

Steven L. Beshear
Governor

Leonard K. Peters, Secretary
Energy and Environment
Cabinet



Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

John W. Clay
Commissioner

NEWS RELEASE

Contact:
Andrew Melnykovich
502-564-3940, ext. 208
502-330-5981 (cell)

PSC Chairman Armstrong Addresses National Conference on Carbon *Describes Kentucky's efforts to test carbon sequestration*

FRANKFORT, Ky. (May 7, 2009) – Kentucky is preparing for the likelihood of federal regulation of carbon dioxide emissions from the coal-burning power plants that produce 95 percent of the state's electricity, Kentucky Public Service Commission Chairman David Armstrong told a national meeting today.

Speaking at the Eighth Annual Conference on Carbon Capture and Sequestration, Armstrong described two projects to test whether the state's geology is suitable for the long-term underground storage of carbon dioxide (CO₂).

Armstrong also noted that Kentucky's existing laws regarding utility rates may provide a ready regulatory framework for allocating the costs that would come as a result of limits on CO₂ emissions.

"Our initial thinking is that Kentucky has in place a regulatory framework for dealing with the costs that carbon constraints would impose on our regulated utilities, particularly if CO₂ is eventually regulated under the Clean Air Act," he said. "That will, I hope, give us a bit of a leg up as we begin what is sure to be the lengthy, difficult and expensive process of adapting our electric utility industry to realities of a carbon-constrained world."

Federal legislative or regulatory mandates are likely to require substantial reductions of emissions of carbon dioxide (CO₂), Armstrong said.

Rising levels of CO₂ in the Earth's atmosphere are believed to be the principal cause of global climate change. The burning of coal to produce electricity is one of the major sources of atmospheric CO₂.

Coal-burning power plants are expected to be one of the early targets of measures to reduce CO₂ emissions. The cost of electricity produced from burning coal is expected to rise as a result of those carbon constraints.

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A Kentucky law (KRS 278.183) enacted in 1992 established a procedure – known as the Environmental Surcharge Mechanism – for coal-burning utilities to recover the costs of emission controls required by the federal Clean Air Act or other federal, state and local environmental statutes or regulations.

The process has worked very well for the past 17 years “and has the added advantage of making clear to electric consumers the costs of environmental protection,” Armstrong said, while noting that the concept has never been applied to CO2 controls.

Kentucky’s reliance on coal has spurred intense interest in technology to collect and store CO2 emissions from power plants, a process known as carbon capture and sequestration, or CCS, Armstrong said.

“As you might expect, clean coal technology and CCS enjoy strong support from the state legislature and from Governor Steve Beshear,” he said, “One of the governor’s first initiatives upon taking office was to develop a comprehensive energy strategy, a key element of which is to control carbon dioxide emissions while continuing to use our state’s abundant coal resources. Development and demonstration of CCS technologies are central to implementing that strategy.”

The two projects underway in Kentucky are designed to test whether CO2 can be stored in certain geologic formations deep beneath the state. The projects are at Duke Energy Kentucky’s East Bend power plant in Boone County and at a site in Hancock County. Both are being conducted by public-private partnerships that include utility companies and the state and federal governments.

Armstrong appeared on a panel with utility regulatory commissioners from Indiana and Minnesota. The conference included featured speakers representing international organizations, federal and state government, utility and financial companies, the scientific community and interest groups.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 100 employees.