COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE UNION LIGHT, HEAT AND POWER COMPANY FOR A CERTIFICATE OF PUBLIC CONVENIENCE TO ACQUIRE CERTAIN GENERATION RESOURCES AND RELATED PROPERTY; FOR APPROVAL OF CERTAIN PURCHASE POWER AGREEMENTS; FOR APPROVAL OF CERTAIN ACCOUNTING TREATMENT; AND FOR APPROVAL OF DEVIATION FROM REQUIREMENTS OF KRS 278.2207 AND 278.2213(6)	)))))))))	CASE NO. 2003-00252

INITIAL DATA REQUEST OF COMMISSION STAFF
TO THE UNION LIGHT, HEAT AND POWER COMPANY

The Union Light, Heat and Power Company (ULH&P), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due September 2, 2003. 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 person 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. Where information herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. The proposal to acquire electric generating facilities and other related property involves transactions between ULH&P, The Cincinnati Gas and Electric Company (CG&E), and other subsidiaries or affiliates of Cinergy Corp. (Cinergy).

a. Identify all Cinergy-affiliated entities that will be involved in or impacted by the proposed transaction. Describe the involvement and impact for each entity identified. This should include contracts with affiliated entities for fuel supplies.

b. Provide a current organization chart showing the relative positions of all the Cinergy entities that would be involved in the proposed transaction.

2. Refer to page 4, Section 6.a of ULH&P s application. Identify and describe the steps that will be necessary to transfer the existing air and water quality permits for East Bend, Miami Fort 6, and Woodsdale (collectively the Plants) from the present owner, CG&E, to ULH&P.

3. Refer to Section 4.5 of the Burns and McDonnell Due Diligence Evaluation of East Bend (East Bend Evaluation), which indicates the unit is on a 7-year maintenance cycle and that the next major maintenance outage is scheduled for 2009.

a. Has East Bend been on a 7-year maintenance cycle since it was commercialized? If no, what was the previous cycle and when was it changed?

b. This section identifies the 2002 maintenance work. Provide the dates of previous major maintenance outages and a description of the work performed.

4. Section 3.4 of the East Bend Evaluation indicates that four units were originally planned for the site.

a. Explain whether the site is still capable of accommodating three additional units.

b. Explain whether the proposed transfer includes all the land at the site or just the portion that has been developed for the existing generating unit.

5. Section 5.1.8 of the East Bend Evaluation shows that East Bend holds allowances for 18,315 tons of SO_2 emissions and that NOx compliance is achieved on a system-wide basis by sharing allowances among Cinergy s 70-plus generating units. Explain whether it is intended for NOx compliance to continue being achieved in this same manner after the consummation of the proposed transfer to ULH&P. The testimony does not appear to address this issue.

6. Section 5.3 of the East Bend Evaluation indicates that the on-site landfill has sufficient capacity to allow for many years of continued operation. The plant has been in operation for 22 years. How many more years will the remaining capacity of the landfill be able to accommodate?

7. Refer to Section 7.0 of the East Bend Evaluation, which refers to East Bend being capable of providing long-term, reliable service. Based on the condition of the unit and Burns and McDonnell s knowledge of coal-fired base load generating units, how many more years of service could ULH&P generally expect from the unit?

8. Refer to Section 4.4 of the Burns and McDonnell Due Diligence Evaluation of Miami Fort 6 (Miami Fort Evaluation), which indicates that major maintenance is performed on a need basis and that the last major maintenance outage was in 1994.

a. Explain why major maintenance is performed on a need basis rather than on a specific schedule, or cycle.

b. The unit has been operating since 1960. Has major maintenance on the unit always been performed on a need basis ?

c. If no, to part (b), when did the change occur and why?

d. Provide the dates of all major maintenance work performed since 1980 and a description of the work performed.

9. Section 3.2.1 of the Miami Fort Evaluation refers to the stack that is shared with Miami Fort 5. Describe how the costs related to the shared stack will be treated after the proposed transfer.

10. Section 3.3 of the Miami Fort Evaluation refers to the coal handling and fuel oil storage facilities that Miami Fort 6 shares with the other units at the site. Describe how the costs related to these shared facilities will be treated after the proposed transfer.

11. Section 5.1.1 of the Miami Fort Evaluation refers to Miami Fort Units 5, 7, and 8. Provide a general description of each of these three units, including nameplate rating, year commercialized, type of coal burned, 2002 generation level, environmental equipment installed, and ownership status (if shared).

12. Section 5.1.5 of the Miami Fort Evaluation refers to the unit burning medium sulfur coal and the SNCR not being operated recently since it is less expensive to achieve comparable NOx reductions at other Cinergy generating units. Explain whether it is intended for NOx compliance to continue being achieved in this same manner after the consumation of the proposed transfer to ULH&P. This issue was cited as a concern of Burns and McDonnell in Section 5.1.7. of the Miami Fort Evaluation.

13. Section 5.3 of the Miami Fort Evaluation refers to the Lawrenceburg ash landfill that could be used if the market for ash produced at Miami Fort 6 should

disappear. Provide the amount of landfill ash produced annually by the unit and the available capacity of the Lawrenceburg landfill.

14. Section 7.0 of the Miami Fort Evaluation and the Direct Testimony of H. Davis Ege, at page 5, refer to performance and maintenance issues that could prevent the plant from operating as designed. Provide a detailed description of these issues.

15. Refer to Section 7.0 of the Miami Fort Evaluation, which refers to Miami Fort 6 being capable of providing long-term, reliable service. Based on the age and condition of the unit and Burns and McDonnell s knowledge of coal-fired base load units, how many more years of service could ULH&P generally expect from the unit?

16. Refer to the Burns and McDonnell Due Diligence Evaluation of Woodsdale (Woodsdale Evaluation), which indicates that Units 5 and 6 have had recent overhauls and that the other units are scheduled for overhauls in 2004 and 2005.

a. When did the overhauls of Units 5 and 6 occur?

b. For peaking units such as the six Woodsdale units, what does Burns and McDonnell expect will be the cycle for major maintenance in the future?

17. Section 4.2 of the Woodsdale Evaluation includes various statistics for the Woodsdale units.

a. Explain why generation levels declined in 2001 and 2002 compared to previous years.

b. Explain why the lifetime operating hours for Unit No. 2 are so much less than the hours for the other five units.

18. Section 5.11 of the Woodsdale Evaluation indicates that 12 units were originally planned for the site.

a. Explain whether the site is still capable of accommodating 12 units.

b. Explain whether the proposed transfer includes all the land at the site or just the portion that has been developed for the existing generating units.

19. Section 5.1.9 of the Woodsdale Evaluation includes an area of concern similar to that expressed regarding Miami Fort 6. Explain whether it is intended for NOx compliance to be achieved by providing allowances to ULH&P for Woodsdale after the transfer of Woodsdale to ULH&P. The testimony does not appear to address this issue.

20. Refer to page 5 of the Direct Testimony of Gregory C. Ficke (Ficke Testimony), which refers to ULH&P s proposal to file its next Integrated Resource Plan (IRP) 3 years after the Commission s final Order in this case. Explain how 3 years was chosen as the length of time before ULH&P would file its next IRP.

21. Refer to page 13 of the Ficke Testimony, specifically the discussion of how inter-company transfers under the proposed Back-up Power Sales Agreement (Back-up PSA) will be priced at market, but capped at the receiving company s incremental cost of available generation.

a. For purposes of the power transfers covered by the terms of the Back-up PSA, provide ULH&P s definition of incremental cost of available generation.

b. Under the proposed transfer, will Woodsdale s gas-fired generation generally represent ULH&P s incremental cost of available generation? If no, explain why not and identify the circumstances under which East Bend or Miami Fort 6 would represent the incremental cost of available generation for ULH&P.

22. Refer to page 16 of the Ficke Testimony. Provide Dayton Power and Light s written consent to the transfer of East Bend from CG&E to ULH&P.

23. Refer to page 15 of the Direct Testimony of James L. Turner (Turner Testimony). Mr. Turner states that Cinergy is conditioning the transfer of the Plants from CG&E to ULH&P, at net book value, on the assurance that ULH&P will receive reasonable rate treatment from this Commission for the various components of our resource plan.

a. Explain in detail why Cinergy believes this condition is necessary.

b. Describe the circumstances that have apparently caused Cinergy to be concerned that ULH&P would not receive reasonable rate treatment from the Commission for the components of the proposed resource plan.

c. If ULH&P, CG&E, and Cinergy do not agree with the Commission s decisions concerning the proposed transaction, is Cinergy in effect reserving the right to cancel the proposed transaction? Explain the response.

d. Explain whether this is intended to mean today s net book value plus all additions made prior to the acquisition or all additions made during the term of the current rate freeze.

24. Refer to pages 15 and 16 of the Turner Testimony. The second condition related to the proposed transfer refers to the monthly capacity charges specified in the Back-up PSA and future reasonable monthly capacity charges as agreed to between CG&E and ULH&P, and approved by the Federal Energy Regulatory Commission (FERC 0, being included in ULH&P s base rates.

a. Explain whether the capacity charges specified in the Back-up PSA have been approved by FERC.

b. If yes, provide the FERC order that approved the capacity charges.

25. Refer to page 16 of the Turner Testimony, specifically, the third and fourth conditions, which relate to the future recovery of energy charges and transfers under the Back-up PSA and the Purchase, Sale, and Operation Agreement (PSOA) through ULH&P s Fuel Adjustment Clause (FAC). Explain whether these conditions are being presented with the understanding by ULH&P of the Commission s retrospective review of such recoveries through the FAC, after the charges have been imposed.

26. Refer to page 16 of the Turner Testimony, specifically the seventh condition being sought by Cinergy, CG&E, and ULH&P on the proposed transaction -- that ULH&P retain all profits from off-system sales from the assets being transferred.

a. Is the intent of this condition that, in future electric base rate cases, the profits from ULH&P s off-system sales would not be included as part of the revenues used to determine ULH&P s electric revenue requirement? Explain the response.

b. Explain how ULH&P proposes to treat the expenses incurred to generate the energy available for off-system sales in a future electric base rate case.

c. From a rate-making perspective, explain in detail how ULH&P s condition as to the treatment of off-system sales revenues and its planned treatment of off-system sales-related expenses is reasonable and consistent with previous Commission decisions concerning the rate-making treatment for off-system sales.

d. Provide the projected volume of annual off-system sales for the Plants and the profits therefrom. Include supporting workpapers and a narrative description of the manner in which the sales volume and related profits were derived.

27. Refer to Attachment JLT-1 to the Turner Testimony, specifically Section 2.01. The Asset Transfer Agreement for East Bend provides that ULH&P will acquire

and assume the assets from CG&E free and clear of all encumbrances, other than Permitted Encumbrances.

a. Without restating the definition of permitted encumbrances provided, list any and all encumbrances on the assets being transferred under this Asset Transfer Agreement.

b. Provide the asset transfer agreements for the Miami Fort Unit 6 and the Woodsdale Generating Station or explain why such agreements have not been prepared.

28. Refer to Attachment JLT-1 to the Turner Testimony, specifically Section 7.09. The Schedules to the East Bend Asset Transfer Agreement were not included with the Agreement. Provide the Schedules.

29. Refer to Attachment JLT-1 to the Turner Testimony, specifically Section 3.02, and Attachment JPS-7 to the Steffen testimony. Explain why it is reasonable for ULH&P to reimburse CG&E or any of its affiliates for all transaction costs incurred in connection with the proposed acquisition.

30. Refer to pages 4 and 5 of the Direct Testimony of Robert C. McCarthy (McCarthy Testimony) regarding the pricing terms included in the Back-up PSA.

a. Explain why the capacity charge is priced at market rather than at cost.

b. Explain how and why December 31, 2009 was chosen as the termination date of the proposed Back-up PSA.

c. Provide support for the statement that the price for back-up power will be below the price embedded in the existing power sale agreement with CG&E.

31. Refer to page 11 of the McCarthy Testimony.

a. Explain why CG&E, instead of ULH&P, would make off-system sales to third parties for any sales of ULH&P-generated energy.

b. Explain why any excess energy ULH&P may have should first be sold to CG&E before being sold to a third party.

c. Explain how and by whom it will be determined that ULH&P has excess energy that can be economically dispatched and sold into the market.

d. Will ULH&P receive dollar-for-dollar the revenues collected by CG&E for sales of ULH&P s excess generation? If not, explain why not.

e. Will the Inter-Company Transfer price always equal the actual selling price? If not, explain why not.

32. Refer to page 16 of the McCarthy Testimony.

a. When examining the available alternatives concerning its resource needs, did ULH&P consider issuing a request for proposals (RFP) seeking responses on the availability of unit sales, asset sales, or co-ownership of generating facilities?

b. If this approach was considered, explain why no RFP was issued.

c. If this approach was not considered, explain in detail why not.

d. Responses to a RFP could have provided independent, non-affiliate price information. Since ULH&P did not issue a RFP as part of its evaluation of its resource needs, explain how the Commission can be assured that the proposed transaction represents the optimal alternative for ULH&P.

33. Refer to Attachment RCM-1 to the McCarthy Testimony, specifically Section 5.1. Explain in detail why ULH&P remains obligated to pay capacity charges

during the pendency of a Force Majeure in which CG&E is the party rendered unable to carry out its obligations.

34. Refer to page 9 of the Direct Testimony of John J. Roebel (Roebel Testimony). Mr. Roebel states that there are major capital projects planned for the East Bend plant that are projected to cost $8.3 million. State whether the $8.3 million projected cost will be paid according to the ownership interest, 69 percent by ULH&P and 31 percent by Dayton Power & Light Company, or whether ULH&P will pay 100 percent of the cost of the project at East Bend. Explain the response.

35. Refer to page 10 of the Roebel Testimony, which refers to low NOx burners proposed to be installed at Miami Fort 6. Provide any cost-benefit analysis or other support for the projection that purchasing emission allowance would be more costly than installing low NOx burners.

36. Refer to page 11 of the Roebel Testimony, which refers to rewinding both the generator stator and rotor at East Bend and indicates that the work is necessary because East Bend is one of only three of this model of generators manufactured by Westinghouse not to be rewound out of a total population of 35 generators.

a. Explain the concern associated with East Bend being one of three generators, out of a total of 35, that has not been rewound.

b. Describe the problem that, if not corrected with the rewind, could result in a catastrophic failure and associated long outage.

37. Refer to pages 12 and 13 of the Roebel Testimony, where Mr. Roebel discusses the estimate for annual fixed and variable operation and maintenance (O&M) costs for the Plants.

a. Provide the actual fixed and variable O&M costs for each Plant for each of the past 5 years. Include with this information the variable unit cost per MWh for each item of variable costs and by the projected output for each Plant.

b. Provide justification for the use of a 2.5 percent escalation factor.

38. Page 9 of the Roebel Testimony identifies $54.5 million in cost for major capital projects planned at the Plants through December 31, 2006. Page 11 indicates that Mr. Roebel provided other witnesses, including Mr. Steffen, additional capital expenditure projections for the Plants. Mr. Steffen s Attachment JPS-1 includes a total of approximately $72 million in capital additions from 2003 through 2006.

a. The fourth column of Attachment JPS-1 is headed Net Book Value March 31, 2003 and the fifth column is headed 2003 Capital Additions. Does this mean that the additions shown in the fifth column all occur after March 31, 2003?

b. Annually for the years 2003 through 2006, provide a listing, including the dollar amounts, of all the capital additions, major or minor, that make up the $72 million total.

39. Page 2 of 2 of Attachment JJR-5 to the Roebel Testimony shows that the starting point for estimating the fixed 2006 O&M expenses for the Plants was the 2003 budget for fixed O&M. Explain why the 2003 budget was used rather than actual 2002 fixed O&M expenses. Provide the annual fixed O&M expenses for the Plants for the years 2000 through 2002.

40. Page 6 of the Direct Testimony of J. Thomas Mason (Mason Testimony) refers to Powder River Basin (PRB) coal not being the logical fuel of choice for any of

Cinergy s plants because of the distance of the coal from its plants. Which of Cinergy s plants are designed so they can burn PRB coal or a mix of PRB and Appalachian coal?

41. Page 8 of the Mason Testimony indicates that Cinergy will work with its coal suppliers to amend its coal contracts and make ULH&P a party to those contracts. Explain whether there is reason to believe that amending the contracts to make ULH&P a party presents a problem.

42. The Mason Testimony does not include any detail of the Plants current and recent fuel costs or the existing fuel contracts, spot purchase agreements, etc.

a. For 2000, 2001, 2002 and through June 30, 2003, provide the monthly fuel cost for each of the Plants stated in cents per MMBtu.

b. Provide a detailed listing of all existing fuel contracts purchase orders, spot purchase agreements, etc. or other documents that establish the terms and prices under which fuel is purchased for the Plants. For the coal acquired for East Bend and Miami Fort 6, include tonnages, sulfur content, heat content, and the termination date for the contract / agreement. Provide the current mix of coal purchased under contract and coal purchased on the spot market.

43. Page 12 of the Direct Testimony of Diane L. Jenner (Jenner Testimony) refers to a study performed for Cinergy by Sargent and Lundy, which was used to obtain data for potential new pulverized coal and fluidized bed plants. Provide the executive summary of the study and show when the study was completed.

44. The Jenner Testimony describes the analysis of ULH&P acquiring the Plants compared to various construction options, purchase options, or combination construct and purchase options for meeting ULH&P s resource needs.

a. Explain how the combination of the Plants was selected rather than some other combination of CG&E generating units.

b. Was any analysis of ULH&P possibly acquiring other CG&E generating units performed?

c. If yes to (b), provide the results of the analysis. If no, explain why such an analysis was not performed.

45. Refer to page 6 of the Direct Testimony of John P. Steffen (Steffen Testimony), where Mr. Steffen states that the methodology used to determine the electric jurisdictional percentage is consistent with the methodology used in prior ULH&P base rate cases.

a. When referring to the methodology used in prior base rate cases, is Mr. Steffen referring to the methodology proposed by ULH&P in those cases or the methodology used by the Commission? Explain the response.

b. Does the methodology used by Mr. Steffen to determine the electric jurisdictional percentage conform to the methodology used by the Commission in Case No. 2001-00092,[1] ULH&P s last general rate case? If no, explain why the methodology does not follow that used by the Commission.

c. If the methodology differs from that used by the Commission in ULH&P s last general rate case, recalculate the electric jurisdictional percentage to be consistent with that used by the Commission in the last general rate case.

[1] Case No. 2001-00092, Adjustment of Gas Rates of The Union Light, Heat and Power Company, final Order dated January 31, 2002.

46. Refer to pages 8 and 9 of the Steffen Testimony, concerning energy transfers and off-system purchases.

a. Mr. Steffen states that energy transfers are defined as economy energy purchases made on an economic dispatch basis. Identify the source or reference documenting this definition.

b. Mr. Steffen states that an option ULH&P might consider in its next general rate case to recover the cost of Operating and Reliability Purchases would be a purchased power tracker. Provide a general description of how ULH&P envisions a purchased power tracker operating.

c. In this proceeding, is ULH&P seeking any assurances from the Commission that it can propose a purchased power tracker in the next general rate case? Explain the response.

47. Refer to page 10 of the Steffen Testimony, specifically the discussion of generation-related Administrative & General (A&G) expenses and how they were allocated to ULH&P.

a. Provide a narrative description and a summary of the analysis of prior years expenses performed by the Energy Merchant Business Unit financial group, upon which the 80 percent allocation to the generating plants was based.

b. The generation-related A&G expenses were allocated among all CG&E generating plants based on their 2002 megawatt-hours of generation, as shown in JPS-6. Explain why only one year s generation was used and provide the annual megawatt-hours generated for all CG&E plants for the 4 years preceding 2002.

48. Refer to pages 10 and 11 of the Steffen Testimony, specifically the discussion of the allocation of trading and dispatching expenses.

a. Explain why these expenses are allocated between CG&E and ULH&P based on annual average peak load rather than megawatt-hours of generation as are the generation-related A&G expenses.

b. Explain why the annual average peak load for only one year was used and provide the annual average peak loads for CG&E and ULH&P for the 4 years preceding 2002.

49. Refer to pages 10 and 11 of the Steffen Testimony. Do the allocation approaches and methodologies discussed by Mr. Steffen match the various cost allocation ratios required by the Securities and Exchange Commission (SEC) in conjunction with Cinergy s status as a registered holding company? Explain the response.

a. If the allocation approaches and methodologies used in Mr. Steffen s revenue requirement estimate do not match the SEC cost allocation ratios, explain in detail why costs were not allocated using the SEC cost allocation ratios.

b. Provide a listing of the SEC cost allocation ratios that are applicable to the various O&M expenses ULH&P anticipates incurring in conjunction with its ownership of the Plants. Include a description of each cost allocation ratio and explain how each ratio is calculated.

50. Refer to pages 11 and 12 of the Steffen Testimony.

a. Does Mr. Steffen s estimate of the transaction costs include the costs associated with securing the necessary approvals from the SEC and FERC? Explain the response.

b. Explain how ULH&P plans to track the actual costs associated with the transaction. This explanation should address, but not be limited to, how ULH&P will document the costs, any modifications to the accounting system to track the costs, and the time period over which ULH&P expects to accumulate the transaction costs.

c. In seeking the deferral of the transaction costs, is ULH&P also seeking a particular rate-making treatment for the deferred costs in this proceeding? Explain the response.

d. Does ULH&P plan to delay the amortization of the deferred transaction costs until such time as the amortization expense has been considered in a general rate case? Explain the response.

e. Given the nature of the transaction costs, explain why ULH&P believes it is reasonable to use a 3-year amortization period for the deferred costs.

f. Provide a schedule of the actual transaction costs incurred by CG&E, ULH&P, and Cinergy through June 30, 2003. The schedule should reflect the level of detail as shown on Attachment JPS-7 of the Steffen Testimony.

g. Provide by October 16, 2003 an updated schedule of the actual transaction costs incurred by CG&E, ULH&P, and Cinergy through September 30, 2003. The schedule should reflect the level of detail as shown on Attachment JPS-7 of the Steffen Testimony.

51. Refer to pages 12 and 13 of the Steffen Testimony.

a. Provide a detailed analysis of the estimated $8.0 million in accumulated deferred investment tax credits (ADITC) associated with the Plants. This analysis should include, but not be limited to,

(1) A breakdown of the total ADITC balance as of March 31, 2003 that matches the ADITC to the corresponding utility plant. Include the FERC account numbers used to record the ADITC on the books of CG&E.

(2) The date the ADITC was originally booked by CG&E and a description of the investment that gave rise to the tax credit.

(3) The initial balance of the ADITC and the annual amount amortized.

(4) A description of any changes in the ADITC balances or amortization approach due to the implementation of retail unbundling in Ohio.

(5) An estimate of when the ADITC amortization will be completed.

(6) The identification of the portion of the ADITC balance that is FERC jurisdictional, Ohio retail jurisdictional, and any other applicable jurisdictional allocation. Include an explanation of how the jurisdictional allocation was determined.

b. Mr. Steffen notes that the retail portion of the ADITC has been amortized below the line over the remaining lives of the plants. Does this statement imply that there is a wholesale portion of the ADITC associated with these plants? Explain the response.

c. Assume for purposes of this question the transaction is completed on June 30, 2004. What is the estimated ADITC balance that would be transferred to ULH&P s books on that date?

d. ULH&P is proposing that the amortization of the ADITC balance transferred to its books continue to be below the line and this accounting treatment would exclude the pre-transfer amounts from retail rate-making in Kentucky.

(1) Explain in detail why this proposed accounting treatment is reasonable.

(2) Explain why the accounting treatment adopted in a jurisdiction to recognize retail unbundling should be continued for a company operating in a jurisdiction where retail unbundling has not been implemented.

(3) Have ULH&P, CG&E, or Cinergy researched the Internal Revenue Service (IRS) tax statutes and regulations to determine if the accounting treatment proposed for the ADITC balances complies with those statutes and regulations? If yes, provide a detailed description of the results of this research. If no, explain in detail why such an analysis has not been undertaken.

52. Refer to page 13 of the Steffen Testimony.

a. Provide a detailed analysis of the accumulated deferred income taxes associated with the Plants. This analysis should include, but not be limited to:

(1) The balance of accumulated deferred income taxes as of March 31, 2003. The FERC account numbers used to record these taxes on the books of CG&E should be included.

(2) A schedule separating the accumulated deferred income taxes as of March 31, 2003 between federal and state jurisdictions and matching the accumulated deferred income tax balance with the corresponding utility plant. If the state jurisdiction involves a state other than Ohio, separate the state jurisdictional amounts between the various states.

(3) A breakdown of the March 31, 2003 balance based on a description of the event that generated the accumulated deferred income tax. An example of this would be the amount generated by differences in depreciation methodologies.

(4) A description of how CG&E currently accounts for the accumulated deferred income taxes. This description should note whether the amortization of the accumulated deferred income taxes is above or below the line, and the reason(s) for that accounting treatment.

b. Is Mr. Steffen proposing that once the accumulated deferred income taxes are transferred to ULH&P, the amortization of those balances should be below the line, so that the balances would not be included for rate-making purposes in ULH&P s next general rate case? Explain the response.

c. Mr. Steffen states that The balances transferred from CG&E to ULH&P would not be considered for ratemaking in Kentucky, since they are applicable to the period of time prior to ULH&P s ownership of the Plants.

(1) Explain in detail the basis for this conclusion by Mr. Steffen.

(2) If the accumulated deferred income taxes applicable to the period prior to the transfer are not be to considered for rate-making purposes in

Kentucky, explain in detail how ULH&P proposes to amortize and account for the outstanding balances that are to be transferred as of the date of completion of the proposed transaction.

(3) Are the accumulated deferred income taxes associated with the plants considered part of what is being purchased from CG&E by ULH&P? Explain the response.

(4) Have ULH&P, CG&E, or Cinergy researched IRS tax statutes and regulations to determine if the accounting treatment proposed for the accumulated deferred income tax balances complies with those statutes and regulations? If yes, provide a detailed description of the results of this research. If no, explain in detail why such an analysis has not been undertaken.

53. Refer to Attachment JPS-1 to the Steffen Testimony. Provide the following information for each of the three generating facilities:

a. A detailed breakdown of the 2003 Capital Additions. Include a description of each project and the reason(s) the project is necessary. Also provide the status of the 2003 Capital Additions as of July 31, 2003.

b. The construction budgets or other documentation that identify the specific capital additions expected in 2004, 2005, and 2006. Include a description of each project and the reason(s) the project is necessary.

c. A discussion of why there are no references in Attachment JPS-1 to retirements or replacements at the three generating facilities.

d. A schedule of any retirements or replacements anticipated for the three generating facilities. Separately identify those retirements or replacements occurring as a direct result of the projected capital additions.

e. Indicate when CG&E last performed a comprehensive examination of its depreciation rates for its electric assets. If more than 5 years have passed since the last study, indicate when CG&E anticipates undertaking a new comprehensive examination of its depreciation rates.

54. Refer to Attachment JPS-2 to the Steffen Testimony.

a. Explain in detail why expenses for SO_2 and NOx emission allowances are shown as credits in the revenue requirement calculations. Include an explanation of how these amounts were calculated

b. Will the SO_2 and NOx emission allowances associated with the three generating facilities be transferred to ULH&P? Explain the response.

c. If the SO_2 and NOx emission allowances are to be transferred to ULH&P, explain why that fact has not been discussed in the application. Also include a discussion of how the emission allowances would be transferred and the accounting treatment ULH&P plans on using.

d. If the SO_2 and NOx emission allowances are not to be transferred to ULH&P, explain in detail why the allowances will not be transferred.

e. For each of the three generating facilities, provide the following information concerning the SO_2 and NOx emission allowances:

(1) The number of SO_2 emission allowances as of March 31, 2003 for the current year and each vintage year through 2032.

(2) The dollar value of the SO_2 emission allowances as of March 31, 2003 for the current and each vintage year through 2032. For any year where the dollar value is other than zero, explain how that vintage year acquired a dollar value.

(3) The number of NOx emission allowances, as of March 31, 2003, for calendar years 2003 through 2006.

(4) The dollar value of the NOx emission allowances as of March 31, 2003 for calendar years 2003 through 2006. For any year where the dollar value is other than zero, explain how that year acquired a dollar value.

f. Does ULH&P anticipate filing an application for an environmental surcharge under KRS 278.183 prior to December 31, 2006? Explain the response.

g. Are any of the three generating facilities the subject of litigation related to environmental issues? If yes, provide a thorough discussion of the background and nature of the litigation, as well as the status of the litigation as of July 31, 2003.

h. If there is any pending litigation related to environmental issues associated with any of the three generating facilities, who will be responsible for the costs associated with that litigation? Explain the response.

55. Refer to Attachment JPS-3 of the Steffen Testimony. Given the treatment of the Transaction Expense in the projection of ULH&P s capitalization, has ULH&P assumed it would be allowed to earn a return on the unamortized balance of the deferred Transaction Expense? Explain the response.

56. Refer to Attachment JPS-5 of the Steffen Testimony.

a. The test period in Case No. 2001-00092 was the 12 months ending September 30, 2000. ULH&P s calculations of the jurisdictional ratio recognized $13,947,000 in electric operations non-jurisdictional plant and $970,000 in electric operations non-jurisdictional accumulated depreciation.[2] Explain in detail why there is no recognition of electric operations non-jurisdictional plant and accumulated depreciation in Attachment JPS-5.

b. For the following rate base items, indicate whether the total company balance was simply allocated between gas and electric operations or whether there was a review to determine the appropriate amounts to show as gas or electric operations:

(1) Other Material and Supplies (Accounts 154 & 163).

(2) Prepayments (Account 165).

c. Attachment JPS-5 states that the balances presented are as of December 31, 2002, but it appears to reflect balances more in line with the 2006 projected capitalization. Indicate whether Attachment JPS-5 reflects the December 31, 2002 rate base or the 2006 projected rate base.

d. If Attachment JPS-5 reflects the 2006 projected rate base, provide a schedule showing the development from the actual 2002 amounts to the projected 2006 amounts, similar to the presentation in Attachment JPS-3. Include all assumptions and supporting calculations.

57. Refer to Attachments JPS-3 and JPS-5 of the Steffen Testimony. When projecting ULH&P s capitalization and rate base to 2006, did Mr. Steffen include the

[2] Case No. 2001-00092, Application Workpaper WPD-2.10b.

impact of ULH&P s Accelerated Mains Replacement Program (AMRP) in the gas operations?

a. If yes, provide a schedule of the AMRP additions included by year for 2003 through 2006.

b. If no, explain why the AMRP additions were not included.

58. Have ULH&P and CG&E contacted the Kentucky Revenue Cabinet and the corresponding Ohio agency to determine if the proposed transaction will have any tax impacts on either company?

a. If yes, describe any contacts and inquiries made concerning the potential tax implications of the proposed transaction.

b. If no, explain why such an inquiry has not been undertaken with either state.

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DATED: August 21, 2003

cc: All parties