

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE UNION LIGHT, HEAT )	
AND POWER COMPANY FOR AN ORDER )	
AUTHORIZING THE (I) ISSUANCE AND SALE OF )	CASE NO.
UP TO \$75,000,000 PRINCIPAL AMOUNT OF )	2001-00439
FIRST MORTGAGE BONDS OR UNSECURED )	
DEBT AND (II) USE OF INTEREST RATE )	
MANAGEMENT TECHNIQUES )	

O R D E R

On December 12, 2001, The Union Light, Heat and Power Company ( ULH&P ) filed its application for authority to issue and sell long-term debt in the form of First Mortgage Bonds or unsecured indebtedness in one or more transactions from time to time through December 31, 2004, the aggregate amount of which would not exceed \$75,000,000 and to enter into one or more interest rate management arrangements to lower its overall effective interest cost. ULH&P requested a market-based limit on its interest rates in order to allow sufficient flexibility to issue securities at competitive spreads. The proceeds from the sale of the securities would be used to repay a portion of ULH&P s short-term indebtedness, to repay at maturity ULH&P s \$20,000,000 6.11 percent Debentures due December 8, 2003, to redeem early other long-term debt of ULH&P, if market conditions are favorable, to fund estimated future construction expenditures of \$4.5, \$39.5 and \$41.3, and \$41.4 million in 2001, 2002, 2003 and 2004, respectively, and for other general corporate purposes.

In its Application, ULH&P indicated that the prospectus associated with the Registration Statement filed with the Securities and Exchange Commission ( SEC ) for

its First Mortgage Bonds currently relates to a principal amount of bonds of \$20,000,000. ULH&P also stated that it has filed with the SEC to permit sales from time to time pursuant to the SEC's shelf registration provisions. The prospectus filed as part of such registration currently relates to \$30 million principal amount of the Debentures.

The Commission is concerned about ULH&P's request for market-based limits on the interest rates for the proposed securities. In Case No. 1997-00210,<sup>1</sup> the interest rates on the securities authorized could not exceed a specific number of basis points above the yield to maturity of United States Treasury Notes of comparable maturity at the time of pricing. Noting the volatility in the interest spreads experienced since 1998, ULH&P contends that establishing interest rate ceilings for these securities could result in missed opportunities in the capital markets and negative impacts on its ability to operate.<sup>2</sup>

For these proposed securities, the Commission will allow ULH&P to utilize market-based limits on the interest rates. However, upon the issuance of these securities, ULH&P should notify the Commission of the interest rate alternative selected for the issue. It should provide a detailed explanation as to how the alternative chosen represents the most reasonable interest rate available at the time of issuance. This explanation should include a description of the specific interest rate management techniques and interest rate management agreements utilized by ULH&P for each

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<sup>1</sup> Case No. 1997-00210, The Application of The Union Light, Heat and Power Company for an Order Authorizing the (i) Issuance and Sale of Up To \$50,000,000 Principal Amount of First Mortgage Bonds or Unsecured Debt and (ii) Use of Interest Rate Management Techniques, final Order dated June 17, 1997.

<sup>2</sup> Response to Staff's March 6, 2002 Data Request, Item 1(a) and (b).

issuance. ULH&P should also file copies of any interest rate management agreements executed in conjunction with the issuance.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the issuance and sale by ULH&P of up to \$75,000,000 in First Mortgage Bonds and unsecured indebtedness are for lawful objects within its corporate purposes, are necessary and appropriate for and consistent with the proper performance of its service to the public, are reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. ULH&P is authorized to issue and sell up to \$75,000,000 of its First Mortgage Bonds or unsecured indebtedness in one or more transactions through December 31, 2004 and to enter into such interest rate hedging instruments as will reduce its overall interest cost. The securities will be sold on a negotiated basis with one or more underwriters or agents or through a competitive bidding process.

2. ULH&P shall agree only to such terms and prices that are consistent with said parameters as set out in its application.

3. ULH&P shall, within 10 days after each issuance of the securities referred to herein, file with the Commission a statement setting forth the date or dates of issuance, the price paid, the interest rate, the purchasers, and all fees and expenses, including underwriting discounts or commission or other compensation, involved in the issuance. In addition, ULH&P shall include a detailed explanation as to how the interest rate alternative chosen represents the most reasonable interest rate available at the time of issuance. The explanation shall include a description of the specific interest rate

management techniques and interest rate management agreements utilized by ULH&P for each issuance, as well as copies of any executed interest rate management agreements.

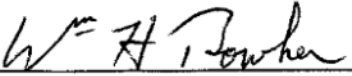
4. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application. ULH&P shall, within 10 days after each issuance of the securities referred to herein, file with the Commission a statement setting forth the use of the proceeds from the issuance.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 22<sup>nd</sup> day of March, 2002.

By the Commission

ATTEST:

Deputy   
Executive Director