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Anita M. Schafer
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VIA OVERNIGHT MAIL

November 30, 2004

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

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NOV 30 2004

**PUBLIC SERVICE
COMMISSION**

Re: Case No. 2004-00434

Dear Ms. O'Donnell:

Enclosed please find an original and ten (10) copies of The Union Light, Heat and Power Company's Responses to the Data Request of the Commission Staff.

Should you have any further questions, please do not hesitate to call me.

Very truly yours,

Anita M. Schafer
Paralegal

AMS/sew

Enclosures

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PUBLIC SERVICE
COMMISSION

KyPSC Staff First Set Data Requests
ULH&P Case No. 2004-00434
Date Received: November 19, 2004
Response Due Date: December 2, 2004

KyPSC-DR-01-001

REQUEST:

1. Refer to page 2 of the application. ULH&P states that the capital leases will have structures and terms similar to other forms of debt financing.
 - a. Explain how the capital leases will be presented in ULH&P's financial statements.
 - b. Provide ULH&P's resulting capital structure if ULH&P implements the entire \$25 million in capital leases.
 - c. ULH&P states that lessors often have a higher credit rating than ULH&P and, therefore, can secure capital at a lower cost. Provide ULH&P's credit rating for each of the last 5 years. Include the source of the rating and an explanation for any significant change in ULH&P's credit rating over the 5-year period.

RESPONSE:

- a. The capital lease summaries can be found in the annual 10-K filing in the Contractual Cash Obligations and the Interest Rate Sensitivity sections.
- b. Based on the capital structure at September 30, 2004, the addition of \$25,000,000 in non-current (not due within the next 12 months) capital leases would yield a debt to capital ratio of 37.9% compared to the September 30, 2004 ratio of 32.8%.
- c. ULH&P was rated Baa1 by Moody's Investor Service (Moody's) on November 16, 1995. Since that time the rating has not changed.

WITNESS RESPONSIBLE: Chris Vogt

KyPSC Staff First Set Data Requests
ULH&P Case No. 2004-00434
Date Received: November 19, 2004
Response Due Date: December 2, 2004

KyPSC-DR-01-002

REQUEST:

2. Refer to page 3 of the application. ULH&P states that it uses established financing practices to determine whether ownership or lease of certain assets is the appropriate method of financing. Provide the types of financing practices ULH&P will employ.

RESPONSE:

ULH&P typically reviews net present value calculations involving cash flows and expenses/fees of different structures to determine the most advantageous choice. An analysis of cash flows and payments is also utilized to ensure compatibility with the company's cash flows and any cash flows required from the debt instrument.

WITNESS RESPONSIBLE: Chris Vogt

KyPSC Staff First Set Data Requests
ULH&P Case No. 2004-00434
Date Received: November 19, 2004
Response Due Date: December 2, 2004

KyPSC-DR-01-003

REQUEST:

3. Refer to page 5 of the application and Exhibit A. ULH&P states that it may enter into one or more participation agreements with its affiliates and the lessor in connection with the capital leases.
 - a. State the purpose of and the necessity for the participation agreements.
 - b. State whether there are fees associated with the participation agreements.

RESPONSE:

- a. The purpose of participation agreements would be to gain pricing or payment advantage through economies of scale within a particular capital lease structure.
- b. Fees would be dependent upon the specific transaction and could not be estimated until such time as a transaction is contemplated. As stated above, those fees would be part of an analysis done to determine the financing structure utilized.

WITNESS RESPONSIBLE: Chris Vogt

KyPSC Staff First Set Data Requests
ULH&P Case No. 2004-00434
Date Received: November 19, 2004
Response Due Date: December 2, 2004

KyPSC-DR-01-004

REQUEST:

4. State whether ULH&P will seek multiple bids for the lease before entering into a capital lease agreement. If yes, provide the approximate number of bids ULH&P plans to solicit each time.

RESPONSE:

The number of bids would depend on the assets involved and current market conditions at that time. ULH&P is in regular consultation with a number of financing companies and reviews leasing opportunities on an ongoing basis.

WITNESS RESPONSIBLE: Chris Vogt