

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT, HEAT AND)	
POWER COMPANY FOR AN ORDER)	
AUTHORIZING THE ISSUANCE AND SALE OF UP)	CASE NO.
TO \$75,000,000 PRINCIPAL AMOUNT OF FIRST)	2004-00435
MORTGAGE BONDS OR UNSECURED DEBT AND)	
USE OF INTEREST RATE MANAGEMENT)	
TECHNIQUES)	

O R D E R

On November 1, 2004, 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, the aggregate amount of which would not exceed \$75,000,000 through December 31, 2006, and to enter into one or more interest rate management arrangements to manage its overall effective interest cost. Proceeds from the sale of the securities would be used to repay a portion of ULH&P's short-term indebtedness, to redeem early existing long-term debt if market conditions are favorable, to fund estimated future construction expenditures related to gas delivery and electric transmission and distribution systems of \$50.2 million in 2005 and \$50.6 million in 2006, for such additional expenditures as contemplated by KRS 278.300, or for other lawful corporate purposes.

ULH&P has filed with the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, Registration Statements on Form S-3 to permit issuance and sale of up to \$40,000,000 of bonds and up to \$75,000,000 of unsecured indebtedness.

ULH&P may either amend the existing Registration Statements for substantive changes, or may file new registration statements with the SEC relating to the securities.

In its application, ULH&P proposed certain parameters under which the securities are to be sold. The parameters, as set forth in Exhibit A of the application, are designed to provide a reasonable allowance for potential changes in market conditions between the time of the Commission's authorization and the actual sale of the securities. Included in the parameters is a requirement that the interest rate is not to exceed those rates generally available at the time of pricing of such bonds or unsecured indebtedness for securities having the same or reasonably similar maturities and having reasonably similar terms, conditions and features issued by utility companies or holding companies of the same or reasonably comparable credit quality.

In Case No. 2001-00439,¹ the Commission expressed concern about ULH&P's request for market-based limits for its proposed securities. However, noting ULH&P's contention that the establishment of interest rate ceilings could result in missed opportunities in the capital markets and negative impacts on its ability to operate, we allowed such market-based rates. Our Order required that, upon the issuance of securities, ULH&P notify the Commission of the interest rate alternative selected for the issue. ULH&P was required to provide a detailed explanation as to how the alternative chosen represented the most reasonable interest rate available at the time of issuance. The explanation was to include a description of the specific interest rate management

¹ Case No. 2001-00439, The Application of The Union Light, Heat and Power Company For An Order Authorizing the (I) Issuance and Sale of Up To \$75,000,000 Principal Amount of First Mortgage Bonds or Unsecured Debt And (II) Use of Interest Rate Management Techniques, Order dated March 22, 2002, at 2.

techniques and interest rate management agreements utilized by ULH&P for each issuance. ULH&P was also required to file copies of any interest rate management agreements executed in conjunction with the issuance. The Commission's authorization in Case No. 2001-00439 for ULH&P to issue and sell up to \$75,000,000 of its First Mortgage Bonds or unsecured debt runs through December 31, 2004. To date, no securities have been issued by ULH&P under the authority granted by the Commission in that case.

For the currently proposed securities, the Commission will allow ULH&P to continue to utilize market-based limits on the interest rates and will require the same notification and reporting requirements as set forth in our Order in Case No. 2001-00439, as outlined herein.

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, 2006 and to enter into such interest rate hedging instruments as will reduce its overall interest cost. The securities shall 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 the parameters 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 17th day of December, 2004.

By the Commission

ATTEST:



Executive Director