

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND)	
ELECTRIC COMPANY AND KENTUCKY)	
UTILITIES COMPANY FOR A CERTIFICATE)	CASE NO.
OF PUBLIC CONVENIENCE AND NECESSITY)	2002-00381
FOR THE ACQUISITION OF FOUR)	
COMBUSTION TURBINES AND A SITE)	
COMPATIBILITY CERTIFICATE FOR THE)	
FACILITY)	

O R D E R

On January 24, 2003, the Commission entered an Order stating that, absent a request for a hearing within 10 days from the date of the Order, this matter would stand submitted on the existing record. No requests were received and the matter stood submitted. On February 24, 2003, the Commission received a letter, which is attached hereto as Appendix A, from The ERORA Group (ERORA). After reviewing this letter and being otherwise sufficiently advised, the Commission finds that ERORA has made allegations that could affect the Commission s decision in this proceeding. Therefore, the Commission finds that the Applicants should be required to file a response to this letter generally and to respond to the data request attached hereto as Appendix B.

IT IS THEREFORE ORDERED that Applicants shall respond to the letter attached hereto as Appendix A and to the data request attached hereto as Appendix B no later than 12:00 p.m., Eastern Standard Time, on February 28, 2003.

Done at Frankfort, Kentucky, this 27th day of February, 2003.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2002-00381 DATED February 27, 2003

**The
ERORA
Group**

Michael L. McInnis
David G. Schwartz
Larry K. Watson, Jr.

February 24, 2003

VIA Facsimile (502/627-4030) and First Class Mail

Louisville Gas & Electric Company
Kentucky Utilities Company
c/o LG&E Energy
220 West Main Street
PO Box 32010
Louisville, KY 40232

Attention: Mr. Michael S. Beer

RE: Offer to Sell Combustion Turbines

Dear Mike:

Reference is made to Case No. 2002-00381, currently pending before the Kentucky Public Service Commission.

The ERORA Group, L.L.C. ("ERORA") is acting as the exclusive broker for a party with respect to the sale of two (2) GE7FA combustion turbines (the "Offered Turbines"). ERORA has been authorized to make the Offered Turbines available to Kentucky Utilities Company and Louisville Gas and Electric ("Companies") for a price of \$32,000,000.00 each. This pricing will save the Companies and their ratepayers approximately \$11,500,000 (turbine savings plus associated capitalized interest) as compared to the pricing set forth in the referenced case.

The Offered Turbines are the same model from the same manufacturer as the turbines that are the subject of the referenced case. ERORA believes that the Offered Turbines are identical in all material respects to the turbines that LG&E Capital has offered to sell to the Companies. The Offered Turbines have been manufactured and are currently warehoused, ready for shipment to the Companies.

As a commercial entity, we will be making a commission in connection with this sale. Like you, we are mindful of our responsibilities to the citizens of Kentucky. Accordingly, if we can promptly consummate a transaction at the prices set forth above, ERORA will allow the Companies to pay \$500,000 of the purchase price per Offered Turbine to a low income energy assistance fund (approved by the Kentucky Public Service

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PUBLIC SERVICE
COMMISSION

Louisville Gas & Electric Company
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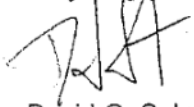
Commission) of the Companies' choice – an additional \$1,000,000 in value to the citizens of Kentucky.

This proposal represents significant value - over \$12,000,000.00. We are confident that the Companies will find this proposal attractive; and in pursuing this opportunity, the Companies will be ensuring that they are pursuing the lowest cost alternative and that the ratepayers will not be unnecessarily or unduly burdened.

Mike, it is our intention to make this proposal to the Companies (as opposed to LG&E Capital). If in fact you do not represent the Companies but rather represent LG&E Capital or LG&E Energy, we recognize that this proposal may present you with a conflict of interest and would ask that you forward it to the responsible party within the Companies.

Please recognize that because of the attractive pricing associated with these Offered Turbines, we are proposing them to the Companies subject to prior sale and, therefore, ERORA reserves the right to withdraw this proposal at any time without notice. Accordingly, your prompt attention to this matter is appreciated. We will be pleased to address any questions that you may have. We look forward to assisting the Companies in ensuring that they remain two of the lowest cost utilities in the country.

Very truly yours,



David G. Schwartz
502.357.9902
dschwartz@erora.com

CC: Thomas M. Dorman, Executive Director, Kentucky Public Service Commission
Elie Russell, Kentucky Public Service Commission
Honorable Elizabeth E. Blackford, Office of the Attorney General
Michael L. Kurtz, Esq.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00381 DATED February 27, 2003

1. Discuss the reasonableness and validity of the offer made by ERORA in its letter to Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) dated February 24, 2003.
2. Based on the description of the combustion turbines (CTs) as shown in the offer letter dated February 24, 2003, are the 2 CTs offered comparable to the CTs proposed to be acquired in this case? Explain the response.
3. Provide an estimate of the penalties, financial exposure, and any other charges that would be incurred by LG&E Capital Corp. and LG&E and KU individually if the project as proposed in the application is cancelled.
4. Provide a copy of all documents between LG&E Capital Corp. and LG&E and KU that are not currently in the record detailing penalties, financial exposure, and other charges that would be incurred if the project as proposed in the application were to be cancelled.
5. Discuss the potential impacts on the construction contract with Overland Contracting Inc. if the project as proposed in the application is cancelled or delayed.
6. Provide an estimate of the additional capitalized interest expense that would be incurred daily by LG&E and KU if the Commission s approval of the requested certificate occurs after March 1, 2003.
7. In the offer letter dated February 24, 2003, ERORA quotes a price of \$32,000,000 per CT while the purchase price in the existing GE contract is \$36,175,000

per CT. Can LG&E and KU get the same discount from LG&E Capital Corp. that apparently is available from ERORA? Explain the response in detail.

8. Has LG&E Capital Corp., LG&E and/or KU contacted ERORA concerning this offer? If yes, describe the discussions in detail. If no, explain why no contact has been made.