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February 25, 2015

VIA HAND DELIVERY

Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

RECEIVED

FEB 25 2015

**PUBLIC SERVICE
COMMISSION**

RE: *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval to Execute a Cross-Border Lease of Two 164 Megawatt Combustion Turbines*
Case No. 99-413
(Termination of Cross-Border Lease)

Dear Mr. DeRouen:

By Orders dated November 2, 1999 and June 15, 2000 in the above referenced case, the Commission authorized Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies") to enter into a sale and leaseback transaction involving two combustion turbines ("CTs") located at KU's Brown Generating Station in Mercer County, Kentucky. KU owns a 62% interest in the CTs with the remaining 38% owned by LG&E.

As reflected in the Commission's November 2, 1999 Order, the sole purpose of the transaction was to allow the Companies to share in tax incentives, an intangible asset, available under the laws of certain European countries for equipment, such as the CTs, that was constructed in those countries. Pursuant to the lease, the Companies retained full rights to the possession, control, operation, maintenance and use of the physical, tangible assets of the CTs; and the Companies remained responsible for maintaining and operating the CTs, and under U. S. tax law, the Companies retained tax ownership, and continued to depreciate the CTs based on depreciation rates approved by this Commission.

The Companies entered into a lease agreement (the "Lease") with ABB Credit OY, a Finnish company, dated as of December 23, 1999. Subsequently, the Companies defeased their obligations to make lease payments through June 23, 2015, along with the CT re-purchase payment due upon termination at that date, through deposit of funds with ANZ Grindlays Export

Finance Limited, a company established under the laws of England. Under the Lease, with not less than 45 days' notice, the Companies have the option to terminate the Lease on June 23, 2015, retain the CTs and avoid having to make additional lease payments beyond June 23, 2015. Otherwise, the Companies will be required to continue making payments until the Lease terminates by its terms in December 2017. The Companies intend to provide such notice of termination to SEB Leasing OY, successor in interest to ABB Credit OY, on or about April 23, 2015.

Shortly after the transaction closed, the Companies received one-time payments from the foreign counterparties reflecting their share of the net benefits of the sale and leaseback transaction. These payments were recorded by the Companies as operating income at that time. Since then, the Companies have not received any further payments.

Moreover, since all lease payments have been made from the defeasance account, the only expenses reflected on the Companies' books, since the original transaction, have been ongoing maintenance and operating costs, and depreciation associated with the CTs incurred in the ordinary course of business.

As noted above, the Companies have already deposited funds into the defeasance account to cover termination on June 23, 2015. Following the termination, the Companies will continue to depreciate the CTs as before based on Commission approved depreciation rates. Thus, because the Companies have always and currently account for and operate and maintain the CTs as if owned, there will be no changes to the Companies' accounts because of the lease termination, and the financial information filed in connection with the Companies' pending rate cases, including the information pertaining to forecasted test periods, will not be impacted.¹

The Companies do not believe that termination of the Lease requires the approval of the Commission, and do not believe that any utility assets, within the meaning of KRS 278.218, are being transferred. The Companies plan to file before the end of February an application with the Federal Energy Regulatory Commission for Federal Power Act Section 203 authority to "acquire" under federal law the Brown CTs, upon exercise of the cross-border lease's existing early termination and call-option provisions.

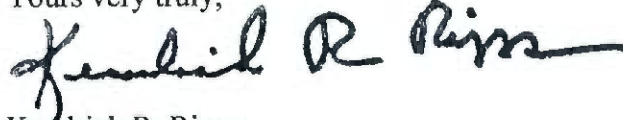
As noted above, to avoid having to make additional, unanticipated lease payments beyond June 23, 2015, the Companies intend to provide notice of lease termination on or about April 23, 2015. If the Commission disagrees with this position, please notify the undersigned as soon as reasonably possible, but no later than April 8, 2015.

¹ See *Application of Kentucky Utilities Company for an Adjustment of its Electric Rates*, Case No. 2014-00371; *Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates*, Case No. 2014-00372.

Jeff DeRouen
February 25, 2015
Page 3

Please do not hesitate to contact the undersigned should you desire additional information regarding the foregoing, or wish to schedule a meeting to discuss this matter.

Yours very truly,

A handwritten signature in black ink, appearing to read "Kendrick R. Riggs". The signature is written in a cursive style with a long horizontal stroke at the end.

Kendrick R. Riggs

KRR:ec

cc: Lawrence W. Cook, Assistant Attorney General
Michael L. Kurtz