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 December 10, 1999, the Commission issued an Order granting rehearing on the issues of the appropriate accounting and rate-making treatments of the expected net benefit realized[1] from the sale and leaseback by Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") of two 164 megawatt combustion turbines. LG&E and KU provided additional information requested by the Commission, and this case stands submitted for a decision.

In its November 2, 1999 Order, the Commission approved the sale and leaseback transaction but rejected the arguments of LG&E and KU that the net benefit realized from the transaction should be recorded as miscellaneous nonoperating income. Instead, the Commission required the net benefit to be recorded as a credit to Account No. 253 – Other Deferred Credits, with the disposition of this credit being deferred to a future rate case.

[1] The net benefit to be realized from the sale and leaseback transaction was estimated by LG&E and KU to be comprised of an up-front payment between $4 million to $7 million, net of approximately $2.2 million in associated fees and transaction expenses. See November 2, 1999 Order at 3-4.

On November 23, 1999, LG&E and KU filed a joint application for rehearing, arguing for the elimination of the deferred credit accounting treatment and the recording of the net benefit as nonoperating income. They also requested that ordering paragraph No. 6 of the November 2, 1999 Order be amended to state that the approval of the transaction "shall have no implications" for rate-making purposes. The Kentucky Industrial Utility Customers, Inc. ("KIUC") opposed LG&E's and KU's application for reconsideration.

In responses filed on March 6, 2000, LG&E and KU state that since filing their application for rehearing, they have accepted the earnings sharing mechanism ("ESM") offered by the Commission in Case Nos. 98-426[2] and 98-474.[3] The ESM, LG&E and KU now believe, provides an opportunity for the ratepayers to derive a direct and immediate benefit from the sale and leaseback transaction, as well as an incentive for LG&E and KU to engage in similar transactions in the future. Because of the ESM, LG&E and KU state that they have revised their position on rehearing and no longer seek to record the net benefit as nonoperating income. LG&E and KU further state that it is unnecessary to utilize deferral accounting to preserve the net benefit for the ratepayers. Rather, they propose recording the net benefit from the transaction as net operating income, since ratepayers will now benefit from this additional income to the extent LG&E and KU exceed their respective threshold levels under the ESM.[4]

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[2] Case No. 98-426, Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of Its Rates and Service.

[3] Case No. 98-474, The Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of Its Rates and Service.

[4] Response to the Commission's December 10, 1999 Order, Item 1.

Although the Commission provided KIUC an opportunity to reply to LG&E's and KU's responses, no reply was filed.

The Commission, after considering the evidence of record and being otherwise sufficiently advised, finds that the revised proposal of LG&E and KU to include the net benefit of the sale and leaseback transaction in operating income is a reasonable resolution of the issues under consideration in this rehearing and is consistent with the Commission's accounting determination in the November 2, 1999 Order. By including the net benefit in operating revenues, LG&E and KU are in effect agreeing that the ratepayers should be credited with the net benefit of the sale and leaseback. The ESM will consider these revenues along with other operating income items and determine whether the earnings of LG&E and KU are sufficient to return any of the net benefit to ratepayers. The Commission believes that under the circumstances surrounding this issue that this approach is preferable to deferring the issue for an indefinite period of time.

IT IS THEREFORE ORDERED that:

1. LG&E and KU shall record their respective portions of the net benefit realized from the sale and leaseback transaction as other operating income, and include this net benefit in the determination of their respective earnings during the calculation of the ESM mechanism for 2000.

2. Ordering paragraph No. 6 of the November 2, 1999 Order is modified to eliminate the requirement that LG&E and KU utilize a deferred credit accounting treatment for the net benefit from the sale and leaseback transaction.

3. All other requirements of the November 2, 1999 Order shall remain in full force and effect.

Done at Frankfort, Kentucky, this 15th day of June, 2000.

By the Commission

ATTEST:

Executive Director