

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 PRINCIPAL ) CASE NO. 2004-00434  
AMOUNT OF CAPITAL LEASE OBLIGATIONS )

O R D E R

On November 1, 2004, The Union Light, Heat and Power Company ("ULH&P") filed its application for authority to enter into Capital Lease obligations ("Capital Leases") up to a \$25,000,000 principal amount over a period ending December 31, 2006. ULH&P proposes to utilize the Capital Leases as another form of financing capital requirements, such as meters, computers, office equipment, software and site licenses.

The Capital Leases will have structures and terms similar to other forms of debt financing but with the potential to lower the overall cost associated with financing property acquisitions. ULH&P may enter into one or more participation agreements with its affiliates and a lessor in connection with these capital leases for the purpose of providing administrative efficiencies and for the convenience of the parties involved. At the end of a lease, ULH&P will have the following options: (1) renew the lease, (2) purchase the property, or (3) terminate the lease. ULH&P will retain its obligation to pursue the best terms available for the structure selected.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that ULH&P's entering into up to \$25,000,000 in 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. We also find that ULH&P should be required to document the Capital Leases it enters into; therefore, we will impose the documentation requirements set forth in Ordering Paragraph 3 below.

IT IS THEREFORE ORDERED that:

1. ULH&P is authorized to enter into up to \$25,000,000 of Capital Leases in one or more transactions through December 31, 2006.

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 10 days after entering into a capital lease, file with the Commission a statement setting forth the starting date and period of the lease, a description of the property, the name and address of the Lessor, the dollar amount of the lease, any stated or implied interest rate, all fees and expenses included in the lease and a copy of any participation agreements. In addition, ULH&P shall perform an analysis comparing the cost of financing through Capital Leases to that of other forms of debt financing for any Capital Lease in excess of \$1,000,000. The analysis and supporting data should be retained as documentation for establishing ratepayer benefits from Capital Leases during future rate proceedings.

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 17<sup>th</sup> day of December, 2004.

By the Commission

ATTEST:



Executive Director