred in LG&E's customer base since 1991.

d. Given the changes in LG&E's customer makeup since 1991, explain why it is reasonable to freeze the base rates until approximately 2003.

28. Concerning the LG&E Energy Foundation, Inc. ("Foundation"):

a Currently, are all of LG&E's charitable activities administered through the Foundation? If no, explain the relationship LG&E has with the Foundation.

b. Will future charitable activities by KU be coordinated and administered through the Foundation? If no, explain the relationship envisioned between KU and the Foundation.

29. Both KU and LG&E have recommendations from recent management audits that are either on-going or still being implemented. Explain the impact the merger will have on each specific recommendation.

30. What capital structures do KU and LG&E hope to achieve immediately after the merger; after two years; and after five years?

31. Provide any notes, transcripts, analysis, recommendations or other written policies that will govern the expected dividend policy of LG&E Energy. How does this differ from the current dividend policy of LG&E and KU, respectively?

32. Under what circumstances would LG&E Energy seek the Commission's approval for KU or LG&E to guarantee the credit of affiliates?

33. Why should transfers or sales of assets between KU and LG&E be priced at the cost of such transactions rather than at the lower of cost or market?

34. What are the current reserve margins for LG&E and KU?

35. In what areas might savings occur due to the merger that have not been included in the estimated non-fuel savings? Why could a savings not be projected for each of these areas?

36. How did KU and LG&E determine their expected KWH retail jurisdictional sales?

37. What is the effect of the surcredit on an average customer's bill for a customer of LG&E and KU?

38. Will any merger savings be reflected in off-system sales? How?

39. List each LG&E/KU point of interconnection and state the maximum MW transfer capacity at each point.

40. What other methods were considered for the jurisdictional allocation of net non-fuel savings to KU's customers? Provide all analyses and memoranda discussing any jurisdictional allocation methodology considered.

41. Do LG&E and KU intend to flow-through to their respective ratepayers any merger savings after the first five years? If yes, how will the savings be flowed through to ratepayers? If no, explain why not.

42. Explain how the merger of KU and LG&E will increase diversity between rail and barge transportation and the amount of savings that will be achieved.

43. Will fuel requirements for any generating station change as a result of the merger? Explain the statement in Lucas testimony at p. 15 that "savings can be achieved through . . . increased diversity between fuel requirements for generating stations."

44. Show how the five-year estimated fuel savings of $36 million was calculated. How much of this amount will flow through to KU and how much to LG&E?

Done at Frankfort, Kentucky, this 24th day of July, 1997.

PUBLIC SERVICE COMMISSION

Linda K Breathitt

For the Commission

ATTEST:

Don Mills

Executive Director

Format 2

CASE NO. 97-300
LOUISVILLE GAS & ELECTRIC COMPANY AND
KENTUCKY UTILITIES COMPANY

Detail Requested for Financial Statements

The detail requested for the financial statements is based on sections of the FERC Form No. 1. Page and line number references relate to that report.

Balance Sheets:

Provide the level of detail shown on pages 110 through 113. Columns (b) and (c) are to be omitted. Show only balances as of June 30, 1997. Accounts not utilized by LG&E or KU may be omitted. Identify on a separate page the Associated and Subsidiary Companies reported on the balance sheet.

Income Statements:

Operating Revenues - Provide the level of detail shown on page 300, columns (a) and (b). Balances are for the 12 months ending June 30, 1997. Accounts not utilized by LG&E or KU may be omitted.

Operating Expenses through Net Operating Income - Provide the level of detail shown on page 114, columns (a) and (c). Balances are for the 12 months ending June 30, 1997. Accounts not utilized by LG&E or KU may be omitted.

Other Income and Deductions - Provide the totals corresponding to the following lines on page 117, columns (a) and (c): Lines 39, 44, 53, and 54. Balances are for the 12 months ending June 30, 1997.

Interest Charges, Extraordinary Items, and Net Income - Provide the level of detail shown on page 117, columns (a) and (c), lines 55 through 72. Balances are for the 12 months ending June 30, 1997.