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**John J. Finnigan, Jr.**  
Senior Counsel

**VIA OVERNIGHT MAIL**

March 4, 2005

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

RECEIVED

MAR 07 2005

PUBLIC SERVICE  
COMMISSION

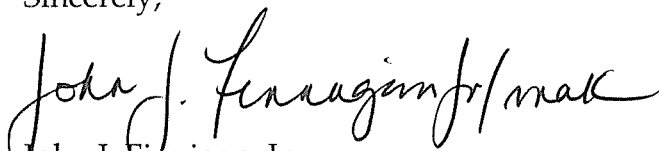
Re: Case No. 2005-00027

Dear Ms. O'Donnell:

Enclosed please find an original and 12 copies of The Union Light, Heat and Power Company's Amended Application, which are being submitting for filing in the above-referenced case. Please return the two extra copies to me file-stamped in the enclosed overnight mail envelope.

If you have any questions, please feel free to contact me at (513) 287-3601.

Sincerely,

  
John J. Finnigan, Jr.

JJF/mak

Cc: Elizabeth E. Blackford  
Assistant Attorney General

Enclosures

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

MAR 07 2005

PUBLIC SERVICE  
COMMISSION

In the Matter of the Application of The Union )  
Light, Heat and Power Company for an Order )  
Authorizing the Issuance of First Mortgage )  
Bonds, Unsecured Debt, and Long Term Notes, )  
Issuance of Inter-Company Promissory Notes, ) Case No. 2005-00027  
Execution and Delivery of Long-Term Loan )  
Agreements, and Use of Interest Rate )  
Management Instruments. )

**AMENDED APPLICATION**

The Union Light, Heat and Power Company (ULH&P) submits this Amended Application, requesting the Kentucky Public Service Commission (Commission), pursuant to KRS 278.300 and 807 KAR 5:001 Section 11, to authorize a financing program that includes, in addition to the financing authority requested in ULH&P's January 12, 2005 Application in this proceeding, the assumption by ULH&P of debt of The Cincinnati Gas & Electric Company (CG&E)<sup>1</sup>. ULH&P has determined that management and mitigation of certain tax issues may be facilitated by the assumption of certain CG&E debt rather than the issuance of inter-company notes or debt. Therefore, ULH&P respectfully amends its Application<sup>2</sup> to petition the Commission to authorize a financing program that includes the issuance of debt securities, execution, delivery or assumption of various loan agreements related to the issuance of tax-exempt bonds,

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<sup>1</sup> The original Application requested authority for ULH&P to assume tax exempt debt associated with the assets to be transferred to ULH&P. This Amended Application requests the additional flexibility for ULH&P to assume debt of CG&E in connection with the Generation Acquisition without regard to whether the debt is taxable or tax-exempt.

<sup>2</sup> ULH&P replicates below the requested relief from its Application, highlighting in bold italics the changes related to the assumption of debt.

issuance of inter-company unsecured promissory notes and/or assumption of debt owed by CG&E, the use of interest rate management instruments, and entrance into all necessary agreements and other documents relating thereto for the purpose of acquiring certain generating assets as approved by the Commission in Case No. 2003-00252<sup>3</sup> (Generation Acquisition), and for other general lawful purposes arising from the ongoing general financing needs of ULH&P, as more fully described herein. Further, ULH&P requests expedited treatment of this Amended Application, as further described herein. In support of this Amended 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.

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<sup>3</sup> See *In the Matter of the Application of the Union Light, Heat and Power Company for a Certificate of Public Convenience to Acquire Certain Generation Resources and Related Property; for Approval of Certain Purchase Power Agreements; for Approval of Certain Accounting Treatment; and for Approval of Deviation from Requirements of KRS 278.2207 and 278.2213(6)*, Case No. 2003-00252 (Order issued December 5, 2003).

4. **Acquisition of Generation.** As described in Case No. 2003-00252, ULH&P plans to acquire an ownership interest in three electric generating facilities from its parent company, CG&E. These facilities include the East Bend Generating Station, Miami Fort Generating Station Unit 6, and the Woodsdale Generating Station (Plants). In testimony filed in Case No. 2003-00252, ULH&P described its plans to finance the Generation Acquisition to achieve a capital structure that supports a strong investment-grade credit rating, and stated that it would endeavor to achieve and maintain a structure consisting of approximately 50% debt and 50% equity.<sup>4</sup> ULH&P again submits that this target capital structure is reasonable considering ULH&P's evolution into a fully integrated electric utility provider. The financing instruments described herein are intended, in part, to finance the Generation Acquisition.

Additionally, the financing instruments described herein are designed to provide ULH&P the flexibility it needs on a going-forward basis to finance its operations and capital projects and maintain, as a fully integrated electric utility owning generating stations, strong investment-grade credit ratings well after the Generation Acquisition is closed.

5. **807 KAR 5:001 Section 11 (1) (a).** As of September 30, 2004, the net cost of the property, plant and equipment of ULH&P was \$409.2 million. Its principal properties consist of electric and gas distribution facilities. With the acquisition of generating assets from CG&E, ULH&P expects to add property on April 1, 2005 of approximately \$371.6 million thereby increasing its net cost of property, plant and equipment to approximately \$781 million.

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<sup>4</sup> See Case No. 2003-00252, Direct Testimony of Gregorgy C. Ficke at 16 - 17.

6. **807 KAR 5:001 Section 11 (1) (b).** ULH&P proposes, and requests the Commission's approval of, a financing program permitting ULH&P to:

(a) issue and sell, from time to time over a period ending December 31, 2006, up to \$500 million principal amount of first mortgage bonds (the "Bonds"), senior or junior unsecured indebtedness (the "Debentures", and together with the Bonds, the "Securities"), or unregistered unsecured long-term notes (the "Long-Term Notes"), in any combination thereof and in one or more series, provided the aggregate of all such securities shall not exceed \$500 million;

(b) issue at closing a long-term unsecured inter-company promissory note or notes (the "Inter-Company Promissory Notes"), *or assume debt of CG&E, as the transferor of the generating assets*, up to an aggregate principal amount of \$200 million, as partial payment of the Generation Acquisition;

(c) execute and deliver and/or assume, from time to time over a period ending December 31, 2006, one or more long-term loan agreements (the "Loan Agreements") by which ULH&P would borrow from authorized issuers of tax-exempt bonds (the "Authority"), for terms not to exceed 40 years, the proceeds of up to a maximum of \$200 million aggregate principal amount of the Authority's tax exempt bonds that may be issued in one or more series (the "Authority's Bonds"); and

(d) enter into Interest Rate Management Instruments to manage interest costs on its financial obligations (the "Interest Rate Management Instruments").

The authority ULH&P seeks herein is intended to replace in its entirety the financing authority granted in Case No. 2004-00435.

## SECURITIES

a. Method of Issuance. ULH&P proposes to either (i) sell the Securities to one or more purchasers or underwriters through negotiated offerings or (ii) 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 ULH&P either with one or more underwriters, or with one or more purchasers 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 ULH&P 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. Subject to approval of the terms for each offering by ULH&P's Board of Directors or by persons authorized by ULH&P's Board of Directors, it is anticipated that an agreement and other transaction documents setting forth the terms and conditions for issuance and sale of the Securities would be concluded.

b. Pricing Parameters. ULH&P 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 ULH&P to sell the Securities on any day when it believes it is prudent to do so, provided the terms are within the parameters.

c. 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 ULH&P 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 (“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 December 1, 2004, between ULH&P and Deutsche Bank Trust Company Americas, as Trustee, or its successor, as supplemented by one or more supplemental indentures, or a new indenture with a trustee to be determined.

d. Accounting. ULH&P 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 to current income such amounts over the respective lives of the Securities in equal annual amounts.

#### **LONG-TERM NOTES**

a. Method of Borrowing. ULH&P proposes entering into one or more unsecured Long-Term Notes having a maturity date not less than 2 years and which may bear interest at either a fixed or variable rate. The obligation shall be evidenced by execution of a long-term note and a loan agreement or similar document under terms mutually agreeable to ULH&P and the lender and in conformity with generally accepted market conventions.

b. Pricing Parameters. The Long-Term Notes will be issued under terms and conditions similar to the Debentures, except that the Long-Term Notes would typically be negotiated directly with one or more banks or other financial institutions, with less formality than is typical of the issuance and sale of a Debenture.

c. Accounting. ULH&P proposes to charge the expenses to be incurred in connection with each Long-Term Note to the proper deferred accounts and amortize to current income such amounts over the respective lives of the Long-Term Notes in equal annual amounts.

**INTER-COMPANY PROMISSORY NOTES OR ASSUMPTION OF DEBT**

ULH&P proposes to issue one or more Inter-Company Promissory Notes to CG&E *or to assume certain indebtedness of CG&E* in connection with the Generation Acquisition and from time to time as it deems necessary and appropriate as the most economical form of financing. With regard to the Generation Acquisition, the Inter-Company Promissory Notes will be issued for a portion of the net book value of the generating assets, along with inventories, supplies and transaction costs at the time of closing of the purchase transaction, including amounts reflecting tax exempt debt related to assets to be owned by ULH&P, but in no case shall the Inter-Company Promissory Notes exceed an aggregate value of \$200 million. A portion of the Inter-Company Promissory Notes related to specific projects at East Bend Generating Station that qualified for tax-exempt financing will bear an interest rate per annum equal to the all-in weighted average cost of the specific underlying tax-exempt issuances applicable to East Bend Generating Station, with all-in cost to include the coupon interest rate plus any additional costs associated with amortization of financing charges and debt discounts associated with the tax exempt issuances. All other Inter-Company Promissory Notes will bear an interest rate per annum equal to the all-in weighted average cost of imbedded long-term debt (excluding tax exempt debt) of CG&E, with all-in cost to include the coupon interest rate plus any additional costs associated with amortization of financing



charges and debt discounts associated with outstanding issuances of CG&E. The Promissory Note or Notes related to the Generation Acquisition will mature on or before December 31, 2039, and will be prepayable at the option of ULH&P, in whole or in part, at any time before the scheduled maturity, without penalty or premium.

*As an alternative to or in combination with the issuance of Inter-Company Promissory Notes in connection with the Generation Acquisition, ULH&P requests authority to assume indebtedness of CG&E. In the case of assumption of debt, ULH&P would become responsible for payment of principal and interest and the other obligations set forth in the loan documentation of the debt assumed. The interest rate for any debt assumed by ULH&P would not exceed the all-in weighted average cost of the debt assumed, with all-in cost to include the coupon interest rate plus any additional costs associated with the debt assumption and amortization of financing charges and debt discounts associated with the debt assumed.*

With regard to the Generation Acquisition, by issuing a Promissory Note or Notes to CG&E *or assuming indebtedness of CG&E*, ULH&P will be able to avoid having to go to the capital markets for financing the acquisition of the generating assets immediately after receiving all necessary approvals. ULH&P will have a period of time to arrange for permanent financing for the generating assets and will be able to retire the Inter-Company Promissory Notes prior to maturity at par if more advantageous financing becomes available. Today's market could not provide equivalent financing (with the same timing flexibility, no prepayment penalty, and subordinate to all other senior debt) at a cost below the cost of the Inter-Company Promissory Notes. A form of the promissory note is attached as Exhibit B.

## **LOAN AGREEMENTS**

ULH&P proposes to borrow from various Authorities the proceeds from the issuance by such Authorities of tax exempt bonds. ULH&P will enter into one or more Loan Agreements with the respective Authority to evidence and secure its obligations to repay such loans. ULH&P will use the proceeds from the loans to finance or reimburse the costs of acquiring and constructing certain solid waste facilities and other environmental-control facilities. ULH&P also proposes to assume responsibility for certain existing tax exempt debt under Loan Agreements between CG&E and the respective Authority to the extent any such indebtedness was incurred to finance any part of the Generating Assets being transferred to ULH&P.

a. ULH&P's Loan Obligations. ULH&P's obligations under each Loan Agreement will be to provide the Authority with sufficient revenues to enable it to pay all of the principal of, premium, if any, and interest on, the Authority's Bonds as and when any and all payments are due. ULH&P may procure bond insurance or a letter of credit to provide credit support for its payment obligations and/or ULH&P may issue First Mortgage Bonds to secure ULH&P's obligations under each individual Loan Agreement or as security for ULH&P's reimbursement obligations under the bond insurance agreements. Alternatively, ULH&P's payment obligations under the Loan Agreements may be unsecured. First Mortgage Bonds may be in principal amounts equal to the aggregate principal amounts of the Authority's Bonds to which they relate (in which case they may provide for the payment of interest at the rate borne by the Authority's Bonds). Each Loan Agreement will stand alone, allowing ULH&P the option of securing or not securing its obligations under each Loan Agreement.

b. The Authority's Bonds. The Authority's Bonds have been (in the case of assumption of existing payment obligations) or will be issued pursuant to one or more Indentures of Trust (the "Indentures") to be entered into between the Authority and a trustee to be determined, which Indentures establish the terms of each series of the Authority's Bonds. The Authority's Bonds will be special obligations payable solely out of revenues derived from the payments by ULH&P under the respective Loan Agreements.

The Authority's Bonds or any series thereof may be entitled to the benefits of one or more letters of credit, may be entitled to the benefit of one or more bond insurance policies, or may be issued without the benefit of such letters of credit or insurance policies.

If a letter of credit is obtained, ULH&P would enter into a reimbursement agreement with a qualified financial institution issuing the letter of credit. Such reimbursement agreements would require ULH&P to reimburse the financial institutions for all drawings made under the letter of credit and to pay annual fees not in excess of one and one-half percent (1-1/2%) of the amount available under the letter of credit. The existence of a letter of credit securing payment of the Loan Agreements from a highly rated financial institution would be expected to allow the sale of the Authority's Bonds with a lower interest rate than would exist without such a letter of credit.

Likewise, if bond insurance is obtained from a highly rated insurance company, the Authority's Bonds would be rated in a higher rating category than ULH&P's First Mortgage Bonds or Debentures by credit rating agencies and therefore would be expected to have a lower interest rate.

It is expected that bond counsel will render its opinion that, under existing laws, including regulations and official rulings by the Internal Revenue Service, interest on the Authority's Bonds will be excluded from gross income of the recipient thereof for federal income tax purposes, except for interest on any bond held by a substantial user or a related person as those terms are used in Section 147(a) of the Internal Revenue Code of 1986 as amended. Therefore, ULH&P expects the interest rate on the Authority's Bonds will be less than the interest rate ULH&P would be able to obtain on taxable bonds that ULH&P could issue with similar terms and conditions in the capital markets.

The terms of each offering of the Authority's Bonds will be negotiated by ULH&P with underwriters. After approval of the terms by ULH&P's Board of Directors and the Authority, ULH&P proposes to arrange for the sale of each series of the Authority's Bonds to the underwriters pursuant to one or more bond purchase agreements between the Authority and the underwriters, and pursuant to one or more representation letters from ULH&P to the Authority and the underwriters.

c. Pricing Parameters. ULH&P has developed parameters under which the Loan Agreements are to be executed, as set forth in Exhibit C. The inclusion of these parameters within the Order would allow ULH&P to execute and deliver the Loan Agreements and any reimbursement or insurance agreements prior to the time ULH&P and the underwriters reach agreement with respect to the terms of the Authority's Bonds. If a series of the Authority's Bonds bears interest at a rate that is subject to adjustment, the same will also contain a feature that will allow the interest rate to become fixed under certain circumstances. ULH&P proposes the Commission include such limits in its order.

d. Assumption of Tax-Exempt Debt. ULH&P proposes the assumption of certain tax-exempt related obligations of CG&E in connection with the acquisition of generation assets from CG&E. These obligations of CG&E are evidenced by a Loan Agreement between CG&E and the Authority which obligations shall, through assignment, assumption or other agreement, become the obligations of ULH&P, which shall become responsible for payment of all associated interest, principal and related amortized expenses and discounts either directly to the trustee or by reimbursing CG&E. ULH&P may from time to time and subject to the Commission authority above, elect to issue the Authority's Bonds subject to a new Loan Agreement between ULH&P and the Authority directly and in place of CG&E. At such time, the Authority's Bonds shall become special obligations of ULH&P.

#### **INTEREST RATE MANAGEMENT INSTRUMENTS**

a. General. ULH&P requests that this Commission grant it authority to enter into Interest Rate Management Instruments to manage its overall effective interest cost. Such authority will allow ULH&P sufficient alternatives and flexibility when striving to better manage its interest cost. Such authority was previously granted in Case No. 2001-00439.

b. Description of the Interest Rate Management Instruments. The Interest Rate Management Instruments will facilitate 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 interest costs. ULH&P expects to enter into Interest Rate Management Instruments 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 interest rate obligations of ULH&P.

c. Pricing Parameters. ULH&P proposes that the pricing parameters for Interest Rate Management Instruments 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 10% of the amount of the underlying obligation involved.

d. Accounting. ULH&P proposes to account for these transactions in accordance with generally accepted accounting principles.

e. Commission Authorization. Since market opportunities for these interest rate management alternatives are transitory, ULH&P must be able to execute interest rate management transactions when the opportunity arises to obtain the most competitive pricing. Thus, ULH&P seeks approval to enter into any or all of the described transactions within the parameters discussed above prior to the time ULH&P reaches agreement with respect to the terms of such transactions.

The authorization of the Interest Rate Management Instruments consistent with the parameters herein in no way relieves ULH&P 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 ULH&P to agree to such terms and prices consistent with said parameters.

## CONTRIBUTION OF CAPITAL

ULH&P anticipates receiving from CG&E contributed capital in connection with ULH&P's acquisition of generating assets from CG&E and from time to time to support a capitalization ratio at ULH&P that is compatible with and supports the ratings of a financially strong fully integrated electric utility. After approval of the terms for each receipt of contributed capital by ULH&P's Board of Directors or by persons authorized by ULH&P's Board of Directors, it is anticipated that, to the extent necessary, an agreement and other transaction documents setting forth the terms of the contributed capital would be concluded.

7. **807 KAR 5:001 Section 11 (1) (c).** The proceeds from the Securities, Long-Term Notes, Inter-Company Promissory Notes, Loan Agreements *and debt assumptions*, are expected to be used *for one or more of the following*: (i) to repay a portion of ULH&P's short-term indebtedness; (ii) to redeem early long-term debt of ULH&P, if market conditions are favorable; (iii) to fund estimated future construction expenditures related to its gas delivery and electric generation, transmission and distribution businesses of \$86 million in 2005 and \$75 million in 2006;<sup>5</sup> (iv) for acquisition of generating assets from CG&E along with inventory and supplies and transaction costs; (v) for such additional expenditures as contemplated by KRS 278.300; and/or (vi) for other lawful corporate purposes. The financing authority requested herein is 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 is reasonably necessary and appropriate for such purposes.

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<sup>5</sup> These construction cost estimates do not include expenditures related to generating asset acquisition. Financing with respect to such expenditures will be addressed in a future filing.

8. **807 KAR 5:001 Section 11 (1) (d).** See Exhibit D concerning estimated construction expenditures, attached hereto, and made a part hereof.

9. **807 KAR 5:001 Section 11 (1) (e).** The short-term indebtedness expected to be discharged or partially discharged with the proceeds from the sale of the Securities consists primarily of short-term inter-company borrowings.

10. In Case No. 2001-00439 the Commission approved the issuance and sale of up to \$75,000,000 principal amount of First Mortgage Bonds or unsecured debt and the use of Interest Rate Management Instruments for the period ending December 31, 2004. As of the date of this filing, ULH&P has issued \$40,000,000 in unsecured indentures under this previous authority. Further, in Case No. 2003-00435, ULH&P requested that the Commission approve the issuance and sale of up to \$75,000,000 principal amount of First Mortgage Bonds or unsecured debt and the use of Interest Rate Management Instruments for the period ending December 31, 2006 – such application was granted by order dated December 17, 2004. The authority ULH&P seeks in this proceeding is intended to fully replace in its entirety the authority granted in Case No. 2004-00435.

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

<b><u>Exhibit E</u></b> <b>Page</b>	<b><u>Description</u></b>	<b><u>807 KAR 5:001</u></b> <b>Section Reference</b>
	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)

12. **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	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	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	90-295	D

June 1, 1990	Principal Amount of First Mortgage Bonds		
Twelfth Supplemental Indenture 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 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
Indenture December 1, 2004	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 \$75,000,000 Principal Amount of First Mortgage Bonds or Unsecured Debt and (ii) Use of Interest Rate Management Techniques	2001-00439	

13. **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. It is therefore impractical to submit maps and plans pertaining thereto. To the extent maps of the generating assets ULH&P intends to acquire from CG&E are necessary, ULH&P refers the Commission to those maps provided in Case No. 2003-00252.<sup>6</sup>

14. **Expedited Treatment.** KRS 278.300 provides that:

Every such [financing] application shall be placed at the head of the docket of the commission and disposed of promptly within sixty (60) days after it is filed with the commission, unless it is necessary for good cause to continue the application for longer time than sixty (60) days, in which case the order making the continuance shall state fully the facts that make it necessary.

ULH&P requests that the Commission expedite its approval of ULH&P's Amended Application so as not to unduly delay the closing of the Generation Acquisition. ULH&P's current targeted effective closing date is May 1, 2005. Should the

<sup>6</sup> See Burns & McDonnell Due Diligence Evaluations filed in Case No. 2003-00252, July 21, 2003.

Commission use the entirety of its sixty-day review period, ULH&P will certainly have to further delay the closing of the Generation Acquisition. Given that ULH&P's amendment to its previously-filed Application is minor in nature, resulting in no effect on ULH&P's books (ULH&P will simply owe debt payments to a third-party creditor rather than CG&E), ULH&P's request for expedited treatment is reasonable. ULH&P therefore requests that the Commission rule on this Amended Application by no later than April 15, 2005.

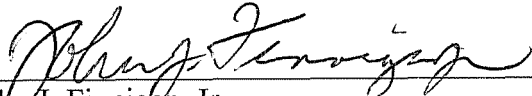
WHEREFORE, ULH&P asks that the Public Service Commission of the Commonwealth of Kentucky issue an order no later than April 15, 2005, authorizing ULH&P to issue and sell up to \$900 million principal amount of its Securities, Long-Term Notes, Inter-Company Promissory Notes *and/or conclude debt assumption agreements*, Loan Agreements, or any combination thereof, and to utilize Interest Rate Management Instruments, for the purposes herein stated and in a manner as herein set forth, and authorizing ULH&P to account for such Securities, Long-Term Notes, Inter-Company Promissory Notes, *debt assumption agreements*, Loan Agreements, and Interest Rate Management Instruments in the manner as herein set forth.

Dated at Cincinnati, Ohio, this 4<sup>th</sup> day of March, 2005.

THE UNION LIGHT, HEAT AND POWER COMPANY

By: Wendy L. Aumiller  
Wendy L. Aumiller  
Treasurer

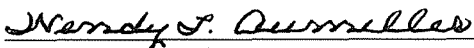
Its Attorneys:

  
 \_\_\_\_\_  
 John J. Finnigan, Jr.  
 Michael J. Pahutski  
 The Union Light, Heat and Power Company  
 139 East Fourth Street (EA025)  
 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 4<sup>th</sup> day of March, 2005.

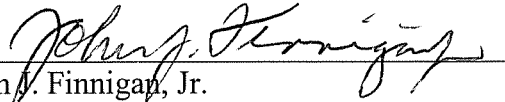
  
 \_\_\_\_\_  
 Notary Public



**ANITA M. SCHAFER**  
 Notary Public, State of Ohio  
 My Commission Expires  
 November 4, 2009

CERTIFICATE OF SERVICE

I hereby give notice that on this 2<sup>nd</sup> day of March, 2005, a copy of the foregoing Amended Application was served on the following party by regular U.S. mail, postage prepaid, or overnight mail delivery.

  
\_\_\_\_\_  
John V. Finnigan, Jr.

Elizabeth E. Blackford  
Assistant Attorney General  
Office of Rate Intervention  
1024 Capital Center Drive, Suite 200  
Frankfort, KY 40601

**The Union Light, Heat and Power Company**

**Summary of Securities Pricing Parameters**

<b>Principal Amount:</b>	Up to \$500 million of first mortgage bonds (the “Bonds”) or unsecured indebtedness (the “Debentures”), or any combination thereof, in one or more series.
<b>Maturity:</b>	Up to 40 years.
<b>Purpose:</b>	To refund outstanding obligations, for construction expenditures, or for other general purposes.
<b>Lead Underwriters:</b>	To be named.
<b>Underwriting Commissions or Agents’ Fees:</b>	Not to exceed 3.50% of the principal amount.
<b>Price to Public:</b>	No higher than 102% nor less than 98% of the principal amount, plus accrued interest, if any.
<b>Interest Rate:</b>	Not to exceed those generally obtainable at the time of pricing or re-pricing 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.

No. \_\_\_\_\_

\$ \_\_\_\_\_

UNION LIGHT HEAT & POWER COMPANY  
\_\_\_\_% SUBORDINATED NOTE  
DUE \_\_\_\_\_

UNION LIGHT, HEAT & POWER COMPANY, a corporation duly organized and existing under the laws of the state of Kentucky (herein called the "Company"), for value received, hereby promises to pay to \_\_\_\_\_, or registered assigns, the principal sum of \_\_\_\_\_ Dollars on \_\_\_\_\_, and to pay interest thereon from \_\_\_\_\_ or from the most recent interest payment date to which interest has been paid or duly provided for, semiannually on \_\_\_\_\_ and \_\_\_\_\_ in each year, commencing \_\_\_\_\_, at the rate of ....% per annum, until the principal hereof is paid or made available for payment.

Payment of the principal of and interest on this Note will be made at the office or agency of the Company maintained for that purpose in Cincinnati, Ohio, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check.

Interest on this Note shall be computed on the basis of a 360-day year of twelve 30-day months.

Any payment on this Note due on any day which is not a Business Day in the City of Cincinnati, Ohio need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on the due date and no interest shall accrue for the period from and after such date. For purposes of this Note "Business Day," means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in Cincinnati, Ohio are authorized or obligated by law or executive order to close.

**Redemption**

This Note is subject to redemption upon not less than 30 days' notice by mail, at a redemption price equal to 100% of the principal amount, as a whole or in part, at the election of the Company, together with accrued interest to the redemption date.

In the event of redemption of this Note in part only, a new Note of like tenor for the unredeemed portion hereof will be issued in the name of the holder hereof upon the cancellation hereof.



## **Subordination**

The indebtedness evidenced by this Note is, to the extent and in the manner provided herein, expressly subordinate and subject in right of payment to the prior payment in full of all Senior Debt of the Company (as defined hereinbelow) whether outstanding at the date hereof or hereafter incurred. Each holder and owner of this Note, by accepting the same, agrees to and shall be bound by such provisions.

For purpose hereof, the "Senior Debt" of the Company means the principal of, premium, if any, interest on and any other payment due pursuant to any of the following, whether outstanding at the date of execution of this Note or thereafter incurred, created or assumed: (a) all indebtedness of the Company evidenced by notes, debentures, bonds or other securities sold by the Company for money, excluding this Note, but including all first mortgage bonds of the Company outstanding from time to time; (b) all indebtedness of others of the kinds described in the preceding clause (a) assumed by or guaranteed in any manner by the Company, including through an agreement to purchase, contingent or otherwise; and (c) all renewals, extensions or refundings of indebtedness of the kinds described in any of the preceding clauses (a) and (b); unless, in the case of any particular indebtedness, renewal, extension or refunding, the instrument creating or evidencing the same or the assumption or guarantee of the same expressly provides that such indebtedness, renewal, extension or refunding is not superior in right of payment to or is *pari passu* with this Note.

In the event and during the continuation of any default in the payment of principal, premium, interest or any other payment due on any Senior Debt continuing beyond the period of grace, if any, specified in the instrument evidencing such Senior Debt, unless and until such default shall have been cured or waived or shall have ceased to exist, or in the event that the maturity of any Senior Debt has been accelerated because of a default, then no payment shall be made by the Company with respect to the principal of or interest on this Note.

In the event that, notwithstanding the foregoing, any payment shall be received by the holder of this Note when such payment is prohibited by the preceding paragraph, such payment shall be held in trust for the benefit of, and shall be paid over or delivered to, the holders of Senior Debt or their respective representatives, or to the trustee or trustees under any indenture pursuant to which any of such Senior Debt may have been issued, as their respective interests may appear.

Upon any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to creditors upon any dissolution or winding-up or liquidation or reorganization of the Company, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all amounts due or to become due upon all Senior Debt shall first be paid in full, or payment thereof provided for in money in accordance with its terms, before any payment is made on account of the principal or interest on this Note; and upon any such dissolution or winding-up or liquidation or reorganization any payment by the Company,

or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the holder of this Note would be entitled, except for the provisions of this Note, shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment or distribution, or by the holder of this Note if received by it, directly to the holders of Senior Debt (pro rata to such holders on the basis of the respective amounts of Senior Debt held by such holders, as calculated by the Company) or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any Senior Debt may have been issued, as their respective interests may appear, to the extent necessary to pay all Senior Debt in full, in money or money's worth, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt, before any payment or distribution is made to the holder of this Note.

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, prohibited by the foregoing, shall be received by the holder of this Note before all Senior Debt is paid in full, or provision is made for such payment in money in accordance with its terms, such payment or distribution shall be held in trust for the benefit of and shall be paid over or delivered to the holders of Senior Debt or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any Senior Debt may have been issued, as their respective interests may appear, as calculated by the Company, for application to the payment of all Senior Debt remaining unpaid to the extent necessary to pay all Senior Debt in full in money in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Debt.

For purposes of this Note, the words, "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, the payment of which is subordinated with respect to this Note to the payment of all Senior Debt which may at the time be outstanding; provided that (i) the Senior Debt is assumed by the new corporation, if any, resulting from any such reorganization or readjustment, and (ii) the rights of the holders of the Senior Debt are not, without the consent of such holders, altered by such reorganization or readjustment. The consolidation of the Company with, or the merger of the Company into, another corporation or the liquidation or dissolution of the Company following the conveyance or transfer of its property as an entirety, or substantially as an entirety, to another corporation upon the terms and conditions provided for in this Note shall not be deemed a dissolution, winding-up, liquidation or reorganization for the purposes hereunder if such other corporation shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions stated hereunder.

Subject to the payment in full of all Senior Debt, the rights of the holder of this Note shall be subrogated to the rights of the holders of Senior Debt to receive payments or distributions of cash, property or securities of the Company applicable to the Senior Debt; and, for the purposes of such subrogation, no payment or distributions to the holders of the Senior Debt of any cash, property or securities to which the holder of this Note would be entitled except for the provisions hereunder, and no payment over to or for the benefit of the holders of Senior Debt by the holder of this Note, shall, as between the Company, its creditors other than holders of Senior Debt, and the holder of this Note, be deemed to be a payment by the Company to or on account of the Senior Debt. It is understood that the subordination provisions of this Note are and are intended solely for the purposes of defining the relative rights of the holder of this Note, on the one hand, and the holders of the Senior Debt on the other hand.

Nothing contained in this Note is intended to or shall impair, as between the Company, its creditors other than the holders of Senior Debt, and the holder of this Note, the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the holder of this Note and creditors of the Company other than the holders of the Senior Debt, nor shall anything herein or therein prevent the holder of this Note from exercising all remedies otherwise permitted by applicable law upon default hereunder, subject to the rights, if any, of the holders of Senior Debt in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

### **Events of Default**

“Event of Default,” wherever used herein with respect to this Note, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

- (1) default in the payment of any interest upon this Note when it becomes due and payable, and continuance of such default for a period of 30 days; or
- (2) default in the payment of the principal of this Note at its maturity; or
- (3) default in the performance, or breach, of any covenant or warranty of the Company in this Note (other than a covenant or warranty a default in whose performance or whose breach is elsewhere specifically dealt with) and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Company by the holder of the Note a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder; or

(4) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order un-stayed and in effect for a period of 90 consecutive days; or

(5) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or state law, or the consent by it to the filing of such petition or to the appointment of, or taking possession of the Company or of any substantial part of its property by, a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official or the making by the Company of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action; or

If an Event of Default (other than an Event of Default specified in paragraphs (4) or (5) above) occurs and is continuing, then the holder of this Note may declare the principal amount to be due and payable immediately, by a notice in writing to the Company, and upon any such declaration such principal amount shall become immediately due and payable. If an Event of Default specified in paragraphs (4) or (5) above occurs, the principal amount of this Note shall automatically, and without any declaration or other action on the part of the holder, become immediately due and payable.

No delay or omission of the holder of this Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Note or by law to the holder may be exercised from time to time, and as often as may be deemed expedient, by the holders.

### **Consolidations and Mergers Permitted**

Nothing contained in this Note shall prevent any consolidation or merger of the Company with or into any other corporation or corporations (whether or not affiliated with the Company), or successive consolidations or mergers in which the Company or its successor or successors shall be a party or parties, or shall prevent any sale, conveyance, transfer or other disposition of the property of the Company or its successor or successors as an entirety, or substantially as an entirety, to any other corporation (whether or not affiliated with the Company or its successor or successors) authorized to acquire and operate the same; provided, however, the Company hereby covenants and agrees that, upon any such consolidation, merger, sale, conveyance, transfer or other disposition, the due and punctual payment of the principal of and interest on this Note in accordance with its terms, according to its tenor, and the due and punctual performance and observance of all the covenants and conditions of hereunder to be kept or performed by the Company, shall be expressly assumed, by written agreement satisfactory in form to the holder executed and delivered to the holder by the entity formed by such consolidation, or into which the Company shall have been merged, or by the entity which shall have acquired such property.

In case of any such consolidation, merger, sale, conveyance, transfer or other disposition and upon the assumption by the successor corporation of the due and punctual payment of the principal of and interest on this Note and the due and punctual performance of all of the covenants and conditions hereunder to be performed by the Company, such successor corporation shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party of the first part, and thereupon the predecessor corporation shall be relieved of all obligations and covenants under this Note.

Nothing contained in this Note shall prevent the Company from merging into itself or acquiring by purchase or otherwise all or any part of the property of any other corporation (whether or not affiliated with the Company).

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated:

**UNION LIGHT, HEAT & POWER COMPANY**

**By:**  
**Name:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**The Union Light, Heat and Power Company**

**Summary of Loan Agreement Pricing Parameters**

<b>Principal Amount:</b>	Up to \$200 million of tax exempt bonds, in one or more series.
<b>Maturity:</b>	Up to 40 years.
<b>Purpose:</b>	To finance or reimburse the costs of acquiring and/or constructing certain solid waste facilities or other environmental-control facilities.
<b>Lead Underwriters:</b>	To be named.
<b>Underwriting Commissions or Agents' Fees:</b>	Not to exceed 1.25% of the principal amount.
<b>Price to Public:</b>	No higher than 101-1/2% nor less than 98% of the principal amount, plus accrued interest, if any.
<b>Interest Rate:</b>	Not to exceed those generally obtainable at the time of pricing or re-pricing of such Loan Agreements for instruments 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. The public offering price will be no higher than 101-1/2% nor less than 98% of the principal amount of the Authority's Bonds, plus accrued interest, at an interest rate that may be either fixed or subject to adjustment at varying periods, but in either case not to be in excess of 10.0% per annum at the time of initial issuance.

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
<b>Gas Department</b>				
Production	276,320	282,427	288,798	847,546
Special Projects	11,570,821	12,578,408	17,628,959	41,778,188
Distribution	10,922,641	11,342,012	12,672,650	34,937,303
Building & Grounds	298,988	305,414	345,336	949,738
Meters	1,379,812	3,283,915	4,210,094	8,873,820
<b>Total Gas Department</b>	<u>24,448,583</u>	<u>27,792,175</u>	<u>35,145,837</u>	<u>87,386,595</u>
<b>Electric Department</b>				
Substations - Transmission	2,485,446	816,091	-	3,301,537
Substations - Distribution	3,980,817	3,050,646	4,044,567	11,076,030
Transmission Lines	348,523	555,634	679,020	1,583,177
Distribution Transformers	1,242,868	1,258,332	1,292,697	3,793,896
Line Extensions	4,793,678	4,856,215	4,915,054	14,564,947
Street Lights	462,036	457,734	469,166	1,388,936
Generation - Acquisition	371,645,000	-	-	371,645,000
Generation - Construction	39,369,000	23,681,000	40,924,000	103,974,000
Distribution Improvements	5,693,519	6,313,164	5,581,208	17,587,892
Buildings & Grounds	240,622	243,616	276,740	760,977
Meters & Instrument Transform	693,765	3,435,981	4,537,878	8,667,624
Transportation	20,330	23,587	19,251	63,168
<b>Total Electric Department</b>	<u>430,975,603</u>	<u>44,692,000</u>	<u>62,739,581</u>	<u>538,407,184</u>
<b>Other Common Plant and Equipment</b>	<u>2,163,365</u>	<u>2,069,966</u>	<u>1,073,186</u>	<u>5,306,517</u>
<b>Total Construction and Acquisition Expense</b>	<u>457,587,551</u>	<u>74,554,141</u>	<u>98,958,604</u>	<u>631,100,296</u>



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. &amp; 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. &amp; 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 <sup>nd</sup> Supplement	4/30/98	\$ 20,000,000	6.50%	4/30/2008	\$1,300,000
4 <sup>th</sup> Supplement	9/17/99	\$ 20,000,000	7.875%	9/15/2009	\$1,575,000

The Company has outstanding Debentures issued under the Indenture dated December 1, 2004 between the Company and Deutsche Bank trust Company Americas, as Trustee, as follows:

<u>Indenture</u>	<u>Date of Issue</u>	<u>Principal Amount Auth. &amp; Issued</u>	<u>Rate of Interest</u>	<u>Date of Maturity</u>	<u>Interest Paid Year 2004</u>
Indenture	12/9/04	\$40,000,000.00	5.00%	12/15/14	\$0.00

(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	<u>53,551</u>
Total Utility Plant in Service	588,430
Construction work in progress	<u>6,887</u>
Total Utility Plant	595,317
Accumulated depreciation	<u>186,142</u>
Net Property, Plant, and Equipment	409,175

**Other Assets**

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

**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
<b>Total Operating Revenues</b>	<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
<b>Total Operating Expenses</b>	<u>313,133</u>

**Operating Income** 35,730

**Miscellaneous Income – Net** 1,330

**Interest Expense** 5,367

**Income Before Taxes** 31,693

**Income Taxes** 10,862

**Net Income** \$20,831