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Environmental and Public  
Protection Cabinet

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Commonwealth of Kentucky  
**Public Service Commission**  
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Gregory Coker  
Commissioner

March 31, 2005

Mr. John J. Finnegan  
139 East Fourth Street  
Rm 25 AT II  
P. O. Box 960  
Cincinnati, Ohio 45201-0960

RE: March 24, 2005  
Informal Conference  
Case No. 2003-00252

Dear Mr. Finnegan:

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Any comments regarding the contents of the memorandum should be submitted to the Commission within seven days of receipt of this letter. Any questions regarding this memorandum should be directed to Mr. Jeff Shaw of the Commission Staff at 502-564-3940, Extension 237.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell  
Executive Director

Attachment

CC: Parties of Record

**INTRA-AGENCY MEMORANDUM**  
**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Main Case File - Case No. 2003-00252

**FROM:**  Jeff Shaw, Division of Financial Analysis

**DATE:** March 31, 2005

**SUBJECT:** March 24, 2005 Informal Conference

An informal conference held March 24, 2005 was attended by The Union Light, Heat and Power Company ("ULH&P"), the Attorney General of the Commonwealth of Kentucky ("AG"), and Commission Staff ("Staff"). The purpose of the conference was to discuss issues related to ULH&P's pending acquisition of approximately 1,100 MW of generating capacity from its parent, The Cincinnati Gas and Electric Company. ULH&P provided a handout outlining the issues in its conference presentation, a copy of which is attached hereto. An attendance list for the conference is also attached hereto.

ULH&P discussed and responded to questions from the AG and Staff concerning changes to various documents pertinent to the transfer of the generating facilities. It also provided an update on the status of the Federal Energy Regulatory Commission and Securities and Exchange Commission proceedings regarding the transfer as well as an overview of the recent amendment to its related financing application which is pending before the Commission in Case No. 2005-00027. ULH&P also responded to Staff's questions regarding its request for waivers from certain of the conditions contained in the Commission's December 5, 2003 interim order in this case.

The conference was adjourned with the understanding that ULH&P would make a supplemental filing to clarify some of the issues that were discussed and that Staff would issue a memorandum summarizing the issues discussed at the conference.

Attachments

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 ) CASE NO.  
TREATMENT; AND FOR APPROVAL OF DEVIATION FROM ) 2003-00252  
REQUIREMENTS OF KRS 278.2207 AND 278.2213(6) )

=====  
**March 24, 2005 Informal Conference**  
=====

Please sign in:

**NAME**

**REPRESENTING**

JEFF SHAW	PSC - FIN. ANALYSIS
MICHAEL PAKUTSKI	ULH&P
Dorothy Corbett	ULH&P
Kate Moriarty	ULH&P
George Dwight	ULH&P
Kelvin Davis	ULH&P
JOHN FINNIGAN	ULH&P
Betty Blackford	DAG
Jim Welch	PSC - Engineering
ISAAC SCOTT	PSC - Financial Analysis
ELIE RUSSELL	PSC
AW Turner Jr	PSC - Legal
Quita Mitchell	PSC



# ULH&P Electric Supply

**Informal Conference**  
**March 24, 2005**

# ULH&P Attendees

- Dorothy Corbett – Sr. Counsel, Legal Corporate
- Kelvin Davis – Team Lead, Analytic and Investment Engineering
- George Dwight – Section Head, Legal Corporate
- John Finnigan – Sr. Counsel, Legal Regulatory
- Kate Moriarty – Section Head, Legal Regulatory
- Michael Pahutski – Sr. Counsel, Legal Regulatory

# Agenda

- Review of Transaction Documents
- FERC Status
- SEC Status
- Back-up Agreement Points of Receipt
- Amendment to Financing Application

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- **Review of Transaction Documents**
- **FERC Status**
- **SEC Status**
- **Back-up Agreement Points of Receipt**
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- **FERC Status**
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# FERC Status

- Approval of Facilities Operation Agreement received on March 2, 2005
- Approval of Purchase, Sale and Operations Agreement received on March 3, 2005
  - Filed conforming amendment for use of LMP pricing for system energy transfers
  - Comment period ends April 5, 2005

# Agenda

- Review of Transaction Documents
- FERC Status
- **SEC Status**
- Back-up Agreement Points of Receipt
- Amendment to Financing Application

# SEC Status

- Ohio Consumers' Counsel intervened in opposition
- Raised primarily state issues
- CG&E confident it has authority to transfer the Plants to ULH&P
  - ORC 4928.17(E) specifically divests PUCO of jurisdiction over generation

# SEC Status

- CG&E responded to OCC's intervention on March 4, 2005
- Expect SEC ruling in near future
- Expected effective closing date either May 1, 2005 or July 1, 2005
- Should still hit 1/1/07 rate effective date
  - ULH&P to *pro forma* CG&E's 2005 O&M and G&A costs associated with the Plants

# Agenda

- Review of Transaction Documents
- FERC Status
- SEC Status
- **Back-up Agreement Points of Receipt**
- Amendment to Financing Application

# Back-up Agreement Points of Receipt

- Currently, Back-up Agreement an “Into Product”
  - Permits Seller to choose where to deliver power, provided that Buyer can physically take it from there.
  
- MISO Day-2
  - Congestion and losses between commercial pricing nodes (CPN)
  - CINERGY.HUB
    - Aggregation of non-constrained CPNs
  - CG&E/ULH&P Load Zone
    - CPN where ULH&P will take energy from MISO

## Back-up Agreement Points of Receipt

- Under current scenario, CG&E could choose to deliver back-up energy to low-priced CPN.
  - ULH&P responsible for congestion, losses from there to CG&E/ULH&P Load Zone
  - Bidders, seeing CG&E's offer (Into Product), will likely bid accordingly.
  - ULH&P could be stuck with significant congestion, losses
- To mitigate this risk, ULH&P is asking CG&E to amend points of receipt
  - CENERGY.HUB
  - CG&E/ULH&P Load Zone
  - CG&E will have to re-price Back-up Agreement to factor in congestion/loss risk
    - Will not re-price the energy/demand components

## Back-up Agreement Points of Receipt

- ULH&P will file amended Back-up Agreement with KYPSC
  - Provides full transparency to bidders
- ULH&P will then issue RFP
- Further insulates ULH&P ratepayers from market forces
  - Congestion and losses in MISO's Energy Market

# Agenda

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- SEC Status
- Back-up Agreement Points of Receipt
- **Amendment to Financing Application**

# Amendment to Financing Application

- ULH&P's issuance of Promissory Note to CG&E a taxable event
- ULH&P's assumption of CG&E debt non-taxable
  - Amended Financing Application to permit ULH&P to pay for Plants through assumption of commensurate amount of CG&E debt
  - Equal to tax basis less other assumed debt (tax-exempt pollution control bonds)