COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF SALE OF PROPERTY TO THE LOUISVILLE ARENA AUTHORITY, INC.	)	CASE NO. 2006-00391

O R D E R

This matter comes before the Commission on Louisville Gas and Electric Company's ("LG&E") August 24, 2006 application for approval to transfer certain property upon which generation facilities are located to the Louisville Arena Authority, Inc. ("Arena Authority"). The application was filed pursuant to the Commission's directive in Case No. 2002-00029,[1] requiring LG&E and Kentucky Utilities Company to seek Commission approval prior to entering into a sale or lease of any land located on any existing generation sites.

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), and Kentucky Industrial Utility Customers, Inc. requested and were granted intervention in this proceeding. They did not submit any evidence or pleadings in opposition to the proposed transfer. An informal conference was held on September 20, 2006, which was attended by representatives of LG&E, the AG, and Commission Staff.

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[1] Case No. 2002-00029, Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for the Acquisition of Two Combustion Turbines (Order dated June 11, 2002).

LG&E proposes to sell to the Arena Authority certain property located in Louisville, Jefferson County, Kentucky that LG&E presently uses to provide electric and gas service to the Louisville Metro Central Business District and to relocate certain service facilities to another location. The property to be transferred ("Real Property") consists of two parcels of land: one parcel bounded by River Road on the north, Second Street on the east, Third Street on the west, and Washington Street on the south; and the other parcel located on the south side of Washington Street at the corner of Third Street. LG&E states that all service facilities[2] and personal property located on the Real Property will either be relocated or abandoned.

LG&E entered into a Memorandum of Understanding ("MOU") on August 22, 2006 with the Arena Authority that sets forth the terms of the parties' agreement with regard to the sale of the Real Property, the relocation of the service facilities, and all other related matters. LG&E states that it plans to execute Definitive Agreements related to the relocation projects and the sale and transfer of the Real Property in the near future.

The parties agree that the Arena Authority will pay LG&E $10 million for the property,[3] less the costs that will be expended to meet applicable environmental standards, the costs for four environmental studies that have been performed, and the

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[2] Facilities located on the Real Property include several large buildings housing electrical substations, transformers and circuits, transmission dispatch facilities, telecommunications facilities, information technology operations and facilities for personnel, substation operations equipment and facilities for substation personnel, two combustion turbines, underground electric transmission lines, gas regulation and distribution facilities and other tangible personal property.

[3] The Commonwealth of Kentucky is authorized to issue bonds in the amount of $75 million and make the funds available to the Arena Authority for this project.

costs in excess of $1.2 million pursuant to the formula set forth below that the Arena Authority will incur for the demolition of the existing buildings and the disposal of all abandoned property. However, the parties agree that LG&E shall have no obligation with regard to the environmental condition or the environmental remediation in excess of the purchase price of $10 million. The net demolition costs[4] are estimated to be $1.2 million and have already been taken into consideration and reflected in the $10 million purchase price. The parties agree that LG&E shall pay actual net demolition costs that exceed the estimated $1.2 million up to $1.4 million. In the event the net demolition costs exceed $1.4 million the parties agree to share the costs equally and further agree that LG&E's share will be taken as a reduction against the purchase price.[5]

The parties agree that the Arena Authority will pay all costs, estimated at $63.1 million, associated with the relocation of LG&E's facilities, with the exception of the gas-fired combustion turbines, which will be abandoned, and the transmission dispatch facilities. LG&E states that excluding the combustion turbines and the transmission dispatch facilities from the relocation projects to be paid by the Arena Authority is reasonable. LG&E states that it plans to retire and abandon the two 11 MW capacity gas-fired combustion turbines on site. It contends that the turbines have operated beyond their designed life of 30 years as each unit is approximately 42 years

[4] Net demolition costs are the actual out-of-pocket costs to the Arena Authority for demolition of the existing buildings on the Real Property as reduced by the net proceeds of sale of personal property left in place by LG&E as of the conveyance date (MOU at 1.2 and 1.5).

[5] MOU at 1.2.

old and is attached to an original circa-1920 generator. LG&E states that these turbines have been used infrequently in recent years and that replacement parts are becoming increasingly difficult to locate. It also states that, due to various factors, these units are forecasted to generate very little energy over the next 30 years. LG&E states that it completed a Life Assessment Study of the turbines and determined that they should be retired immediately. It states that ProEnergy Services, with whom it contracted to provide a quantitative assessment of the potential disposition of the turbines after retirement, recommends that the turbines be retired on site as they have no significant market value.[6] As a result of this recommendation, LG&E has decided that the turbines will not be relocated.

The transmission dispatch facilities presently located on the Real Property were built in 1978 and include real-time computer equipment, two dedicated computer rooms, two active mapboards that display system conditions, limited uninterruptible power supply, generator backup, office space for transmission support personnel, and communications circuits critical to company operations, including Supervisory Control and Data Acquisition and Telemetry and Emergency Transfer Trip. LG&E states that, for some time, it has considered the necessity of upgrading and moving these facilities from the present location, citing security concerns and the inability to expand, and asserts that both safety and operational efficiency will be increased upon relocation. LG&E states that the parties have agreed that the expenses associated with the relocation of these facilities, which are estimated at $15.5 million, should be borne by LG&E. LG&E states that it will not request a base rate increase solely because of the

[6] Response to Item 7 of Commission Staff's First Data Request dated September 5, 2006.

construction and relocation of these facilities and that therefore its customers will not be immediately affected.

LG&E asserts that its proposal is reasonable and that its customers' interests are adequately protected by the terms of the agreement with the Arena Authority. Having reviewed the proposal and being otherwise sufficiently advised, the Commission agrees. Therefore we find that the transfer proposed by LG&E as set forth in the MOU should be approved.

The Commission's approval of the proposed transaction is based upon the provisions contained in the MOU. As noted previously, Definitive Agreements based upon the MOU are currently being prepared for execution by LG&E and the Arena Authority. In the event that LG&E's financial benefits or obligations, as outlined in the MOU, are changed or modified by the Definitive Agreements, LG&E should file with the Commission the documents containing the changes or modifications and include a detailed explanation of each change or modification. This filing should be made with the Commission as soon as possible, but no later than 10 days after the execution of the document producing the change or modification.

The Commission will also require that LG&E provide the Commission with all the accounting entries made to its books associated with this transaction. LG&E has indicated that the relocation of its facilities could take 2 years to complete. Therefore, LG&E should be required to file all accounting entries related to this transaction with the Commission no later than January 31, 2009. In the event the accounting entries for the Real Property transfer and the transmission dispatch facilities are completed before that date, those final accounting entries should be filed within 30 days of the finalization date.

IT IS THEREFORE ORDERED that:

1. LG&E's proposed transaction, as described in the MOU, is approved.

2. The Commission shall be notified, in writing, of any changes or modifications to LG&E's financial benefits or obligations as described in the MOU in the manner described in this Order.

3. LG&E shall file the final accounting entries associated with the transactions described in the MOU no later than January 31, 2009 or as alternatively set forth herein.

Done at Frankfort, Kentucky, this 28th day of September, 2006.

By the Commission

ATTEST:

Executive Director