

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE CINCINNATI GAS &)
ELECTRIC COMPANY AND CENERGY CORP. FOR)
APPROVAL OF THE ACQUISITION OF CONTROL OF) CASE NO. 94-104
THE UNION LIGHT, HEAT & POWER COMPANY BY)
CENERGY CORP.)

O R D E R

IT IS ORDERED that Cincinnati Gas and Electric Company ("CG&E") and CENERGY Corp. ("CENERGY") shall file the original and 12 copies of the following information with the Commission by April 21, 1994, 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 copies material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. There is no discussion in the application or testimony of the 1989 Schumaker & Company management audit of The Union Light, Heat and Power Company ("ULH&P"). In ULH&P's last three general rate cases, the Commission has expressed concerns about ULH&P's inability to track and quantify costs and savings resulting from the implementation of management audit recommendations.

a. Describe the impact the acquisition of indirect control by CINergy will have on ULH&P's efforts to implement the recommendations contained in the 1989 Schumaker & Company report.

b. Describe the impact the acquisition of indirect control by CINergy will have on ULH&P's efforts to address the Commission's expressed concerns about the costs and savings resulting from the implementation of management audit recommendations.

2. Beginning on page 11 of the direct testimony of James E. Rogers, Jr. is a discussion of environmental issues relating to PSI Resources, Inc. ("PSI"), CG&E, and ULH&P.

a. Provide copies of the 1990 PSI Environmental Charter and any updates, modifications, or amendments.

b. Provide copies of the CG&E and ULH&P Statement of Environmental Principles.

c. Provide copies of the most recent draft of the CINergy Environmental Pledge.

d. Provide the dates that open meetings were held in Kentucky concerning the CINergy Environmental Pledge and name the interested groups represented.

3. On page 17 of the Rogers direct testimony is a discussion of the Unilateral Offer of Settlement filed by CG&E and PSI in the FERC proceeding. Explain why this document was limited to the issues raised by the Commission in its September 15, 1993 Request for Clarification or Rehearing of Order Conditionally Approving Merger.

4. Beginning on page 11 of the testimony of Terry E. Bruck is a discussion of CG&E's and ULH&P's Integrated Resource Planning ("IRP") approach. Describe any changes or differences which are expected to occur in the ULH&P IRP filings after the CINergy acquisition. Explain what difficulties are expected in providing ULH&P service territory specific information.

5. The direct testimony of Donald I. Marshall, page 25, states:

The goal of the ratemaking process is to identify all expenses for each respective jurisdiction and to avoid having expenses, whether offset by savings or not, simply not be recovered as a result of allocation methodology. Legitimate expenses should not be unrecoverable simply because of jurisdictional allocation factor differences.

a. Provide the authoritative source(s) for this statement.

b. Has this Commission ever denied ULH&P's recovery of legitimate expenses solely because of differences in jurisdictional allocation factors?

6. Appendix E to the application contains the Service Agreement between the various regulated utilities comprising CINergy and CINergy Services, Inc. ("Service Company"). Section

4.3 of the Service Agreement addresses the issue of access to the Service Company's accounts and records.

a. Indicate whether the following are included in this provision:

(1) The Commission.

(2) The Attorney General.

(3) Any party granted full intervention by the Commission in a ULH&P proceeding.

b. Indicate whether a similar provision will be included in any service agreement established between CG&E and ULH&P.

7. List the specific operations and functions now being performed by employees of CG&E or ULH&P that after the reorganization will be performed by the Service Company.

8. Schedule DIM-1 lists estimated allocated merger savings for ULH&P on an annual basis for 1994 to 2003.

a. For each year shown, what categories of savings will flow directly to ULH&P without a CG&E wholesale rate case?

b. What categories of savings will flow to ULH&P only if CG&E files a wholesale rate case?

9. Does ULH&P intend to file annual rate applications in Kentucky to pass the merger related savings to ratepayers? If no, explain how the increasing level of savings will be reflected in Kentucky retail rates.

10. Marshall direct testimony, page 12, discusses CG&E's intent to file two wholesale rate cases to pass merger related

savings to ULH&P; one within 60 days of consummating the merger and one five years thereafter. Based on a 1995 test year for the first rate case, DIM-1 indicates that ULH&P will receive no capitalized savings and \$.3 million in non-production expense savings. However, in each subsequent year through 1999, capitalized savings increase from \$.4 to \$2.0 million and non-production expense savings increase from \$1.1 to \$1.3 million. Explain fully how the merger related savings shown on DIM-1 for the years 1996 to 1999 will flow to ULH&P.

a. Is there any mechanism currently in place to pass the increasing level of savings that are not passed through CG&E's fuel adjustment clause?

b. If the answer to (a) is yes, describe fully the mechanism. If no, explain fully the justification for CG&E retaining the benefits for 1996 to 1999 that are reflected on DIM-1 as ULH&P's allocated share.

11. Identify by name or number each generating unit at the Woodsdale Generating Station and for each unit provide the following information: in-service date, original cost, annual depreciation expense, and total accumulated depreciation to date.

12. Provide all documents, letters, memoranda, notes, or other writings that contain any of the following information:

a. Support for the statement in Rogers' direct testimony, page 5, that CG&E deferred a wholesale rate case because of the pending PSI/CG&E merger.

b. The date that CG&E intended to file a wholesale rate case but for the merger.

c. The amount of rate increase that CG&E will request for wholesale rates paid by ULH&P.

13. Marshall direct testimony, page 35, states that Ohio retail rates recognize "the majority of costs of our Woodsdale Generating Plant."

a. Describe in detail the costs of CG&E's Woodsdale Generating Plant that are not recognized in Ohio retail rates and explain why the costs are not in rates.

b. Does CG&E intend to include in its next wholesale rate case only the majority of Woodsdale costs as recognized in Ohio retail rates or all costs including those not recognized in Ohio retail rates?

14. As part of the merger application pending at the FERC, CG&E has entered into an Ohio Joint Stipulation and Agreement ("Ohio Agreement") providing significant regulatory and financial benefits to Ohio retail customers. For each of the following benefits provided in Ohio, state whether CINergy and CG&E (or ULH&P, if applicable) is willing to provide the same benefit to Kentucky retail ratepayers, and if not, provide a detailed explanation.

a. Article III, paragraphs C and D of the Ohio Agreement providing for state commission review of affiliate contracts.

b. Article III, paragraph G of the Ohio Agreement providing for a hold harmless agreement whereby retail electric or gas rate increases will not reflect merger related costs to the extent that such electric or gas costs are not offset by merger related benefits.

c. Article III, paragraph I of the Ohio Agreement providing for the service of a copy of any declaration or amendment relating to filings at the Securities and Exchange Commission.

d. March 4, 1994 transmittal letter to the FERC, page 4, providing for a retail electric rate moratorium from the consummation of the merger and reorganization to January 1, 1999.

15. In the Offer of Settlement filed by CINergy and CG&E at the FERC on March 4, 1994, Exhibit D provides that in addition to a retail electric rate moratorium in Ohio through January 1, 1999, CG&E will forego on an annual basis beginning May 21, 1995, the collection of \$21,175,000 attributable to the phase-in deferrals of the Zimmer Generating Plant charged to Ohio customers. Explain fully why the reasoning supporting CG&E's decision to allow Ohio customers to pay less than the full cost of the Zimmer Plant should not apply with equal force to Kentucky customers and the Woodsdale Generating Station.

16. Marshall direct testimony, page 4, discusses an additional service agreement between CG&E and ULH&P. Explain fully whether CG&E is willing to provide the Kentucky Commission the same authority over this agreement as has been provided to the Ohio and

Indiana commissions with respect to other affiliated service contracts.

17. Will CINergy, CG&E and ULH&P agree that in any Kentucky retail rate proceeding involving affiliated costs, no claim of preemption will be raised in the event that any such costs (other than those included in ULH&P's purchase power cost) are excluded for rate-making purposes?

Done at Frankfort, Kentucky, this 14th day of April, 1994.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director