COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

On November 23, 1999, Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) filed a joint application requesting reconsideration of that portion of the Commission s November 2, 1999 Order which required the net benefits realized from the sale and leaseback transaction be recorded in Account No. 253 Other Deferred Credits. LG&E and KU offered several arguments in support of the request. LG&E and KU seek the removal of this accounting requirement, and the amendment of ordering paragraph No. 6 of the November 2, 1999 Order to state that the approval of the application as amended shall have no implications for rate-making purposes.

On December 1, 1999, the Kentucky Industrial Utility Customers, Inc. (KIUC) filed a response in opposition to the application for reconsideration. KIUC responded to each argument offered by LG&E and KU, and recommended that the Commission deny the application for reconsideration.

In the original application, LG&E and KU requested that the Commission expedite its review of the sale and leaseback transaction, which the Commission did, processing the application in 31 days. In their amended application, LG&E and KU stated that they were not requesting a determination by the Commission as to the rate-making treatment of the net benefit expected from the proposed transaction. LG&E s and KU s proposed accounting for the net benefit was to record it as non-operating income in the current year. The Commission did not agree with this proposal and prescribed the recording of a deferred credit.

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that the amended application was processed on an expedited basis and there are now substantial concerns about the appropriate accounting and rate-making treatments of the expected net benefit. This constitutes good cause to grant LG&E s and KU s application for reconsideration. Attached to this Order as Appendix A are a series of questions LG&E and KU should answer concerning the treatment of the expected net benefit. After receiving the responses from LG&E and KU, KIUC should be afforded the opportunity to file a reply to those responses.

IT IS THEREFORE ORDERED that:

1. The application for reconsideration is granted.

2. LG&E and KU shall file, by January 21, 2000, the information requested in Appendix A, attached hereto and incorporated herein. LG&E and KU shall file an original and 10 copies of the responses, with a copy to all parties.

3. KIUC shall file, by February 11, 2000, any reply to LG&E s and KU s responses.

Done at Frankfort, Kentucky, this 10th day of December, 1999.

By the Commission

ATTEST:

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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 99-413 DATED DECEMBER 10, 1999

INFORMATION REQUEST

1. Explain in detail why it is appropriate to record the expected net benefit as non-operating income, even though the net benefit and associated sale and leaseback transaction are related to an operational asset.

2. If the Commission were to authorize the accounting treatment proposed by LG&E and KU:

a. Explain in detail how LG&E and KU would preserve the net benefit for consideration of the rate-making treatment in the future.

b. Describe what financial statement disclosures would be necessary in conjunction with the preservation of the consideration of the net benefit for rate-making purposes.

3. Explain how LG&E and KU presented the expected net benefit in the applications filed with the Virginia State Corporation Commission and the Federal Energy Regulatory Commission. Include a discussion of the accounting treatments proposed in those applications and the amount of the estimated net benefit for each jurisdiction. Also provide excerpts from the filings supporting these responses.

4. On page 2 of KIUC s response in opposition is the statement, However, the Commission s Order has the effect of deferring and amortizing that income amount over the life of the lease, thereby changing only the timing of the income recognition and preserving the ability to utilize that income as an offset to the related costs in a future rate-making proceeding.

a. Do LG&E and KU agree that the net benefit recorded in Account No. 253 could immediately begin to be amortized for accounting purposes? Explain the response.

b. If the Commission s November 2, 1999 Order were modified to provide for an amortization of the net benefit to be recorded in Account No. 253, would LG&E and KU still object to the prescribed accounting treatment? Explain the response.

c. If the net benefit were to be amortized for accounting purposes prior to the determination of the final rate-making treatment, how would LG&E and KU envision recording and reporting the amortization? Explain the response.

5. Explain when and in what type of proceeding LG&E and KU would expect to seek final rate-making treatment for the net benefit under the following scenarios:

a. The Commission authorizes the accounting treatment originally proposed by LG&E and KU.

b. The Commission requires that the net benefit be recorded in Account No. 253, without any amortization for accounting purposes until the final rate-making treatment is determined.

c. The Commission requires that the net benefit be recorded in Account No. 253, but permits LG&E and KU for accounting purposes to amortize the deferred credit over the life of the lease until a final rate-making treatment is determined.

6. Explain LG&E s and KU s position with regard to whether the net benefit should be retained totally by shareholders, returned to ratepayers, or shared in some

fashion. If there is a proposed sharing, explain how this could be accomplished outside normal rate case proceedings.