

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)	
AUTHORIZING THE (i) ISSUANCE AND SALE OF)	
UP TO \$50,000,000 PRINCIPAL AMOUNT OF)	CASE NO. 99-245
FIRST MORTGAGE BONDS OR UNSECURED)	
DEBT AND (ii) USE OF INTEREST RATE)	
MANAGEMENT TECHNIQUES)	

O R D E R

On June 17, 1999, The Union Light, Heat and Power Company (ULH&P) filed its application for authority to issue and sell long-term debt in the form of First Mortgage Bonds or unsecured indebtedness in one or more transactions from time to time through December 31, 2001, the aggregate amount of which would not exceed \$50,000,000 and to enter into one or more interest rate management arrangements to lower its overall effective interest cost. ULH&P has requested a market-based limit on its interest rates in order to allow sufficient flexibility to issue securities at competitive spreads. The proceeds from the sale of the securities would be used to repay a portion of ULH&P s short-term indebtedness; to repay at maturity ULH&P s \$20,000,000 First Mortgage Bonds 6½ % Series due August 1, 1999, or short-term indebtedness incurred in connection with said bonds; to redeem early other long-term debt of ULH&P, if market conditions are favorable; to fund estimated future construction expenditures of

\$14,700,000, \$22,603,000, and \$25,383,000 in 1999, 2000, and 2001, respectively;¹ and for other general corporate purposes.

In its Application, ULH&P indicated that the prospectus associated with the Registration Statement filed with the Securities and Exchange Commission (SEC) for its First Mortgage Bonds currently relates to a principal amount of bonds of \$20,000,000. ULH&P stated that it could either amend that Registration Statement or file a new registration statement with the SEC relating to the proposed securities. In the event ULH&P files with the SEC an amendment to the current Registration Statement or submits a new registration statement relating to these securities, it should provide the Commission with a copy of those documents at the time of filing with the SEC.

The Commission is concerned about ULH&P s request for market-based limits on the interest rates for the proposed securities. In Case No. 97-210,² the interest rates on the securities authorized could not exceed a specific number of basis points above the yield to maturity of United States Treasury Notes of comparable maturity at the time of pricing. Noting the volatility in the interest spreads experienced during the last year, ULH&P contends that establishing interest rate ceilings for these securities could result

¹ Response to the Commission s July 8, 1999 Order, Item 7. ULH&P provided a revised estimate of its construction expenditures, noting the discovery of a clerical error in the amounts originally provided in Application Exhibit B.

² Case No. 97-210, The Application of The Union Light, Heat and Power Company for an Order Authorizing the (i) Issuance and Sale of Up To \$50,000,000 Principal Amount of First Mortgage Bonds or Unsecured Debt and (ii) Use of Interest Rate Management Techniques, final Order dated June 17, 1997.

in missed opportunities in the capital markets and negative impacts on its ability to operate.³

For these proposed securities, the Commission will allow ULH&P to utilize market-based limits on the interest rates. However, upon the issuance of these securities, ULH&P should notify the Commission of the interest rate alternative selected for the issue. It should also provide a detailed explanation as to how the alternative chosen represents the most reasonable interest rate available at the time of issuance.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the issuance and sale by ULH&P of up to \$50,000,000 in First Mortgage Bonds and unsecured indebtedness are for lawful objects within its corporate purposes, are necessary and appropriate for and consistent with the proper performance of its service to the public, are reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. ULH&P is authorized to issue and sell up to \$50,000,000 of its First Mortgage Bonds or unsecured indebtedness in one or more transactions through December 31, 2001 and to enter into such interest rate hedging instruments as will reduce its overall interest cost. The securities will be sold on a negotiated basis with one or more underwriters or agents or through a competitive bidding process.

2. ULH&P shall agree only to such terms and prices that are consistent with said parameters as set out in its application. If variable rate bonds are used, ULH&P shall prepare on an annual basis an analysis of the relationship between such variable

³ Response to the Commission's July 8, 1999 Order, Item 6(a).

rate bonds and fixed rate bonds at the time of the analysis. Such analysis shall be available for Commission review on an annual basis beginning with an initial calculation within 30 days after the closing of the financing approved herein.

3. ULH&P shall, within 30 days after each issuance of the securities referred to herein, file with the Commission a statement setting forth the date or dates of issuance, the price paid, the interest rate, the purchasers, and all fees and expenses, including underwriting discounts or commission or other compensation, involved in the issuance and distribution and the use of the proceeds. In addition, ULH&P shall include a detailed explanation as to how the interest rate alternative chosen represents the most reasonable interest rate available at the time of issuance.

4. In the event ULH&P files with the SEC an amendment to the current Registration Statement or submits a new registration statement relating to the securities authorized herein, ULH&P shall provide the Commission with a copy of those documents at the time of filing with the SEC.

5. 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 5th day of August, 1999.

By the Commission

ATTEST:

Executive Director