

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 ) CASE NO. 97-301  
\$25,000,000 PRINCIPAL AMOUNT OF )  
CAPITAL LEASE OBLIGATIONS )

ORDER

On August 5, 1997, The Union Light, Heat and Power Company ("ULH&P") filed its application for authority to enter into up to \$25,000,000 in principal amount of capital lease obligations ("Capital Leases") through September 30, 1999 to finance its capital requirements. The Capital Leases will have structures and terms similar to other forms of debt financing but with a potentially lower overall cost.

On September 8, 1997, the Commission issued an Order requesting additional information to which ULH&P responded on September 24, 1997. An informal conference was held on January 28, 1998. On March 4, 1998, ULH&P filed information to supplement its previous response as requested at the informal conference and to amend its application. ULH&P now requests that the authorization period be extended to April 1, 2000.

As amended, Capital Leases will be used to finance or re-finance utility property in order to lower the property's original financing cost. The property to be leased will consist of equipment used in ULH&P's utility operations and may be in service, under construction or to be acquired or constructed. To effectuate the lease transaction ULH&P will obtain third-party lease financing or sell existing property to a third-party

finance lessor and simultaneously lease the property back from the lessor. ULH&P does not anticipate entering into Capital Lease obligations with any affiliated parties. An agreement will be executed setting forth the terms of each Capital Lease. ULH&P retains its obligation to pursue the best terms available to meet its financing requirements. In the event a Capital Lease is determined to be the most cost-effective form of financing, ULH&P should report the full details of each transaction which exceeds \$1,000,000.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the issuance by ULH&P of up to \$25,000,000 in principal amount of capital lease obligations is for lawful objects within its corporate purposes, is necessary and appropriate for and consistent with the proper performance of its service to the public, is reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. ULH&P is authorized to enter into Capital Leases the aggregate principal amount of which will not exceed \$25,000,000 in one or more transactions through April 1, 2000.
2. ULH&P shall agree only to such terms and prices that are consistent with the parameters set out in its application.
3. ULH&P shall, within 30 days of the execution date of any Capital Lease in excess of \$1,000,000, file with the Commission the full details of the transaction including a description of the leased property.

4. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

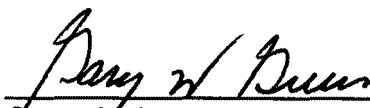
Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 17th day of April, 1998.

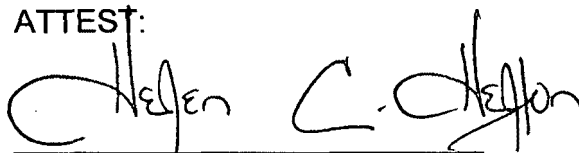
PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director