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MICHAEL J. PAHUTSKI
Counsel

VIA OVERNIGHT MAIL

October 29, 2004

CINERGY

Ms. Elizabeth O'Donnell
Executive Director,
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED

NOV. 01 2004

PUBLIC SERVICE
COMMISSION

Case 2004-00434

Re: In the Matter of the Application of ULH&P for an Order to Enter into up to \$25,000,000 Principal Amount of Capital Lease Obligation

Dear Ms. O'Donnell:

Enclosed please find an original and ten (10) copies of the above-referenced Application, for filing with the Commission. Please return to me two (2) file-stamped copies in the enclosed overnight mail envelope. Should you have any questions, please do not hesitate to contact me at (513) 287-3075.

Sincerely,



Michael J. Pahutski

MJP/mak

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

NOV 01 2004

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 Amount) Case No. 2004-00434
of Capital Lease Obligations)

**PUBLIC SERVICE
COMMISSION**

APPLICATION

The Union Light, Heat and Power Company (ULH&P) respectfully petitions the Kentucky Public Service Commission (Commission), pursuant to KRS 278.300 and 807 KAR 5:001 Section 11, to authorize the issuance of securities, assumption of obligations, notes, bonds, stocks, or other evidences of indebtedness, including, in particular, the conclusion of capital leases, and entrance into all necessary agreements and other documents relating thereto, as more fully described herein. In support of this Application, ULH&P states as follows:

1. **Address:** ULH&P is a Kentucky corporation with its principal office and principal place of business at 1697A Monmouth Street., Newport Shopping Center, Newport, Kentucky 41071. The address of ULH&P's principal executive office is 139 East Fourth Street, Cincinnati, Ohio 45202.

2. **Articles of Incorporation:** Pursuant to 807 KAR 5:001, Section 8(3), ULH&P states that a certified copy of its Articles of Incorporation, as amended, is on file with the Commission in Case No. 6566.

3. **Statement of Business:** ULH&P is a utility as defined in KRS 278.010(3)(a) and (b), engaged in providing retail gas and electric services to its

customers in Northern Kentucky in various municipalities and unincorporated areas of Kenton, Campbell, Boone, Gallatin, Grant, and Pendleton Counties. ULH&P is thus subject to the jurisdiction of the Commission.

4. **807 KAR 5:001 Section 11 (1) (a).** As of September 30, 2004, the original cost of its property was \$595.3 million. Its principal properties consist of electric and gas distribution facilities.

5. **807 KAR 5:001 Section 11 (1) (b).** ULH&P proposes, with the necessary consent and authority of this Commission, to enter into, from time to time over a period ending December 31, 2006, up to \$25 million incremental principal amount of capital lease obligations (Capital Leases). ULH&P proposes to utilize Capital Leases purely 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, in certain instances, to lower the overall cost associated with financing property acquisitions.

Capital Leases will be used to finance new property, including construction, or re-finance existing property, in order to optimize the cost of financing commensurate with such property's expected life (such property being more fully described in "Property Expected to be Leased" below).

Advantages of Leasing. Leasing can allow ULH&P to access lower cost funds. This is because lessors often have a higher credit rating than ULH&P, and therefore, can secure capital at a lower cost. This lower cost is passed on to ULH&P, along with a spread for profit to the lessor, which usually is at a cost below what ULH&P could have obtained otherwise.

Established financing practices are employed to determine whether ownership or lease (including sale/leaseback) of certain assets is the appropriate method of financing. The impact on earnings and cash flow for available financing alternatives are analyzed.

Capital lease financing is similar to debt except that for certain acquisitions it can be more easily tailored to match the useful life of the acquisition. It is often more effective to enter into a capital lease whose maturity is concurrent with an asset's useful life than to issue a large amount of bonds for a basket of assets having various useful lives. When compared to bonds, the effective cost of capital lease financing may be lower due to reduced transaction costs. And, in the case of variable rate leases, small interest spreads over short-term borrowing indexes such as LIBOR may be negotiated, thus making Capital Leases a cost-effective source of financing which may lower overall utility costs.

In addition, capital leases allow a higher degree of leverage on the part of the lessors than ULH&P could employ. The use of greater leverage has a twofold benefit. Not only is debt financing the lowest cost source of funds (especially under current financial conditions), debt costs are also tax deductible, thus reducing financing costs for lessors even further. This lower cost is passed on to ULH&P by lessors in the form of a lower interest rate spread.

Property Expected to be Leased. The property expected to be leased will consist of equipment used in ULH&P's operations including, but not limited to, meters, computers and office equipment, and intangible property such as software and site licenses (collectively, the "Property"). The Property may include equipment in service, under construction or to be acquired or constructed.

Accounting. ULH&P proposes to account for the Capital Leases as prescribed by the Federal Energy Regulatory Commission Uniform System of Accounts as currently in effect.

The amount financed under each Capital Lease, excluding transaction costs, is not expected to be more than the net capitalized cost of the property or the appraised value of the Property (in the event more than the capitalized cost is financed).

In accordance with generally accepted accounting principles, the net capitalized cost of property usually includes installation, training, allowance for funds, administrative overhead and other costs capitalized in connection with acquiring and placing the property in service. Such costs are expected to be included in the Property cost financed under a Capital Lease.

Method of Transacting Capital Leases. To effectuate the lease transactions, ULH&P will (1) obtain third-party lease financing for Property acquisitions or (2) in the case of existing Property, sell the Property to a third-party finance lessor (Lessor), and simultaneously therewith ULH&P will lease the Property back from the Lessor. In connection therewith, the terms of each Capital Lease will be approved by ULH&P's Board of Directors or by such persons authorized by the Board, and it is anticipated that an agreement setting forth the terms of each Capital Lease will be executed.

In the case of new Property that is acquired or constructed, the Lessor will either (1) pay the vendor and ULH&P for their respective costs associated with the acquisition or (2) reimburse ULH&P for the capitalized cost of the property, with ULH&P concurrently paying the vendor the invoice cost; this latter option being undertaken solely to allow for administrative efficiencies.

Related Agreements. ULH&P may enter into one or more participation agreements with its affiliates and the Lessor in connection with the Capital Leases, with such agreements defining ULH&P's role as principal and, as applicable, agent on behalf of its affiliates for billing and payment remittance purposes. Such arrangements will be undertaken solely for administrative efficiencies and convenience of the parties involved.

End of Term Options. At the end of each initial or renewal lease term, it is anticipated that ULH&P will have an option to either (a) renew each Capital Lease pursuant to arm's length negotiation with the then existing Lessor or other lessors, (b) purchase the Property, or (c) terminate the Capital Lease.

Pricing Parameters. ULH&P has parameters within which the final negotiated Capital Leases, including sale and leasebacks, and rental obligations will fall, and requests authority to execute Capital Leases of the Property within such parameters. The parameters, as set forth in Exhibit A, would allow ULH&P to consummate transactions when it believes it is prudent to do so provided the terms are within the parameters.

Commission Authorization. ULH&P proposes that the Commission issue its order authorizing the Capital Leases prior to the time UH&P reaches specific agreement with respect to the terms of such lease transactions.

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

6. **807 KAR 5:001 Section 11 (1) (c).** The proceeds from the Capital Lease obligations are expected to be used: (i) for necessary acquisitions of property, and

construction, completion, extension, renewal and improvement of its facilities; (ii) for re-financing existing property; (iii) for such additional expenditures as contemplated by KRS 278.300; or (iv) for other lawful corporate purposes. Therefore, Capital Lease transactions are necessary and appropriate for and consistent with the proper performance by ULH&P of its services to the public, will not impair its ability to perform those services, and are reasonably necessary and appropriate for such purposes.

7. **807 KAR 5:001 Section 11 (1) (d).** See Exhibit B concerning estimated construction expenditures, attached hereto, and made a part hereof.

8. **807 KAR 5:001 Section 11 (1) (e).**

This section is not applicable, since no specific discharge of obligations is contemplated at this time from transacting the Capital Leases.

9. In Case No. 2002-00106, the Commission approved up to \$25,000,000 in principal amount of Capital Lease obligations for the period ending December 31, 2004. As of September 30, 2004 there remained \$21,875,374 of available authority.

10. **807 KAR 5:001 Section 6 and Section 11 (2) (a).** ULH&P is filing the following information in Exhibit C, which is incorporated herein and made a part of this application:

<u>Exhibit C</u> Page	<u>Description</u>	<u>807 KAR 5:001</u> <u>Section Reference</u>
	Financial Exhibit	6 and 11 (2) (a)
1	Amount and kinds of stock authorized	6 (1)
1	Amount and kinds of stock issued and outstanding	6 (2)
1	Terms of preference or preferred stock	6 (3)

1	Brief description of each mortgage on property of ULH&P	6 (4)
2	Amount of bonds authorized and issued and related information	6 (5)
3	Notes outstanding and related information	6 (6)
3	Other indebtedness and related information	6 (7)
3	Dividend information	6 (8)
3-7	Detailed Income Statement and Balance Sheet	6 (9)

10. **807 KAR 5:001 Section 11 (2) (b).** The requested deeds of trust or mortgage documents indicated were filed in the following proceedings:

<u>Document</u>	<u>Style of Case</u>	<u>Case No.</u>	<u>Ex. No.</u>
First Mortgage 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 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 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 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 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 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 Indenture June 1, 1970	In the Matter of the 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	5567	3
Seventh Supplemental Indenture 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 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 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 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 of First Mortgage Bonds	90-295	C
Eleventh Supplemental Indenture 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	In the Matter of the Application of The Union Light, Heat and Power Company for Order	92-418	B

Indenture
November 15, 1990

Authorizing Issue of Capital Stock

Thirteenth
Supplemental
Indenture
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

11. **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 as a utility. It is therefore impractical to submit maps and plans pertaining thereto.

WHEREFORE, ULH&P asks that the Public Service Commission of the commonwealth of Kentucky issue an order authorizing ULH&P to enter into up to \$25,000,000 incremental principal amount of Capital Leases, including sale and leasebacks, for the purposes herein stated and in a manner as herein set forth, and authorizing ULH&P to account for such Capital Leases in the manner as herein set forth.

Dated at Cincinnati, Ohio, this 29th day of October, 2004.

THE UNION LIGHT, HEAT AND POWER COMPANY

By: Wendy L. Aumiller
Wendy L. Aumiller
Treasurer


Its Attorneys:

John J. Finnigan, Jr.
John J. Finnigan, Jr.
Michael J. Pahutski
The Union Light, Heat and Power Company
139 East Fourth Street
P.O. Box 960
Cincinnati, Ohio 45201

VERIFICATION

State of Ohio)
) SS:
County of Hamilton)

Wendy L. Aumiller, being first duly sworn, deposes and says that she is Treasurer of ULH&P in the proceeding entitled above; that she has read the foregoing application and knows the contents thereof; and that the same is true of her own knowledge, except as to matters which are therein stated on information or belief, and that as to those matters she believes them to be true.



Wendy L. Aumiller

Subscribed and sworn to before me, this 29th day of October, 2004.



Notary Public

MICHAEL JOHN PAHUTSKI
Attorney At Law
Notary Public, State of Ohio
My Commission Has No Expiration Date
Section 147.03 R.C.

The Union Light, Heat and Power Company

Capital Lease Parameter Summary

Property Description:	Tangible property used in operations such as, but not limited to, meters, transformers, substations, computers and office equipment, and intangible property such as software and site licenses.
Use of Proceeds:	To acquire property, fund construction expenditures, refinance existing property or for other general corporate purposes.
Principal Amount:	Up to \$25 million, depending on the capitalized cost or appraised value of the property, plus transaction costs.
Lessor:	One or more lessors to be named.
Lease Term:	Will depend on available pricing but shall be for a maximum term of not more than 10 years for each initial or renewal term.
Lease Cost:	Aggregate cost of rental payments, commitment fees and closing costs during each initial or renewal period that results in an interest rate (implicit or otherwise) that is equal to or less than those generally obtainable on capital lease financing having the same or reasonably similar terms offered to, or entered into, by utility companies or utility holding companies of the same or reasonably comparable credit quality.

Union Light, Heat and Power Company
Detail of Estimated Construction Expenditures¹
(807 KAR 5:001 Section 11(1)(d))

	2005	2006	2007
<u>Gas Department</u>			
Gas Production	\$276,485	\$282,427	\$288,799
Gas Special Projects	11,605,188	12,601,162	17,652,231
Gas Distribution	10,965,711	11,342,012	12,672,649
Gas Building & Grounds	298,988	305,414	345,336
Gas General	486,275	128	0
Gas Meters	2,324,783	3,367,458	3,443,429
Total Gas Department	25,957,429	27,898,601	34,402,444
<u>Electric Department</u>			
Substations - Transmission	2,493,521	816,237	0
Substations - Distribution	3,994,020	3,050,836	4,044,654
Transmission Lines	350,979	555,635	679,020
Distribution Transformers	1,242,868	1,258,332	1,292,697
Future Resources	0	0	0
Line Extensions	4,829,429	4,856,214	4,915,054
Street Lights	464,453	457,735	469,166
Distribution Improvements	5,731,494	6,313,257	5,581,256
Meters & Instrument Transform	2,102,794	3,386,092	3,410,603
Total Electric Department	21,209,558	20,694,338	20,392,450
<u>Common Plant</u>			
Buildings & Grounds	240,622	243,616	276,740
Telecommunications	1,286,313	1,200,025	341
Software Five Year	1,307,032	596,572	1,691,456
Transportation	20,330	23,587	19,251
Total Common Plant	2,854,296	2,063,800	1,987,788
<u>Total Construction Expense</u>	\$50,021,283	\$50,656,739	\$56,782,682

¹ Note that all construction expenditures are recorded in Account 107000

THE UNION LIGHT, HEAT AND POWER COMPANY

FINANCIAL EXHIBIT

September 30, 2004

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 additional paid in capital thereon of \$23.541 million.

(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, the Twelfth Supplemental Indenture on February 15, 1996 and the Thirteenth Supplemental Indenture on August 1, 1999. 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 September 30, 2004, the Company had issued and outstanding \$0 principal amount of First Mortgage Bonds secured under the terms of the Mortgage Indenture, as amended.

- (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 2004</u>
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None Outstanding

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 2004</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	\$1,300,000
4 th Supplement	9/17/99	\$ 20,000,000	7.875%	9/15/2009	\$1,575,000

(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 2004</u>
Cinergy Corp	9/30/04	\$26,140,351	10/01/04	1.86%	-
Cinergy Services	9/30/04	\$10,754,523	10/30/04	1.75%	-

(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.

To the extent that capital leases are considered debt, there are \$7.314 million in current and non-current capital lease obligations at September 30, 2004.

(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 (\$000)s</u>		
December 31, 1999	16.50	9,658	585,333	8,779,995
December 31, 2000	16.50	9,658	585,333	8,779,995
December 31, 2001	20.00	11,707	585,333	8,779,955
December 31, 2002	16.52	9,670	585,333	8,779,955
December 31, 2003	10.77	6,305	585,333	8,779,955

(9.) Detailed Income Statement and Balance Sheet.

See attached pages 4 through 7 of Financial Exhibit for detailed income statement for the twelve months ended September 30, 2004 and detailed balance sheet as of September 30, 2004.

THE UNION LIGHT, HEAT AND POWER COMPANY

NOTE TO FINANCIAL STATEMENTS

September 30, 2004

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.

THE UNION LIGHT, HEAT AND POWER COMPANY

Balance Sheet at September 30, 2004

Assets
(Dollars in Thousands)

Current Assets

Cash and cash equivalents	\$7,699
Notes receivable, current	5,301
Accounts receivable less accumulated provision for doubtful accounts of \$17 at September 30, 2004,	1,937
Accounts receivable from affiliated companies	169
Fuel and supplies	10,789
Prepayments and other	427
Total current assets	<u>26,322</u>

Property, Plant, and Equipment - at Cost

Utility Plant in Service	
Electric	283,525
Gas	251,354
Common	53,551
Total Utility Plant in Service	<u>588,430</u>
Construction work in progress	6,887
Total Utility Plant	<u>595,317</u>
Accumulated depreciation	<u>186,142</u>
Net Property, Plant, and Equipment	<u>409,175</u>

Other Assets

Regulatory assets	13,182
Other	716
Total other assets	<u>13,898</u>

Total Assets \$449,395

THE UNION LIGHT, HEAT AND POWER COMPANY

Balance Sheet at September 30, 2004

Liabilities
(Dollars in Thousands)

Current Liabilities

Accounts payable	\$3,145
Accounts payable to affiliated companies	18,701
Accrued taxes	5,804
Accrued interest	997
Notes payable to affiliated companies	36,895
Other	6,738
Total Current Liabilities	<u>72,280</u>

Non-Current Liabilities

Long-term debt	54,708
Deferred income taxes	59,546
Unamortized investment tax credits	2,687
Accrued pension and other postretirement benefit costs	14,829
Accrued cost of removal	29,029
Other	13,681
Total Non-Current Liabilities	<u>174,480</u>

Total Liabilities 246,760

Common Stock Equity

Common stock-\$15.00 par value; authorized shares- 1,000,000; outstanding shares-- 585,333	8,780
Paid-in capital	23,541
Retained earnings	170,803
Accumulated other comprehensive loss	(489)
Total Common Stock Equity	<u>202,635</u>

Total Liabilities and Shareholders' Equity \$449,395

THE UNION LIGHT, HEAT AND POWER COMPANY

Income Statement

For The Twelve Months Ended September 30, 2004
(Dollars in Thousands)

Operating Revenues	
Electric	\$228,555
Gas	120,308
Total Operating Revenues	<u>348,863</u>
Operating Expenses	
Electricity purchased from parent company for resale	158,535
Gas purchased	76,732
Operation and maintenance	55,084
Depreciation	19,677
Taxes other than income taxes	3,105
Total Operating Expenses	<u>313,133</u>
Operating Income	35,730
Miscellaneous Income – Net	1,330
Interest Expense	<u>5,367</u>
Income Before Taxes	31,693
Income Taxes	<u>10,862</u>
Net Income	<u><u>\$20,831</u></u>