

CASE

NUMBER:

99-245

INDEX FOR CASE: 99-245
THE UNION LIGHT, HEAT AND POWER COMPANY
Financing

IN THE MATTER OF 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 OF UNSECURED DEBT AND (II) USE OF INTEREST
RATE MANAGEMENT TECHNIQUES

SEQ NBR	ENTRY DATE	REMARKS
0001	06/17/99	Application.
0002	06/22/99	Acknowledgement letter.
0003	06/28/99	No def. letter
0004	07/08/99	Order entered; data request due 7/22/99.
M0001	07/22/99	DAVID MUSSELMAN CINERGY-RESPONSE TO DISCOVERY OF ORDER DATED JULY 8,99
0005	08/05/99	FINAL ORDER AUTHORIZING FINANCING

VIA OVERNIGHT DELIVERY

October 6, 1999

Ms. Helen Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

RECEIVED

OCT 07 1999

PUBLIC SERVICE
COMMISSION

Cinergy Corp.
139 East Fourth Street, Rm 25 AT II
P.O. Box 960
Cincinnati, OH 45201-0960
Tel 513.287.3020
Fax 513.287.3810
dmusselman@cinergy.com

DAVID T. MUSSELMAN
Senior Counsel



Re: In the Matter of:

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) CASE NO. 99-245
FIRST MORTGAGE BONDS OR)
UNSECURED DEBT AND (ii) USE OF)
INTEREST RATE MANAGEMENT)
TECHNIQUES)

Dear Ms. Helton:

Enclosed for filing in the above-captioned docket is an original and five (5) exact copies of the report of the Union Light, Heat and Power Company on its September 17, 1999 issuance of \$20,000,000 debentures, pursuant to the Commission's Order dated August 5, 1999.

Please date stamp and return the additional copy of the enclosed filing to us for our file.
Thank you.

Sincerely,

David T. Musselman

Enclosure

cc: Richard Floyd

COMMONWEALTH OF KENTUCKY

RECEIVED

BEFORE THE PUBLIC SERVICE COMMISSION

OCT 07 1999

In the Matter of:

PUBLIC SERVICE
COMMISSION

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) CASE NO. 99-245
 FIRST MORTGAGE BONDS OR)
 UNSECURED DEBT AND (ii) USE OF)
 INTEREST RATE MANAGEMENT)
 TECHNIQUES)

**REPORT OF THE UNION LIGHT, HEAT AND POWER COMPANY
 ON ITS SEPTEMBER 17, 1999 ISSUANCE OF \$20,000,000 DEBENTURES**

The Union Light, Heat and Power Company ("ULH&P") is providing the following information regarding its September 17, 1999 debt securities issuance pursuant to paragraph 3 of this Commission's Order dated August 5, 1999. In compliance with this requirement, ULH&P is providing the following information:

Date of Issuance:	September 17, 1999
Amount Issued:	\$20,000,000
Price Paid:	\$19,948,400 (99.742%)
Interest Rate:	7.875%
Term:	10 years
Purchaser:	Banc One Capital Markets, Inc.
Underwriting Expenses and Commissions:	\$130,000

Fees & Expenses: \$80,000 (estimated)

Use of Proceeds: Reduce short-term debt

ULH&P believes the interest rate it received was reasonable in light of the market conditions at the time of the sale. A ten-year maturity was selected to fit the maturity profile which ULH&P believes is most favorable given the maturities of issues already outstanding. The Debentures were priced off of the ten-year U.S. Treasury Bond. The spread between the yield on the Treasury Bond and the debenture's coupon rate was based on premarketing by the underwriter and represents the yield investors were requiring in light of the relatively small amount issued and its related effect on the liquidity of the Debentures; ULH&P's creditworthiness; and the relative supply of corporate issuances in the marketplace.

Respectfully submitted,



David T. Musselman
The Union Light, Heat and
Power Company
Room 25 ATII
139 East Fourth Street
Cincinnati, OH 45202
(513) 287-3020

Attorney for The Union Light, Heat
and Power Company



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 99-245
THE UNION LIGHT, HEAT AND POWER COMPANY

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on August 5, 1999.

Parties of Record:

James B. Gainer
Legal Division
The Union Light Heat & Power Co
139 E. Fourth Street
Cincinnati, OH. 45202

Honorable David T. Musselman
& Honorable Jerome A. Vennemann
The Union Light Heat & Power Co
107 Brent Spence Square
Covington, KY. 41011

Stephanie J. Bell

Secretary of the Commission

SB/sa
Enclosure

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)
UP TO \$50,000,000 PRINCIPAL AMOUNT OF) CASE NO. 99-245
FIRST MORTGAGE BONDS OR UNSECURED)
DEBT AND (ii) USE OF INTEREST RATE)
MANAGEMENT TECHNIQUES)

O R D E R

On June 17, 1999, 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, 2001, the aggregate amount of which would not exceed \$50,000,000 and to enter into one or more interest rate management arrangements to lower its overall effective interest cost. ULH&P has 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 First Mortgage Bonds 6½ % Series due August 1, 1999, or short-term indebtedness incurred in connection with said bonds; to redeem early other long-term debt of ULH&P, if market conditions are favorable; to fund estimated future construction expenditures of

\$14,700,000, \$22,603,000, and \$25,383,000 in 1999, 2000, and 2001, respectively;¹ 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 stated that it could either amend that Registration Statement or file a new registration statement with the SEC relating to the proposed securities. In the event ULH&P files with the SEC an amendment to the current Registration Statement or submits a new registration statement relating to these securities, it should provide the Commission with a copy of those documents at the time of filing with the SEC.

The Commission is concerned about ULH&P's request for market-based limits on the interest rates for the proposed securities. In Case No. 97-210,² 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 during the last year, ULH&P contends that establishing interest rate ceilings for these securities could result

¹ Response to the Commission's July 8, 1999 Order, Item 7. ULH&P provided a revised estimate of its construction expenditures, noting the discovery of a clerical error in the amounts originally provided in Application Exhibit B.

² Case No. 97-210, 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.

in missed opportunities in the capital markets and negative impacts on its ability to operate.³

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 also provide a detailed explanation as to how the alternative chosen represents the most reasonable interest rate available at the time of 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 \$50,000,000 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 \$50,000,000 of its First Mortgage Bonds or unsecured indebtedness in one or more transactions through December 31, 2001 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. If variable rate bonds are used, ULH&P shall prepare on an annual basis an analysis of the relationship between such variable

³ Response to the Commission's July 8, 1999 Order, Item 6(a).

rate bonds and fixed rate bonds at the time of the analysis. Such analysis shall be available for Commission review on an annual basis beginning with an initial calculation within 30 days after the closing of the financing approved herein.

3. ULH&P shall, within 30 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 and distribution and the use of the proceeds. 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*.

4. In the event ULH&P files with the SEC an amendment to the current Registration Statement or submits a new registration statement relating to the securities authorized herein, ULH&P shall provide the Commission with a copy of those documents at the time of filing with the SEC.


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 5th day of August, 1999.

By the Commission

ATTEST:


Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

July 8, 1999


James B. Gainer
Legal Division
The Union Light Heat & Power Co
139 E. Fourth Street
Cincinnati, OH. 45202

Honorable David T. Musselman
& Honorable Jerome A. Vennemann
The Union Light Heat & Power Co
107 Brent Spence Square
Covington, KY. 41011

RE: Case No. 99-245

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,


Stephanie Bell
Secretary of the Commission

SB/rlm
Enclosure

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 UP TO)
\$50,000,000 PRINCIPAL AMOUNT OF) CASE NO. 99-245
FIRST MORTGAGE BONDS OR)
UNSECURED DEBT AND (ii) USE OF)
INTEREST RATE MANAGEMENT)
TECHNIQUES)

O R D E R

IT IS ORDERED that The Union Light, Heat and Power Company ("ULH&P) shall file an original and 6 copies of the following information with the Commission, with a copy to all parties of record. 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 witness 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 requested herein has been provided previously, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. The information requested herein shall be filed no later than 14 days from the date of this Order.

1. Refer to page 5 of the Application.

a. Concerning the Registration Statement, does ULH&P currently plan to amend the Registration Statement or file new registration statements with the Securities and Exchange Commission relating to the new securities?

b. Explain the factors that ULH&P would consider when deciding whether to amend the existing Registration Statement or file new registration statements.

2. Refer to page 6 of the Application. ULH&P indicates that it will account for the transactions in accordance with generally accepted accounting principles. By this reference, does ULH&P mean the Federal Energy Regulatory Commission's Uniform System of Accounts? Explain the response.

3. Refer to page 7 of the Application. ULH&P states that the proceeds could be used to repay at maturity its \$20 million principal amount of First Mortgage Bonds, 6½% Series due August 1, 1999. In Case No. 97-210,¹ the Commission authorized ULH&P to issue and sell up to \$50 million of its First Mortgage Bonds or unsecured indebtedness in one or more transactions through September 30, 1999. Among the uses listed for the proceeds from those securities was the repayment of the same \$20 million principal amount of First Mortgage Bonds, 6½% Series due August 1, 1999.

a. Provide a schedule showing each issuance and sale of First Mortgage Bonds or unsecured indebtedness covered by the June 17, 1997 Order in

¹ Case No. 97-210, 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.

Case No. 97-210. Also indicate how the proceeds from each transaction were used. The schedule should be current through the date of this Order.

b. Explain in detail why the \$20 million First Mortgage Bonds 6½% Series due August 1, 1999 were not repaid with proceeds from the securities authorized in Case No. 97-210.

4. Refer to page 7 of the Application.

a. Based upon current expectations, how much of ULH&P's short-term indebtedness would be repaid with the proceeds from the issuance of the securities?

b. Describe the factors that would be evaluated if ULH&P was contemplating an early redemption of other long-term debt.

5. Refer to page 6 and Exhibit A of the Application. On page 6, ULH&P states that net fees and commissions in connection with any Interest Rate Management Agreement will not exceed 1.00 percent of the amount of the underlying obligation involved. However, Exhibit A shows that commissions and fees will not exceed 1.25 percent of the principal amount. Explain the reason for this apparent contradiction within the Application and indicate which statement is correct.

6. Refer to Exhibit A of the Application. The summary for the proposed securities contains specific parameters for underwriting commissions or agents fees and the price to the public. However, there are no quantified parameters stated for the interest rate. The interest rates on the securities authorized in Case No. 97-210 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.

a. Explain in detail why interest rate parameters such as those provided in Case No. 97-210 have not been proposed for these new securities.

b. Have the interest rate parameters that were established for the securities authorized in Case No. 97-210 caused ULH&P any difficulties in issuing or selling those securities? Explain the response.

c. Provide the interest rate parameters ULH&P believes would be reasonable for these securities. Also explain why the selected parameters are reasonable.

7. Refer to Exhibit B of the Application.

a. Do the estimated construction expenditures shown on this exhibit reflect ULH&P's current capital construction budget?

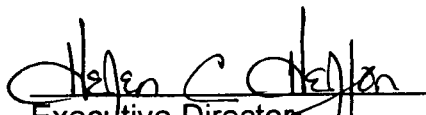
b. If yes to part (a), has the current capital construction budget been approved or adopted by ULH&P's board of directors?

c. If no to part (a), provide a copy of the approved or adopted capital construction budget and explain any differences between the budget and the estimated construction expenditures shown in Exhibit B.

Done at Frankfort, Kentucky, this 8th day of July, 1999.

By the Commission

ATTEST:


Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

June 28, 1999

James B. Gainer
Legal Division
The Union Light Heat & Power Co
139 E. Fourth Street
Cincinnati, OH. 45202

Honorable David T. Musselman
& Honorable Jerome A. Vennemann
The Union Light Heat & Power Co
107 Brent Spence Square
Covington, KY. 41011

RE: Case No. 99-245
THE UNION LIGHT, HEAT AND POWER COMPANY

The Commission staff has reviewed your application in the above case and finds that it meets the minimum filing requirements. Enclosed please find a stamped filed copy of the first page of your filing. This case has been docketed and will be processed as expeditiously as possible.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

Cinergy Corp.
139 E. Fourth Street
P.O. Box 960
24th Floor Atrium II
Cincinnati, OH 45201-0960
Tel 513.287.2367
Fax 513.287.2749

WENDY L. AUMILLER
Assistant Treasurer

RECEIVED
JUN 17 1999
PUBLIC SERVICE
COMMISSION

FILED

JUN 17 1999
PUBLIC SERVICE
COMMISSION



June 15, 1999

Kentucky Public Service
Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

Gentlemen:

CASE 99-245

Enclosed for filing are one original and ten conformed copies, with exhibits, of the Application of The Union Light, Heat and Power Company for authority to issue debt securities and employ interest rate management techniques. We also enclose one additional copy on which we ask that the filing date and docket number be stamped.

We request that the Commission issue its order reflecting the terms and conditions contained in the Application during the week of August 9, if possible. If there are any questions concerning the Application, please contact Bob Hetterick (513-287-3074) or me (513-287-2367).

Sincerely,

Wendy Aumiller

Enclosures



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

June 22, 1999

James B. Gainer
Legal Division
The Union Light Heat & Power Co
139 E. Fourth Street
Cincinnati, OH. 45202

Honorable David T. Musselman
& Honorable Jerome A. Vennemann
The Union Light Heat & Power Co
107 Brent Spence Square
Covington, KY. 41011

RE: Case No. 99-245
THE UNION LIGHT, HEAT AND POWER COMPANY
(Financing)

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received June 17, 1999 and has been assigned Case No. 99-245. In all future correspondence or filings in connection with this case, please reference the above case number.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/jc

Cinergy Corp.
139 E. Fourth Street
P.O. Box 960
24th Floor Atrium II
Cincinnati, OH 45201-0960
Tel 513.287.2367
Fax 513.287.2749

WENDY L. AUMILLER
Assistant Treasurer

RECEIVED
JUN 17 1999
PUBLIC SERVICE
COMMISSION

FILED

JUN 17 1999
PUBLIC SERVICE
COMMISSION



June 15, 1999

Kentucky Public Service
Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

Gentlemen:

CASE 99-245

Enclosed for filing are one original and ten conformed copies, with exhibits, of the Application of The Union Light, Heat and Power Company for authority to issue debt securities and employ interest rate management techniques. We also enclose one additional copy on which we ask that the filing date and docket number be stamped.

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Sincerely,

Wendy Aumiller

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
JUN 17 1999
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 up to)
\$50,000,000 Principal Amount of First)
Mortgage Bonds or Unsecured Debt and)
(ii) Use of Interest Rate Management)
Techniques)

No. 99-245

APPLICATION

The petition of The Union Light, Heat and Power Company
("Applicant") respectfully shows:

(A) That the applicant is engaged in the business of
furnishing gas and/or electric service to customers in various
municipalities and unincorporated areas of Kenton, Campbell,
Boone, Gallatin, Grant, and Pendleton Counties, Kentucky.

(B) That Applicant's post office address is 107 Brent Spence
Square, Covington, Kentucky 41011 and the address of Applicant's
principal executive office is 139 East Fourth Street, Cincinnati,
Ohio 45202.

(C) That pursuant to KRS 278.300 and 807 KAR 5:001 Section 11,
for authority to issue securities, notes, bonds, stocks, or other
evidences of indebtedness:

1. Description of Property, etc. (807 KAR 5:001
SECTION 11(1)(a)):

Applicant renders electric or gas service, or both, in a
territory of about 500 square miles and having an estimated

population of about 322,000. Its principal properties are electric and gas distribution facilities. As of March 31, 1999, the original cost of its property was \$430.7 million.

2. Issue Proposed (807 KAR 5:001 SECTION 11(1)(b)):

A. ISSUANCE OF THE SECURITIES

Description of the Securities

Applicant proposes, with the necessary consent and authority of this Commission, to issue and sell, from time to time over a period ending December 31, 2001, up to \$50 million principal amount of first mortgage bonds (the "Bonds") or unsecured indebtedness (the "Debentures"), or any combination thereof. The Bonds and the Debentures are referred to collectively as the "Securities".

Method of Issuance

Applicant proposes to either (a) sell the Securities to one or more purchasers or underwriters through negotiated offerings or (b) sell the Securities through a competitive bidding process. In the event the Securities are sold through a negotiated offering, the terms of each offering of the Securities will be negotiated by Applicant either with a group of underwriters headed by managing underwriters or with one or more underwriters, with a limited number of purchasers or with a single purchaser for a direct sale or for a sale through agents. If the Securities are sold through competitive bidding, the Securities

will be sold to the bidder(s) whose proposal results in the lowest annual cost of money, with Applicant having the right to reject any or all bids. Each of the bidders will be required to specify the coupon rate and the price, exclusive of accrued interest, to be paid for the Securities. After approval of the terms for each offering by Applicant's Board of Directors or by persons authorized by the Applicant's Board of Directors, it is anticipated that an agreement setting forth the terms of the Securities would be signed.

Pricing Parameters

Applicant has developed parameters under which the Securities are to be sold. The parameters, as set forth in Exhibit A, are designed to provide a reasonable allowance for potential changes in financial market conditions between the time of Commission authorization and the actual sale of the Securities. The inclusion of the parameters within the Order would allow Applicant to sell the Securities on any day when it believes it is prudent to do so provided the terms are within the parameters.

Security and Other Agreements

The Bonds will be issued under and secured by a first mortgage, either the First Mortgage dated as of February 1, 1949 between Applicant and The Bank of New York, Trustee, as amended and supplemented to date and as proposed to be supplemented by

one or more supplemental indentures (the "First Mortgage"), or a new first mortgage agreement with a trustee to be determined. If the Debentures are issued, they will be issued under an indenture, either the Indenture dated as of July 1, 1995, between Applicant and The Fifth Third Bank, Trustee, as previously supplemented, and to be supplemented by one or more supplemental indentures, or a new indenture with a trustee to be determined.

Accounting

Applicant proposes either to credit premiums or charge discounts, if any, and to charge the expenses to be incurred in connection with each issue to the proper deferred accounts and amortize such amounts over the respective lives of the Securities in equal annual amounts to current income.

Commission Authorization

Applicant proposes that the Commission issue its order authorizing the issuance and sale of the Securities prior to the time Applicant reaches agreement with respect to the terms of the Securities.

The authorization of the sale of the Securities consistent with the parameters herein in no way relieves Applicant of its responsibility to negotiate and obtain the best terms available for the structure selected and, therefore, it is appropriate and reasonable for this Commission to authorize Applicant to agree to such terms and prices consistent with said parameters.

Filings with the Securities and Exchange Commission

Applicant has authorization from the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933 (the "Act") after filing a Registration Statement on Form S-3 (Registration No. 33-40245) in connection with the Bonds, to permit sales thereof from time to time pursuant to the provisions of Rule 415 (providing for "Shelf Registration" under the Act). The prospectus filed as part of such Registration Statement currently relates to \$20 million principal amount of the Bonds.

Applicant may either amend such Registration Statement through one or more post-effective amendments for substantive changes from or additions to the previously filed prospectuses or may file new registration statements with the SEC relating to the Securities.

B. USE OF INTEREST RATE MANAGEMENT TECHNIQUES

Purpose

Applicant requests that this Commission grant it authority to utilize interest rate management techniques and enter into Interest Rate Management Agreements to lower its overall effective interest cost. Such authority will allow Applicant sufficient alternatives and flexibility when striving to reduce its effective interest cost and manage the interest cost on financings.

Description of the Interest Rate Management Agreements

The Interest Rate Management Agreements will be products

commonly used in today's capital markets, consisting of "interest rate swaps", "caps", "collars", "floors", "options", or hedging products such as "forwards" or "futures", or similar products, the purpose of which being to manage and minimize interest costs. Applicant expects to enter into these agreements with counterparties that are highly rated financial institutions. The transactions will be for a fixed period and a stated principal amount, and may be for underlying fixed or variable obligations of Applicant.

Pricing Parameters

Applicant proposes that the pricing parameters for Interest Rate Management Agreements be governed by the parameters corresponding to the underlying obligation in effect at its original issuance as specified in the Order authorizing such obligation by this Commission, if applicable.

Net fees and commissions in connection with any Interest Rate Management Agreement will be in addition to the above parameters and will not exceed 1.00% of the amount of the underlying obligation involved.

Accounting

Applicant proposes to account for these transactions in accordance with generally accepted accounting principles.

Commission Authorization

Since market opportunities for these interest rate

management alternatives are transitory, Applicant must be able to execute interest rate management transactions when the opportunity arises to obtain the most competitive pricing. Thus, Applicant seeks approval to enter into any or all of the described transactions within the parameters discussed above prior to the time Applicant reaches agreement with respect to the terms of such transactions.

The authorization of the Interest Rate Management Agreements consistent with the parameters herein in no way relieves Applicant of its responsibility to obtain the best terms available for the product selected and, therefore, it is appropriate and reasonable for this Commission to authorize Applicant to agree to such terms and prices consistent with said parameters.

3. Use of Proceeds (807 KAR 5:001 SECTION 11(1)(C)):

The proceeds from the issuance of the Securities are expected to be used: (i) to repay a portion of Applicant's short-term indebtedness; (ii) to repay at maturity Applicant's \$20 million principal amount of First Mortgage Bonds, 6-1/2% Series Due August 1, 1999 (or short-term indebtedness incurred in connection therewith); (iii) to redeem early other long-term debt of the applicantredeem early , if market conditions are favorable; (iv) to fund estimated future construction expenditures of \$11.3, \$25.4 and \$21.3 million in 1999, 2000 and 2001, respectively; (iv) for such additional expenditures as contemplated by KRS 278.300; or (vi) for other lawful corporate

purposes. Therefore, the issuance of the Securities is for a lawful object within Applicant's corporate purposes, is necessary and appropriate for and consistent with the proper performance by it of its services to the public, will not impair its ability to perform those services, and is reasonably necessary and appropriate for such purposes.

4. Detail of Estimated Construction Expenditures, etc. (807 KAR 5:001 SECTION 11(1)(d)):

See Exhibit B, attached hereto, and made a part hereof.

5. Discharge of Obligations (807 KAR 5:001 SECTION 11(1)(e)):

The short-term indebtedness expected to be discharged with the proceeds from the sale of the Securities will be in the form of unsecured bank loans or other short-term obligations, including intercompany borrowings. The interest rates on the loans to be repaid will be at the prevailing prime commercial bank rate or lower at the date of each borrowing or renewal.

The \$20 million principal amount of First Mortgage Bonds, 6-1/2% Series Due 1999 to be discharged with the proceeds from the sale of the Securities was issued under and secured by the First Mortgage. The Bonds of Series Due August 1, 1999 were sold to underwriters on August 13, 1992 for \$19,670,800 (before associated expenses of \$76,618). The proceeds of the Bonds of Series Due August 1, 1999 were used to repay a portion of the Applicant's short-term indebtedness incurred primarily in connection with its construction program..

6. Financial Exhibit (807 KAR 5:001 SECTION 11(2) (a) and SECTION 6):

Applicant is filing herewith the following exhibits, which are incorporated herein and made a part of this application:

<u>Exhibit</u> <u>Letter</u>	<u>Page</u>	<u>Description</u>	<u>807 KAR 5:001</u> <u>Section Reference</u>
C		Financial Exhibit	11(2) (a) and 6
C	1	Amount and kinds of stock authorized	6(1)
C	1	Amount and kinds of stock issued and outstanding	6(2)
C	1	Terms of preference or preferred stock	6(3)
C	1	Brief description of each mortgage on property of applicant	6(4)
C	2	Amount of bonds authorized and issued and related information	6(5)
C	3	Notes outstanding and related information	6(6)
C	3	Other indebtedness and related information	6(7)
C	3	Dividend information	6(8)
C	3-7	Detailed Income Statement and Balance Sheet	6(9)

7. First Mortgage and Supplemental Indentures (807 KAR 5:001 SECTION 11(2) (b)):

Documents indicated were filed in the following proceedings, respectively:

<u>Document</u>	<u>Style of Case</u>	<u>Case No.</u>	<u>Exhibit No.</u>
First Mortgage dated as of February 1, 1949	In the Matter of the Application of The Union Light, Heat and Power Company for an Order Authorizing Issue of Capital Stock and First Mortgage Bonds	1797	5
First Supplemental Indenture dated as of October 1, 1951	In the Matter of the Application of The Union Light, Heat and Power Company for an Order Authorizing a ten-for-one Capital Stock Split, Changing Par Value from \$100 to \$15 per share thereof and Transfer from Earned Surplus Account to Capital Stock Account the Sum of \$1,247,904.26	2569	4
Second Supplemental Indenture dated as of May 1, 1954	In the Matter of the Application of The Union Light, Heat and Power Company for an Order Authorizing Issue of Additional Capital Stock	2896	3
Third Supplemental Indenture dated as of July 1, 1959	In the Matter of the Application of The Union Light, Heat and Power Company for an Order Authorizing Issue of Additional Capital Stock	3976	3
Fourth Supplemental Indenture dated as of July 1, 1963	In the Matter of the Application of The Union Light, Heat and Power Company for authority to issue up to \$6,000,000 of short-term bank loans with no maturity to exceed 25 months	5085	3
Fifth Supplemental Indenture dated as of January 1, 1967	In the Matter of the Application of The Union Light, Heat and Power Company for authority to issue up to \$6,000,000 of short-term bank loans with no maturity to exceed 25 months	5085	4
Sixth Supplemental	In the Matter of the	5567	3

Indenture dated as of June 1, 1970	Application of The Union Light, Heat and Power Company for authority to issue up to \$5,000,000 of short-term bank loans with no maturity to exceed 25 months		
Seventh Supplemental Indenture dated as of October 1, 1973	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue of \$10,000,000 First Mortgage Bonds, Series Due 2003	7270	E
Eighth Supplemental Indenture dated as of December 1, 1978	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue of \$10,000,000 First Mortgage Bonds, Series Due 2008	8387	C
Ninth Supplemental Indenture dated as of December 15, 1981	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue and Sale of up to \$35,000,000 Principal Amount of First Mortgage Bonds	89-120	C
Tenth Supplemental Indenture dated as of July 1, 1989	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue and Sale of up to \$55,000,000 Principal Amount First Mortgage Bonds	90-295	C
Eleventh Supplemental Indenture dated as of June 1, 1990	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue and Sale of up to \$55,000,000 Principal Amount of First Mortgage Bonds	90-295	D
Twelfth Supplemental Indenture dated as of November 15, 1990	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue of Capital Stock	92-418	B
Thirteenth Supplemental Indenture dated as of August 1, 1992	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue of Capital Stock	92-418	C

8. Maps and Plans (807 KAR 5:001 SECTION 11(2)(c)):

The proposed construction is primarily comprised of installations, improvements and extensions in the ordinary course of business. Not applicable. It is, therefore, impractical to submit maps and plans pertaining thereto.

9. Articles of Incorporation (807 KAR 5:001 SECTION 8(3)):

A certified copy of Applicant's Restated Articles of Incorporation previously was filed with the Commission in the Matter of an Adjustment of Gas and Electric Rates of The Union Light, Heat and Power Company in Case No. 6566.

WHEREFORE, Applicant asks that the Public Service Commission of the Commonwealth of Kentucky make its order authorizing Applicant to issue and sell up to \$50 million principal amount of its Bonds or Debentures, or any combination thereof, and to utilize Interest Rate Management Techniques, for the purposes herein stated and in a manner as herein set forth, and authorizing Applicant to account for such Bonds, Debentures and Interest Rate Management Agreements in the manner as herein set forth.

Dated at Cincinnati, Ohio, this 15th day of June, 1999.

THE UNION LIGHT, HEAT AND POWER COMPANY

By William L. Sheafer
William L. Sheafer
Vice President and Treasurer

Its Attorneys:

[Signature]
David T. Musselman, Esq., Attorney of Record
Jerome A. Vennemann, Esq., Of Counsel
The Union Light, Heat
and Power Company
107 Brent Spence Square
Covington, Kentucky 41011

VERIFICATION

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

William L. Sheafer, being first duly sworn, deposes and says: that he is Vice President and Treasurer of the Applicant in the proceeding entitled as above; that he has read the foregoing application and knows the contents thereof; and that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and that as to those matters he believes them to be true.

William L. Sheafer
William L. Sheafer

Subscribed and sworn to before me, this 15th day of June, 1999.

Cecilia Temple
Notary Public

CECILIA TEMPLE
Notary Public, State of Ohio
My Commission Expires Sept. 28, 2003

The Union Light, Heat and Power Company

Summary

Principal Amount: Up to \$50 million of first mortgage bonds (the "Bonds") or unsecured indebtedness (the "Debentures"), or any combination thereof, in one or more series.

Maturity: Up to 40 years for the Bonds and the Debentures.

Purpose: To refund outstanding obligations, for construction expenditures, or for other general corporate purposes.

Lead Underwriters: To be named.

Underwriting Commissions or Agents' Fees: Not to exceed 1.25% of the principal amount.

Price to Public: No higher than 102% nor less than 98% of the principal amount, plus accrued interest, if any.

Interest Rate: Not to exceed those generally obtainable at the time of pricing or repricing of such Bonds and Debentures for securities having the same or reasonably similar maturities and having reasonably similar terms, conditions and features issued by utility companies or utility holding companies of the same or reasonably comparable credit quality.

Exhibit B

The Union Light, Heat and Power Company
 Detail of Estimated Construction Expenditures
 (807 KAR 5:001 Section 11(1)(d))

	Estimated Cost*		
	1999	2000	2001
	(July - Dec.)		
Gas Department			
Production	\$ 166,676	\$ 342,680	\$ 351,945
Distribution	4,092,010	10,964,422	8,742,744
Building	348,157	712,325	729,426
General	-	-	-
Meters	945,919	1,942,896	1,997,382
Total Gas Department	5,552,762	13,962,323	11,821,497
Electric Department			
Substation - Transmission	314,228	377,825	-
Transmission Lines	472,897	239,046	212,982
Substation - Distribution	242,462	1,287,253	212,237
Distribution Transformers	958,422	1,964,858	2,008,015
Line Extensions	1,711,746	3,509,244	3,586,323
Street Lights	100,230	205,479	209,993
Distribution Improvements	846,621	2,315,228	1,641,698
Meters and Instrument Transfor	381,394	781,896	799,068
Total Electric Department	5,028,000	10,680,829	8,670,316
Common Plant			
General Equipment	156,618	-	-
Buildings and Grounds	307,269	681,804	626,064
Telecommunications	1,338	35,019	195,751
Other General Equipment	255,594	23,520	24,487
Total Common Plant	720,819	740,343	846,302
Total Construction Expenditures	\$ 11,301,581	\$ 25,383,495	\$ 21,338,115

*Retained earnings and depreciation accruals alone will not be sufficient to fully finance this program. Some contracts for the work shown have been made, but they are in the ordinary course of business and it would be impractical to attach copies.

THE UNION LIGHT, HEAT AND POWER COMPANY

FINANCIAL EXHIBIT

March 31, 1999

807 KAR 5:001, SECTION 6

(1.) Amount and kinds of stock authorized.

1,000,000 shares of Capital Stock \$15 per share par value amounting to \$15,000,000 total par value.

(2.) Amount and kinds of stock issued and outstanding.

585,333 shares of Capital Stock \$15 per share par value amounting to \$8,779,995 total par value plus premiums thereon of \$19,525,332, including \$842,580 of Cinergy Corp. tax benefits recorded per Statement of Financial Accounting Standards (SFAS) 109.

(3.) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets or otherwise.

There is no preferred stock authorized, issued or outstanding.

(4.) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of indebtedness actually secured, together with any sinking fund provisions.

The Union Light, Heat and Power Company, as of February 1, 1949, executed its "First Mortgage" to The Bank of New York, Trustee, as security for the issuance of First Mortgage Bonds. As of October 1, 1951, it executed the "First Supplemental Indenture," as of May 1, 1954, the "Second Supplemental Indenture," as of July 1, 1959, the "Third Supplemental Indenture," as of July 1, 1963, the "Fourth Supplemental Indenture," as of June 1, 1970, the "Sixth Supplemental Indenture," as of October 1, 1973, the "Seventh Supplemental Indenture," as of December 1, 1978, the "Eighth Supplemental Indenture," as of December 15, 1981, the "Ninth Supplemental Indenture," as of July 1, 1989, the "Tenth Supplemental Indenture," as of June 1, 1990, the "Eleventh Supplemental Indenture," as of November 15, 1990, the "Twelfth Supplemental Indenture," and as of August 1, 1992, the "Thirteenth Supplemental Indenture," to said First Mortgage for the issuance of additional First Mortgage Bonds. The Company redeemed the First Mortgage Bonds issued under the First Supplemental Indenture on October 1, 1981, the Second Supplemental

Indenture on May 1, 1984, the Third Supplemental Indenture on July 1, 1989, the Fourth Supplemental Indenture on July 1, 1993, the Sixth Supplemental Indenture on September 30, 1977, the Seventh Supplemental Indenture on April 23 & 24, 1998, the Eighth Supplemental Indenture on May 1, 1996, the Ninth Supplemental Indenture on December 15, 1990, the Tenth Supplemental Indenture on September 1, 1995, the Eleventh Supplemental Indenture on June 1, 1995 and the Twelfth Supplemental Indenture on February 15, 1996. The Company also executed a "Fifth Supplemental Indenture" as of January 1, 1967, changing certain provisions of the Mortgage. This mortgage, as amended, in the opinion of counsel for the Company, constitutes a direct first lien on all the property of the Company except rents, earnings, revenues, income or profit of the mortgaged property, cash, accounts receivable, supplies, etc. used in or held for the operation of the business. The aggregated principal amount of said Bonds at any time outstanding which may be secured by said First Mortgage presently is limited to \$200,000,000. As of March 31, 1999, the Company had issued and outstanding \$20,000,000 principal amount of First Mortgage Bonds secured under the terms of the Mortgage Indenture, as amended. An Improvement and Sinking Fund provision contained in the Mortgage provides, with respect to all series of Bonds issued prior to 1981, in general, that on or before April 30, of each year, the Company will deposit with the Trustee an amount in cash and/or a principal amount of bonds equal in the aggregate to 1% of (a) the greatest aggregate principal amount of bonds of the applicable series theretofore outstanding at any one time less (b) the aggregate principal amount of bonds retired by the use of money received in consideration of any release by the Trustee; however, the Company may credit 60% of the lesser of cost or fair value of unfunded property additions against the amounts otherwise to be so deposited.

- (5.) Amount of bonds authorized, and amount issued, giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with amount of interest paid thereon during the last fiscal year.

The First Mortgage as amended, presently limits the principal amount of bonds which can be outstanding at any one time to \$200,000,000. The Company has outstanding First Mortgage Bonds, all of which are secured by the First Mortgage, as amended, of the Company to The Bank of New York, as Trustee, as follows:

<u>Indenture</u>	<u>Date of Issue</u>	<u>Principal Amount Auth. & Issued</u>	<u>Rate of Interest</u>	<u>Date of Maturity</u>	<u>Interest Paid Year 1998</u>
13 th Supplement	08/13/92	\$20,000,000	6-1/2%	08/01/99	\$1,300,000

The Company has outstanding Debentures issued under the Indenture dated as of July 1, 1995, between the Company and The Fifth Third Bank, as Trustee, as follows:

<u>Indenture</u>	<u>Date of Issue</u>	<u>Principal Amount Auth. & Issued</u>	<u>Rate of Interest</u>	<u>Date of Maturity</u>	<u>Interest Paid Year 1998</u>
1st Supplement	7/25/95	\$ 15,000,000	7.65%	7/15/2025	\$1,147,500
2 nd Supplement	4/30/98	\$ 20,000,000	6.50%	4/30/2008	\$ 866,667
3 rd Supplement	12/8/98	\$ 20,000,000	6.11%	12/8/2003	\$ 81,467

- (6.) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year.

<u>Payee</u>	<u>Date of Issue</u>	<u>Amount</u>	<u>Date of Maturity</u>	<u>Rate of Interest</u>	<u>Interest Paid Year 1998</u>
The Cincinnati Gas & Electric Company	3/31/99	\$7,090,000	4/1/99	5.04%	-
PSI Energy, Inc.	3/31/99	\$4,282,000	4/1/99	5.04%	-

- (7.) Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

The Company had no other indebtedness.

- (8.) Rate and amount of dividends paid during the five (5) previous fiscal years, and the amount of capital stock on which dividends were paid each year.

<u>Year Ending</u>	<u>Dividends Paid</u>		<u>No. of Shares</u>	<u>Par Value of Stock</u>
	<u>Per Share</u>	<u>Total</u>		
December 31, 1994	6.00	3,511,998	585,333	8,779,995
December 31, 1995	6.00	3,511,998	585,333	8,779,995
December 31, 1996	8.50	4,975,331	585,333	8,779,995
December 31, 1997	17.00	9,950,661	585,333	8,779,995
December 31, 1998	14.50	8,487,329	585,333	8,779,955

- (9.) Detailed Income Statement and Balance Sheet.

See attached pages 3 through 6 of Financial Exhibit for detailed income statement for the twelve months ended March 31, 1999 and detailed balance sheet as of March 31, 1999.

THE UNION LIGHT, HEAT AND POWER COMPANY

STATEMENT OF INCOME

For The Twelve Months Ended March 31, 1999
(Dollars in Thousands)

Operating Revenues	
Electric	\$ 193,519
Gas	69,974
	<hr/>
	263,493
	<hr/>
Operating Expenses	
Electricity purchased from parent company for resale	145,225
Gas purchased	33,773
Operation and maintenance	37,891
Depreciation	13,487
Taxes other than income taxes	4,071
	<hr/>
	234,447
	<hr/>
Operating Income	29,046
Other Income and (Expenses) - Net	(1,136)
Interest	5,052
	<hr/>
Income Before Taxes	22,858
Income Taxes	8,534
	<hr/>
Net Income	<u>\$ 14,324</u>

The accompanying note is an integral part of the above statement.

THE UNION LIGHT, HEAT AND POWER COMPANY

Balance Sheet at March 31, 1999

ASSETS

(Dollars in Thousands)

Current Assets

Cash and temporary investments	\$ 4,993
Accounts receivable, less accumulated provision of \$ 1,826 for doubtful accounts	9,076
Materials, supplies and fuel, at average cost	3,668
Prepayments and other current assets	154

Total current assets 17,891

Utility Plant - Original Cost

In service	
Electric	234,791
Gas	165,629
Common	20,358
	<u>420,778</u>
Accumulated depreciation	<u>146,128</u>

274,650

Construction work in progress 9,971

Total utility plant 284,621

Other Assets

Regulatory assets	10,893
Other	5,470

16,363

\$ 318,875

The accompanying note is an integral part of the above statement.

THE UNION LIGHT, HEAT AND POWER COMPANY

Balance Sheet at March 31, 1999

LIABILITIES AND SHAREHOLDER'S EQUITY

(Dollars in Thousands)

Current Liabilities

Accounts payable	\$ 6,729
Accounts payable to affiliated companies	15,582
Accrued taxes	6,616
Accrued interest	1,432
Long-term debt due within one year	20,000
Notes payable to affiliated companies	11,386
Other	4,179
	<u>65,924</u>

Non-Current Liabilities

Long-term debt	54,571
Deferred income taxes	25,711
Unamortized investment tax credits	4,168
Accrued pension and other post-retirement benefit costs	11,920
Amounts due to customers - income taxes	9,253
Other	11,968
	<u>117,591</u>

Total liabilities 183,515

Common Stock Equity

Common stock equity--	
Common stock, par value \$15.00 --	
Authorized--1,000,000 shares	
Outstanding--585,333 shares	8,780
Additional paid-in capital	19,525
Retained earnings	107,055
Total Common Stock Equity	<u>135,360</u>
	<u>\$ 318,875</u>

The accompanying note is an integral part of the above statement.

THE UNION LIGHT, HEAT AND POWER COMPANY

NOTE TO FINANCIAL STATEMENTS

March 31, 1999

1. Utility plant is stated at original cost which does not represent its present day replacement or realizable value. The Kentucky statutes expressly authorize the Kentucky Public Service Commission to ascertain, for rate making purposes, the value of the property of any public utility and provide that, in making any such valuation, the Commission shall give due consideration to the history and development of the utility and its property, original cost, cost of reproduction as a going concern, and other elements of value recognized by the law of the land for rate making purposes.

Cinergy Corp.
139 East Fourth Street
P.O. Box 960
Cincinnati, OH 45201

Via Overnight

July 21, 1999

Hon. Helen Helton
Executive Director
Public Service Commission of Kentucky
730 Schenkel Lane
Frankfort, KY 40602

RECEIVED
JUL 22 1999
PUBLIC SERVICE
COMMISSION

CINERGY
ULH&P

Re: IN THE MATTER OF: 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
CASE NO. 99-245

Dear Ms. Helton:

Please find enclosed for filing an original and six (6) copies of The Union Light, Heat
and Power Company's Responses Discovery Order Dated July 8, 1999

An extra copy has been enclosed for you to date-stamp and return in the enclosed self-
addressed, postage pre-paid envelope. If you have any questions, please contact me
at (513) 287-3020.

Sincerely,



David T. Musselman
Senior Counsel

Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

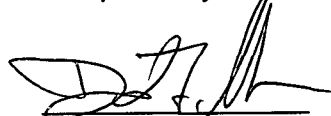
In the Matter of:

THE APPLICATION OF THE UNION)
LIGHT, HEAT AND POWER COMPANY)
FOR AN ORDER AUTHORIZING THE (i))
ISSUANCE AND SALE OF UP TO)
\$50,000,000 PRINCIPAL AMOUNT OF) CASE NO. 99-245
FIRST MORTGAGE BONDS OR)
UNSECURED DEBT AND (ii) USE OF)
INTEREST RATE MANAGEMENT)
TECHNIQUES)

RESPONSES OF THE UNION LIGHT, HEAT AND POWER COMPANY
TO DISCOVERY ORDER DATED JULY 8, 1999

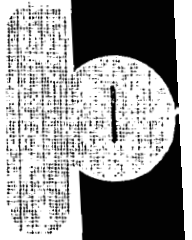
Now comes, The Union Light, Heat and Power Company ("Applicant"), and
provides the attached responses to the Discovery Order Dated July 8, 1999.

Respectfully submitted,



David T. Musselman
The Union Light, Heat and Power
Company
139 East Fourth Street, Suite 2500
Cincinnati, OH 45202
(513) 287-3020

Attorney for Applicant



The Union Light, Heat and Power Company
Case No. 99-245
KPSC Data Request
Dated July 21, 1999

Item. No. 1

Question:

Refer to page 5 of the Application.

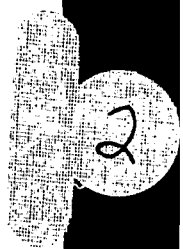
- (a) Concerning the Registration Statement, does ULH&P currently plan to amend the Registration Statement or file new registration statements with the Securities and Exchange Commission relating to the new securities?
- (b) Explain the factors that ULH&P would consider when deciding whether to amend the existing Registration Statement or file new registration statements.

Answer:

The Registration Statement referred to in the Application on page 5 relates to existing authority for the issuance of up to \$20 million of only First Mortgage Bonds. ULH&P would amend such Registration Statement if it decides to issue more than \$20 million of First Mortgage Bonds.

ULH&P also is in the process of filing a Registration Statement on Form S-3 to permit sales of unsecured debt from time to time of up to \$50 million in the aggregate pursuant to the provisions of Rule 415 of the Securities Act of 1933.

Witness Responsible: Wendy L. Aumiller



The Union Light, Heat and Power Company
Case No. 99-245
KPSC Data Request
Dated July 21, 1999

Item. No. 2

Question:

Refer to page 6 of the Application. ULH&P indicates that it will account for the transactions in accordance with generally accepted accounting principles. By this reference, does ULH&P mean the Federal Energy Regulatory Commission's Uniform System of Accounts? Explain the response.

Answer:

ULH&P accounts for all transactions in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission, although financial presentation is made in conformity with generally accepted accounting principles. In the event the Uniform System of Accounts does not encompass the interest rate management techniques utilized by ULH&P, generally accepted accounting principles will be followed.

Witness Responsible: Wendy L. Aumiller

Question:

Refer to page 7 of the Application. ULH&P states that the proceeds could be used to repay at maturity its \$20 million principal amount of First Mortgage Bonds, 6½% Series due August 1, 1999. In Case No. 97-210, the Commission authorized ULH&P to issue and sell up to \$50 million of its First Mortgage Bonds or unsecured indebtedness in one or more transactions through September 30, 1999. Among the uses listed for the proceeds from those securities was the repayment of the same \$20 million principal amount of First Mortgage Bonds, 6½% Series due August 1, 1999.

(a) Provide a schedule showing each issuance and sale of First Mortgage Bonds or unsecured indebtedness covered by the June 17, 1997 Order in Case No. 97-210. Also indicate how the proceeds from each transaction were used. The schedule should be current through the date of this Order.

(b) Explain in detail why the \$20 million First Mortgage Bonds 6½% Series due August 1, 1999 were not repaid with proceeds from the securities authorized in Case No. 97-210.

Answer:

The following is a schedule of debt issued under Case No. 97-210.

Type	Rate	Issued	Matures	Amt. Issued	Use of Proceeds
Senior Debentures	6.50%	4/30/1998	4/30/2008	\$20,000,000	Repay short-term debt incurred in connection with the early redemption in April 1998 of \$10 million FMB, 8% Series due 2003 and with ULH&P's construction program.
Senior Debentures	6.11%	12/8/1998	12/8/2003	\$20,000,000	General funds and to repay a portion of short-term debt incurred in connection with ULH&P's construction program.

When ULH&P filed its application in 1997, it had anticipated using \$50 million of debt issuances: (a) to repay a portion of ULH&P's short-term debt; (b) to repay at maturity ULH&P's \$20 million principal amount of First Mortgage Bonds, 6-1/2% Series Due August 1, 1999; (c) to redeem early ULH&P's \$10 million principal amount of First Mortgage Bonds, 8% Series Due October 1, 2003, if market conditions were favorable; (d) for such additional expenditures as contemplated by KRS 278.300; or (e) for other lawful corporate purposes.

After the redemption of \$10 million FMB, 8% Series due 2003 on April 24, 1998 and the issuance of the \$20 million 6.50% Debenture due 2008 on April 30, 1998, short-term debt was at approximately \$13 million. By November 30, 1998, short-term debt had reached \$42 million and were projected to increase further. With short-term debt levels limited to \$50 million, ULH&P issued \$20 million of Debentures. With short-term debt climbing to \$32 million by December 31, 1998, an issuance of only \$10 million would have allowed short-term debt levels to increase to a level too close to the \$50 million limit.

Under Case No. 97-210, ULH&P has authority to issue an additional \$10 million of debt securities through September 31, 1999. This remaining authority is not sufficient to redeem the entire \$20 million of First Mortgage Bonds, 6-1/2% Series due August 1, 1999.

Witness Responsible: Wendy L. Aumiller

Question:

Refer to page 7 of the Application.

- a. Based upon current expectations, how much of ULH&P's short-term indebtedness would be repaid with the proceeds from the issuance of the securities?
- b. Describe the factors that would be evaluated if ULH&P was contemplating an early redemption of other long-term debt.

Answer:

- a. ULH&P uses short-term debt for managing day-to-day capital needs as well as a vehicle for funding long-term capital needs in advance of issuing long-term term debt securities because either regulatory approvals have not yet been received or capital market conditions are temporarily unfavorable. For example, ULH&P currently anticipates using short-term debt for refunding its mandatory First Mortgage Bond redemption on August 1, 1999, until sufficient regulatory authority exists to issue replacement long-term debt. Short-term debt levels currently are predicted to approach the regulatory limit of \$50 million by year-end. Depending on results of operations, capital needs and market conditions, ULH&P could use the entire \$50 million to refund short-term debt.
- b. Early redemption of long-term debt depends, at a minimum, on such factors as: implicit cost and expected savings; redemption provisions; capital market conditions; available financing authority; and projected operating results and future capital needs.

The Union Light, Heat and Power Company
Case No. 99-245
KPSC Data Request
Dated July 21, 1999

Item. No. 5

Question:

Refer to page 6 and Exhibit A of the Application. On page 6, ULH&P states that net fees and commissions in connection with any Interest Rate Management Agreement will not exceed 1.00 percent of the amount of the underlying obligation involved. However, Exhibit A shows that commissions and fees will not exceed 1.25 percent of the principal amount. Explain the reason for this apparent contradiction within the Application and indicate which statement is correct of the Application.

Answer:

The commissions and fees on Exhibit A relate to the issuance of debt while the fees discussed on page 6 relate to interest rate management.

Witness Responsible: Wendy L. Aumiller

6

Question:

Refer to Exhibit A of the Application. The summary for the proposed securities contains specific parameters for underwriting commissions or agents fees and the price to the public. However, there are no quantified parameters stated for the interest rate. The interest rates on the securities authorized in Case No.97-210 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.

- (a) Explain in detail why interest rate parameters such as those provided in Case No.97-210 have not been proposed for these new securities.
- (b) Have the interest rate parameters that were established for the securities authorized in Case No.97-210 caused ULH&P any difficulties in issuing or selling those securities? Explain the response.
- (c) Provide the interest rate parameters ULH&P believes would be reasonable for these securities. Also explain why the selected parameters are reasonable.

Answer:

- (a) Prior to the filing of Case No. 97-210, spreads over U.S. Treasury securities remained relatively constant. For example, from mid-1994 through mid-1997, Baa rated 30 year utility bond yields ranged between 120 and 160 basis points above the yields on comparable U.S. Treasury securities. Setting a maximum 200 basis point spread for securities with a maturity of more than 10 years gave ULH&P flexibility in setting interest rates. This flexibility remained until the fourth quarter of 1998 when spreads began to widen, reaching in excess of 220 basis by year end. Through July of this year, spreads have continued to significantly exceed historical levels.

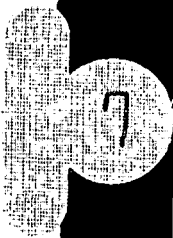
With this recent spread volatility, a maximum spread that would be applicable for a two year period cannot be practically quantified. ULH&P has requested a market-based limit on its interest rates in order to allow sufficient flexibility to issue securities at competitive spreads. Limiting spread parameters to a stated ceiling may result in capital market opportunities being missed and/or ULH&P's ability to operate possibly being impaired if capital needs are postponed while further authorization is sought from this Commission or in hopes that spreads return to historical low levels.

Market-based spread parameters allow capital to be obtained at the most competitive rates and when it is needed, thus helping to ensure the lowest costs for rate payers. The interest rate parameters ULH&P has requested are both a reasonable and practical way to deal with the current volatile spread environment. The requested parameters allow sufficient financing flexibility while imposing a reasonableness standard relative to other companies of comparable credit quality on debt securities of similar characteristics.

- (b) ULH&P encountered difficulties issuing securities within the parameters specified in Case No. 97-210 when it issued securities in December 1998. As discussed above, spreads in the fall of 1998 had widened significantly relative to historical levels. Due to short-term debt constraints as discussed in Data Request No. 3, ULH&P had to issue debentures in December 1998. As reported to the Commission by ULH&P in its letter dated January 8, 1999, the securities were priced at a basis point spread of 161 over the yield to maturity on comparable term U.S. Treasury securities. Although such spread was competitive and reflected market conditions at that time, it still exceeded the ceiling parameter set in 1997. ULH&P likely would have encountered similar problems had it issued securities at other times during the past nine months, depending on the term and type of security.

(c) See response in (a) above.

Witness Responsible: Wendy L. Aumiller



The Union Light, Heat and Power Company
Case No. 99-245
KPSC Data Request
Dated July 21, 1999

Item. No. 7

Question:

Refer to Exhibit B of the Application.

- (a) Do the estimated construction expenditures shown on this exhibit reflect ULH&P's current capital construction budget?
- (b) If yes to part (a), has the current capital construction budget been approved or adopted by ULH&P's board of directors?
- (c) If no to part (a), provide a copy of the approved or adopted capital construction budget and explain any differences between the budget and the estimated construction expenditures shown in Exhibit B.

Answer:

In preparing the response for this data request, a clerical error was discovered in the construction expenditure data as originally submitted. Please see the attached revised Exhibit B.

With respect to the data contained in the attached revised Exhibit B, the estimated construction expenditures reflects ULH&P's current capital construction budget as approved by ULH&P's board of directors.

Witness Responsible: Wendy L. Aumiller

Exhibit B

The Union Light, Heat and Power Company
 Detail of Estimated Construction Expenditures
 (807 KAR 5:001 Section 11(1)(d))

	Estimated Cost*		
	1999 (July - Dec.)	2000	2001
<u>Gas Department</u>			
Production	\$ 161,978	\$ 333,351	\$ 342,680
Distribution	6,590,081	8,184,019	10,964,422
Building	340,662	696,314	712,325
General	-	-	-
Meters	922,826	1,891,838	1,942,896
Total Gas Department	8,015,547	11,105,522	13,962,323
<u>Electric Department</u>			
Substation - Transmission	161,217	628,455	377,825
Transmission Lines	206,144	945,794	239,046
Substation - Distribution	98,740	484,924	1,287,253
Distribution Transformers	889,310	1,916,843	1,964,858
Line Extensions	1,668,368	3,423,491	3,509,244
Street Lights	97,690	200,459	205,479
Distribution Improvements	908,582	1,693,241	2,315,228
Meters and Instrument Transfor	371,730	762,788	781,896
Total Electric Department	4,401,781	10,055,995	10,680,829
<u>Common Plant</u>			
General Equipment	269,163	313,235	-
Buildings and Grounds	164,857	614,538	681,804
Telecommunications	-	2,676	35,019
Other General Equipment	1,859,056	511,187	23,520
Total Common Plant	2,293,076	1,441,636	740,343
Total Construction Expenditures	\$ 14,710,404	\$ 22,603,153	\$ 25,383,495

*Retained earnings and depreciation accruals alone will not be sufficient to fully finance this program. Some contracts for the work shown have been made, but they are in the ordinary course of business and it would be impractical to attach copies.