

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of )  
The Cincinnati Gas & Electric )  
Company for Authority to (a) Issue )  
and Sell First Mortgage Bonds or ) Case No. 97-431-GE-AIS  
Unsecured Debt, (b) Enter Into )  
Capital Lease Obligations and (c) )  
Enter into Interest Rate Management )  
Agreements. )

FINDING AND ORDER

The Commission finds:

- (1) Applicant, an Ohio corporation, is a public utility as defined in Section 4905.02, Revised Code, and is subject to the jurisdiction of this Commission.
- (2) This Application, as amended (hereinafter called the "Application"), is filed under the provisions of Sections 4905.40 and 4905.41, Revised Code.
- (3) Applicant proposes to: (a) issue and sell, from time to time through December 31, 1998, up to \$400 million principal amount of first mortgage bonds (the "Bonds") or unsecured indebtedness (the "Debenture") together with the Bonds or a combination thereof (collectively, the "Securities"); (b) enter into, from time to time through December 31, 1998, up to \$200 million principal amount of capital lease obligations (the "Lease or Leases"), in one or more transactions, and (c) enter into interest rate management agreements to manage interest costs on its financial obligations (the "Interest Rate Agreements"), within the terms and conditions as set forth in the Application and the Exhibits.
- (4) The Securities will be issued and sold either through negotiated offerings or through competitive bidding process as described in the Application and the Exhibits. If the Bonds are issued, The Bank of New York will act as Trustee. If the Debentures are issued, The Fifth Third Bank will act as Trustee, as described in the Application and the Exhibits.

- (5) To effectuate the Leases, Applicant proposes (1) to obtain third party lease financing for property acquisition, or (2) in the case of existing property, to sell the property to a third party finance lessor (the "Lessor") and simultaneously lease back the property from the Lessor, as described in the Application and the Exhibits.
- (6) Each Lease will be for a maximum term of not more than 10 years for each initial or renewal term. At the end of each initial or renewal lease term, Applicant will have an option to (a) renew each Lease pursuant to arm's length negotiation with the Lessor(s), (b) purchase the property, or (c) terminate the Lease.
- (7) The Leases will be used to finance new property, including construction, or refinance existing property not in Applicant's jurisdictional rate base, in order to lower the property's original financing cost. No property currently included in Applicant's jurisdictional rate base will be re-financed through the Leases. The Leases will allow Applicant to access lower cost funds.
- (8) Applicant has not negotiated the specific terms of the Leases. Applicant requests Commission authorization for the Leases, prior to the time it negotiates the actual agreements, within the parameters described in the Application and the Exhibits.
- (9) Applicant has indicated that the terms and conditions of the Leases will be substantially similar to the terms and conditions of the Lease that Applicant entered into in connection with the sale and leaseback of certain equipment at CG&E's Woodsdale Generating Station (the "Woodsdale"). The Woodsdale lease transaction was authorized by this Commission, pursuant to its Order dated August 1, 1996, in Case No. 95-948-GE-AIS.
- (10) Applicant also requests Commission authorization to utilize Interest Rate Agreements to lower its overall effective interest cost, within the parameters as described in the Application and the Exhibits.
- (11) There will be no proceeds associated with the Interest Rate Agreements since no new obligations are created by these agreements. Applicant states that the Interest Rate Agreements are intended to allow Applicant sufficient

alternatives and flexibility to reduce its effective interest cost and manage interest cost on financings.

- (12) Applicant proposes to use the proceeds from the issuance of the Securities and the Capital Leases to provide funds for Applicant's construction program, for refunding of its obligations, or to reimburse its treasury, in part, for moneys expended for such purposes, and for other corporate purposes, all pursuant to Section 4905.40, Revised Code.
- (13) The proposed guidelines or parameters set forth in the Application are intended to facilitate the issuance of the Securities, entering into the Leases and the Interest Rate Agreements on the best terms possible and at lowest cost. The authorization to issue the Securities and enter into the Leases and the Interest Rate Agreements, within the parameters set forth in the Application and Exhibits, in no way relieves the Applicant of its responsibility to negotiate and obtain the best terms available.
- (14) The aggregate amount of the Securities and the Leases, and the use of the Interest Rate Agreements, the terms thereof, and the probable cost to Applicant, within the parameters set forth in the Application and Exhibits, do not appear to be unjust or unreasonable.
- (15) The effect on Applicant's revenue requirements resulting from the issuance of the Securities, the Leases and the Interest Rate Agreements will be considered in the determination of required revenue in rate proceedings in which all factors affecting rates will be taken into account according to law. In any event, Applicant states that the future revenue requirement associated with the Leases will be no greater than if the Leases had never occurred.
- (16) Applicant is requesting authorization to issue the Securities and the Leases through December 31, 1998. However, the Commission is of the opinion that the authorization should be limited to a time period ending June 18, 1998, for the following reasons: (1) uncertainty of interest rates beyond a 12-month period, and (2) difficulty in predicting financial market conditions over a longer time period.
- (17) Applicant is requesting authorization to enter into Interest Rate Agreements without specifying any time frame for such an

authorization. However, the Commission is of opinion that the authorization with respect to Interest Rate Agreements should be limited to a time period ending June 18, 1998, and Applicant, if necessary, may seek to renew such authorization in a timely manner.

- (18) Applicant shall report to the Commission full details of each transaction completed pursuant to the authority granted under this Order. The report should include, but not be limited to, a detailed description of the transaction, the rationale for the transaction and a quantification of the benefits of the transaction.
- (19) Based on the information contained in the Application and the Exhibits attached thereto, and other documentary information to which the Commission has access, the purposes to which the proceeds from the issuance of the Securities and the Leases shall be applied and the use of the Interest Rate Agreements appear to be reasonably required by Applicant to meet its present and prospective obligations to provide utility service and the Commission is satisfied that consent and authority should be granted.

It is, therefore,

ORDERED, That Applicant, The Cincinnati Gas & Electric Company is hereby authorized through June 18, 1998, to: (a) issue and sell, from time to time, up to \$400 million principal amount of first mortgage bonds or unsecured indebtedness together with the Bonds or a combination thereof; (b) enter into, from time to time, up to \$200 million principal amount of capital lease obligations, in one or more transactions; and (c) enter into interest rate management agreements, all consistent with the terms and conditions as set forth in the Application and Exhibits. It is, further,

ORDERED, That Applicant shall apply the proceeds from the issuance of the Securities and the Leases for the purposes set forth in this Order and otherwise pursuant to the provisions of Section 4905.40, Revised Code. It is, further,

ORDERED, That Applicant shall file separate written reports with this Commission with the terms and full particulars of each of the transactions, as promptly as possible, when the Securities authorized by this Order are issued and sold and/or when Applicant enters into each Capital Lease or Interest Rate Management Agreement, as described in Finding No. 18. It is, further,

ORDERED, That the authorization granted by this Order shall not be construed as limiting the Commission's determination of the appropriateness of the Securities,

Leases and Interest Rate Management Agreements for future rate making treatment. It is, further,

ORDERED, That the future revenue requirement associated with the Leases shall be no greater than if the Leases had never occurred. It is, further,

ORDERED, That Applicant, for the purposes of the Leases authorized by this Order, shall not include any existing property that is currently in Applicant's jurisdictional rate base. It is, further,

ORDERED, That the Applicant shall account for the Securities, Leases and Interest Rate Management Agreements as prescribed in the Federal Energy Regulatory Commission Uniform System of Accounts as currently in effect. It is, further,

ORDERED, That nothing in this Order shall be construed to imply any guaranty or obligation by the Commission to assure completion of any specific construction project of the Applicant. It is, further,

ORDERED, That nothing in this Order shall be deemed to be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule or regulation. It is, further,

ORDERED, That nothing in this Order shall be construed to imply any guaranty or obligation as to the Securities, Leases, Interest Rate Management Agreements or the associated interest thereon, on the part of the State of Ohio. It is, further,

ORDERED, That a copy of this Order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

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Craig A. Glazer, Chairman

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Jolynn Barry Butler

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Ronda Hartman Fergus

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David W. Johnson

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Judith A. Jones

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