

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 TO )  
ENTER INTO UP TO \$25,000,000 PRINCIPAL ) CASE NO. 2002-00106  
AMOUNT OF CAPITAL LEASE OBLIGATIONS )

O R D E R

On March 28, 2002, The Union Light, Heat and Power Company ( ULH&P ) filed its application for authority to enter into up to \$25,000,000 in principal amount of Capital Lease obligations ( Capital Leases ) over a period ending December 31, 2004. ULH&P proposes to utilize the Capital Leases as another form of financing its capital requirements. The Capital Leases will have structures and terms similar to other forms of debt financing but with the potential to lower the overall cost associated with financing property acquisitions. The Capital Leases will be used to finance new property, including construction, or to re-finance existing property. The leased property is expected to be equipment used in ULH&P's operations such as transformers, substations, computers, office equipment, software and site licenses and could include equipment in service or under construction. At the end of the lease, ULH&P will have the option to either renew each lease, purchase the property, or terminate the lease. ULH&P will retain its obligation to pursue the most cost-effective form of financing to meet its capital requirements. Any Capital Lease transaction entered into by ULH&P in excess of \$1,000,000 would be reported in detail to the Commission. For Capital Leases in excess of \$1,000,000, ULH&P would perform an analysis of the cost of

financing through use of Capital Leases to that of other forms of debt financing, and retain said analysis for potential examination during future rate proceedings.

On May 9, 2002, the Attorney General ( AG ) filed a motion to intervene. The Commission granted the AG s motion on May 20, 2002.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that entering into up to \$25,000,000 in Capital Lease obligations 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 enter into up to \$25,000,000 of Capital Leases in one or more transactions through December 31, 2004.
2. ULH&P shall agree only to such terms and prices that are consistent with said parameters as set out in its application.
3. If any Capital Lease in excess of \$1,000,000 is executed by ULH&P, full details of the transaction, including a description of the leased property, shall be filed with the Commission by ULH&P.
4. ULH&P shall perform an analysis of the cost of financing through Capital Leases to that of other forms of debt financing for any Capital Lease in excess of \$1,000,000. The analysis and supporting data should be retained as documentation for establishing ratepayer benefits from Capital Leases during future rate proceedings.

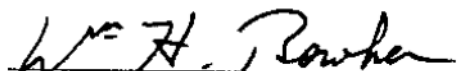
5. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

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 May, 2002.

By the Commission

ATTEST:

  
Deputy Executive Director