

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE UNION)	
LIGHT, HEAT & POWER COMPANY TO)	
ENTER INTO UP TO \$25,000,000)	CASE NO. 2000-113
PRINCIPAL AMOUNT OF CAPITAL)	
LEASE OBLIGATIONS)	

O R D E R

IT IS ORDERED that The Union Light, Heat and Power Company ("ULH&P") shall file with the Commission the original and eight copies of the following information, with a copy to all parties of record. The information requested herein is due no later than 10 days from the date of this Order. 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. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Provide any written policies, procedures, or criteria UHL&P has developed to evaluate which option - constructing, buying, leasing, or sale/leaseback – results in the lowest cost of financing.

a. Include documentation of analytical procedures UHL&P will apply to ensure that capital leasing will result in a lower cost of financing than other forms of capital financing (such as stocks or bonds). Include all necessary supporting documentation. Supporting documentation should include a demonstration that all factors, including any taxable gains and deferred taxes attributable to the property, are fully considered in the evaluation process.

b. Provide similar analyses that were made for a capital lease issued by ULH&P under the Commission’s Order in Case No. 97-301.¹ Fully explain changes in criteria or assumptions used by ULH&P to perform analytical procedures for Case No. 97-301 financing compared to the financing authority currently requested.

2. Provide a narrative discussion of the analysis ULH&P used to determine that it should employ capital leases rather than a debt or equity issuance to fund its capital requirements. Include in the response all workpapers or summaries used to derive the analysis.

3. Explain how ULH&P proposes to account for any deferred taxes attributable to property that is sold and/or leased back.

4. Show the impact a sale/leaseback transaction will have on the balance sheet of the utility.

¹ Case No. 97-301, The Application of The Union Light, Heat & Power Company for an Order to Enter Into Up to \$25,000,000 Principal Amount of Capital Lease Obligations, Order dated April 17, 1998.

5. Provide sample journal entries, using hypothetical amounts, that demonstrate how a leaseback transaction will be recorded on ULH&P's books. These entries should reflect two particular instances, one in which the company has a gain on the sale of the asset and one in which the company records a loss on the sale.

a. Fully disclose the terms of the hypothetical leases and the basis used for the amount capitalized on the utility's balance sheet.

b. Include in the response any effects on net salvage or residual value and depreciation expense of plant and property under a capital lease before and after the conversion to capital lease financing. Provide supporting calculations.

6. On March 3, 1999, ULH&P furnished "relevant information" regarding a \$3,000,000 capital lease arrangement with Fleet Capital Corporation ("Fleet") pursuant to the Commission's Order in Case No. 97-301. Provide that executed capital lease and a draft of the capital lease financing agreement for which ULH&P is seeking approval in this case. Describe each difference between the structure and terms of the Fleet capital lease and the draft capital lease agreement.

7. Explain whether any gain or loss on the sale of assets that are subsequently leased back will be deferred and amortized over the useful life of the assets that gave rise to the gain or loss or over some other period of time. Fully support the response with references to the applicable Statements of Financial Accounting Standards and/or FERC system of accounts. Explain the financial impact of changing asset classifications from utility plant with an estimated useful life based on historical depreciation studies or guidelines to property under capital lease with depreciation based on the life of the lease. Specifically include in the response the effect on net

operating expenses, and differences in salvage values before and after the conversion of utility plant to property under capital lease, if any.

8. Refer to page 2 of the Application wherein ULH&P states that “Capital leases will be used to finance new property, including construction, or refinance existing property not in the Applicant’s jurisdictional rate base” Is it ULH&P’s position that “jurisdictional rate base” includes only those assets that existed and were included in the rate base at the time of its most recent gas and electric rate case? Fully justify the response and reconcile it to the quoted statement.

9. If approvals are required in other jurisdictions for the specific transactions proposed herein, provide a copy of any applications filed, or form of application and any orders entered by other commissions.

10. If ULH&P intends to enter into capital lease agreements with affiliated companies or related parties, provide the following:

a. A complete description of any capital lease related activities or transactions between ULH&P and any affiliated companies.

b. A detailed explanation of how ULH& P will assure there is no cross subsidization of non-jurisdictional activities from any capital lease related transactions with affiliates. Fully support this explanation by reference to the guidelines for inter-company transactions and joint cost allocations under the Commission’s May 13,1994 Order in Case No. 94-104.²

² Case No. 94-104, The Application of the Cincinnati Gas & Electric Company and Cinergy Corp. for Approval of the Acquisition of Control of The Union Light, Heat & Power Company by Cinergy Corp., Order dated May 13, 1994.

11. If ULH&P's Board of Directors has authorized any person(s) to approve the capital leases, provide the name(s) and title(s) of the person(s) and whether the person(s) are fully employed by ULH&P or are shared with other affiliates or parties. If not fully employed by ULH&P, provide the percentage of the time of said person(s) employment by each of the other related parties or affiliates, as well as the percentage of the time that the person(s) are employed by ULH&P.

12. In the case of new property that is acquired or constructed, explain fully whether ULH&P anticipates that any of the vendors used will be affiliated companies or related parties and how the invoiced price will be determined. Include references and explanations of any inter-company or joint cost allocations as described in 10(b).

13. If ULH&P sells property currently used in the provision of utility service that is either fully or partially depreciated, and subsequently leases the property back at an amount that exceeds the net book value of the property prior to the sale, explain whether this will result in higher costs to utility ratepayers. Fully explain your response.

14. If ULH&P intends to sell any property through the authorization sought herein and not to lease said property back, list any properties ULH&P has identified as candidates for such sales. Include the date the property was placed in service, its original cost and the accumulated depreciation recorded up through the most recent quarter available.

15. Refer to page 6 of the Application. Explain how ULH&P can evaluate the merits of the transactions contemplated herein unless it fully considers the effect of such transactions on revenue requirements.

16. Explain whether ULH&P will employ competitive bids, negotiated transactions, private placement or some other means to determine the lessor in each transaction.

17. The Commission's Order in Case No. 97-301, Ordering Paragraph 3, required that for new capital lease agreements above a \$1,000,000 threshold ULH&P must report the terms and transaction details to the Commission. Discuss whether ULH&P believes this is an appropriate threshold for reporting new capital lease information to the Commission.

18. Provide a schedule of all capital lease obligations issued by ULH&P under the authority granted in Case No. 97-301. Include the following information in the schedule.

- a. Name of lessor.
- b. Date of lease.
- c. Purpose of transaction, i.e., for property in service, under construction, to be acquired or to be constructed.
- d. Utility plant to be included under lease.
- e. Original cost of utility plant.
- f. Accumulated depreciation on property.
- g. Lease interest rate.
- h. Lease term.
- i. Estimated useful life of utility plant.
- j. Salvage value as utility plant.

k. Residual value used to determine depreciation of property under capital lease.

19. Describe ULH&P's experience using capital lease financing under the authority provided by the Commission's Order in Case No. 97-301. Include in the response the benefits of the capital leases compared to conventional debt or equity financing and the cost savings realized or estimated.

Done at Frankfort, Kentucky, this 9th day of May, 2000.

By the Commission

ATTEST:


Executive Director