

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE UNION LIGHT, )  
HEAT AND POWER COMPANY FOR AN )  
ORDER TO ENTER INTO UP TO \$25,000,000 ) CASE NO. 97-301  
PRINCIPAL AMOUNT OF CAPITAL LEASE )  
OBLIGATIONS )

O R D E R

IT IS ORDERED that The Union Light, Heat and Power Company ("ULH&P") shall file the original and eight copies of the following information with the Commission no later than September 15, 1997, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

1. Provide any written policies, procedures or criteria ULH&P has developed to evaluate which option - constructing, buying, leasing, or sale/lease back - the utility should employ for particular acquisitions.

2. Provide a narrative discussion of the analysis ULH&P used to determine that it should employ capital leases rather than a debt or equity issuance to fund its capital requirements. Provide any workpapers or summaries used to quantify the discussion.

3. Provide the analytical procedures ULH&P will employ to ensure that the use of capital leasing will result in financing costs that are less expensive than issuing other forms of capital financing (such as stocks or bonds). Include all necessary supporting documentation. Include with this a demonstration that all factors, including any taxable gains and deferred taxes attributable to the property are fully considered in the evaluation process.

4. Explain how ULH&P proposes to account for any deferred taxes attributable to property that is sold and/or leased back as contemplated herein.

5. Show the impact a sale/leaseback transaction will have on the balance sheet of the utility.

6. Provide sample journal entries, using hypothetical numbers, that demonstrate how a sale/leaseback transaction will be recorded on ULH&P's books. These entries should reflect two particular instances, one in which the company has a gain on the sale of the asset and one in which the company records a loss on the sale. Additionally, fully disclose the terms of the hypothetical leases and the basis used for the amount capitalized on the utility's balance sheet.

7. Explain whether any gain or loss on the sale of assets that are subsequently leased back will be deferred and amortized over the useful life of the asset that gave rise to the gain or loss or over some other period of time. Fully justify your response.

8. Refer to page 2 of the application wherein ULH&P states that "Capital Leases will be used to finance new property, including construction, or re-finance existing property not in Applicant's jurisdictional rate base...." Is it ULH&P's position that "jurisdictional rate

base" includes only those assets that existed and were included in its rate base at the time of its last rate case? Fully justify your response and reconcile it to the quoted statement.

9. Again refer to page 2 of the application wherein ULH&P states "No property currently included in Applicant's jurisdictional rate base will be re-financed through Capital Leases without separate approval of this Commission...." Is it ULH&P's belief that it can sell any properties not specifically included in its rate base as identified in its last rate filing without receiving Commission approval? Fully explain your answer.

10. If ULH&P sells property it uses in providing utility service to customers to a third party and that property continues to be used to provide utility service to customers, does ULH&P believe the third party owner should be considered to be a "utility" for regulatory purposes? Fully explain your answer.

11. What approvals are required in other jurisdictions for the specific transactions proposed herein? Provide a copy of the applications if filed, or form of application and any orders entered by other Commissions.

12. Does ULH&P intend to enter into capital lease agreements to affiliated companies or related parties?

13. Has ULH&P's Board of Directors authorized any persons to approve the Capital Leases? If yes, state who these persons are and whether these persons are fully employed by ULH&P or are shared with other affiliates or related parties. If not fully employed by ULH&P, provide the percentage of the persons' times that are employed by each of the other related parties or affiliates as well as the percentage they are employed by ULH&P.

14. In the case of new property that is acquired or constructed, explain whether ULH&P anticipates that any of the vendors used will be affiliated companies or related parties and how the invoiced price will be determined. Fully explain your answer.

15. If ULH&P sells property currently used in the provision of utility service, that is either fully or partially depreciated, and subsequently leases the property back at an amount that exceeds the net book value of the property prior to the sale, will this result in a higher costs to utility customers? Fully explain your response.

16. Does ULH&P intend to sell any property through the authorization sought herein and not lease said property back? If yes, list any properties ULH&P has identified as a such sale candidate. Include the date the property was placed in service, its original cost and the accumulated depreciation recorded up through the most recent quarter available.

17. Refer to page 6 of the application. Explain how ULH&P can evaluate the merits of the transactions contemplated herein unless it fully considers the effect of such transactions on the utility's revenue requirements.

18. Refer to Exhibit B of the application. Identify any properties included in the Estimated Construction Expenditures ULH&P believes might be candidates for the types of transactions contemplated herein.

19. Is the leasing arrangement a commonly used type of utility financing? Provide a list of other companies that have used this form of financing within the past five years and the principal amount of their capital lease obligations.

20. Will ULH&P employ competitive bids, negotiated transactions, private placement or some other means to determine the lessor in each transaction?

Done at Frankfort, Kentucky, this 8th day of September, 1997.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director