

# **Statutory framework for addition of generating capacity by electric utilities in Kentucky**

.....

**March 2012**

.....

**KENTUCKY PUBLIC SERVICE COMMISSION**

## Two applicable review processes:

➤ Principal review process: Certificate of public convenience and necessity (CPCN)  
KRS 278.020 (1)

➤ Integrated resource planning (IRP)  
807 KAR 5:058

Application of both processes is determined by statute, regulation and legal precedent

# General requirements

## Key points:

- Utilities are required to provide adequate service (KRS 278.030) – PSC requires adequate generating capacity, including reserve
- PSC requires integrated resource planning (IRP) by electric utilities (807 KAR 5:058) – includes demand forecasts and plans for meeting demand – PSC places equal emphasis on managing demand as on adding capacity - three-year planning cycle
- Specific projects to add generating capacity must be consistent with a utility's IRP

**Prior to construction of any major facility, including an electric generating facility, a utility must apply for a certificate of public convenience and necessity (CPCN)**

# The CPCN process:

## Key points:

- Statute (KRS 278.020) is general – parameters of PSC decision have evolved over time through legal precedents
- Applicant must show a need for proposed facility – for generating facilities, this includes forecasts of both demand and future generating capacity
- Utility must show it has considered reasonable options, such as:
  - various types of new facilities
  - purchase of generating capacity or off-system power
  - demand-reduction measures

# The CPCN process:

## Key points:

- Wasteful duplication is not allowed – a utility may not overbuild or incur unnecessary costs
- “Least cost” principle flows from absence of wasteful duplication
  - Least cost not just construction or acquisition cost
  - Long-term costs also considered
  - PSC seeks least-cost reasonable option
- Grant of a CPCN leads to a presumption of future cost recovery

# Louisville Gas & Electric Kentucky Utilities Case Case 2011-00375

- Cases 2011-00161 & 2011-00162 – LG&E/KU environmental compliance plans (ECPs)
- ECPs involved decisions on whether to upgrade or retire existing generating facilities
- LG&E upgrades: Mill Creek & Trimble
- KU upgrades: Ghent & Brown
- LG&E retirement: Cane Run
- KU retirement: Green River, Tyrone

# Louisville Gas & Electric Kentucky Utilities Case Case 2011-00375

- CPCN: construct 640-megawatt combined cycle natural gas fired generating plant at Cane Run – construction cost: \$583 million
- CPCN: purchase 495-megawatt Bluegrass Generation simple cycle natural gas fired power plant in LaGrange – purchase price: \$110 million
- Rate impacts: LG&E – none
- Rate impacts: KU - about 4 percent

# Louisville Gas & Electric Kentucky Utilities Case Case 2011-00375

## NEXT STEPS

- Public comment meeting tonight
- Evidentiary hearing – March 20/21 – 10 am
  - PSC offices – 211 Sower Boulevard, Frankfort
  - Open to public
  - Streamed live at [psc.ky.gov](http://psc.ky.gov)
- Post-hearing filings
- PSC decision

# FOR MORE INFORMATION

Send questions to:

[psc.info@ky.gov](mailto:psc.info@ky.gov)

or contact:

Andrew Melnykovych  
Public Information Officer  
502-564-3940 x208

QUESTIONS