

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

Linda K. Breathitt
Commissioner

NEWS RELEASE

Contact:
Andrew Melnykovich
502-782-2564 or 502-564-3940
502-330-5981 (cell)
Andrew.Melnykovich@ky.gov

PSC Approves Kentucky Power Co. Plan to Continue Electric Generation at Big Sandy Plant in Lawrence County

Smaller of two units at Louisa facility will switch from coal to natural gas

FRANKFORT, Ky. (Aug. 1, 2014) – The Kentucky Public Service Commission (PSC) today approved a plan that will enable Kentucky Power Co. to continue generating electricity at its Big Sandy plant by converting the smaller of its two coal-fired units to run on natural gas.

The decision does not affect plans to close the larger unit by June 1, 2015. The Big Sandy plant is located near Louisa in Lawrence County.

In an order issued today, the PSC said that conversion of the unit is the most cost-effective way for Kentucky Power to meet its generation needs and also “preserves a viable generating plant operating within the Commonwealth, thus retaining some of the current employees and supporting the local tax base.”

Kentucky Power is converting Big Sandy Unit 1 in order to meet stricter federal air quality requirements to reduce emissions of mercury and other toxics. Without the conversion, the 278-megawatt (MW) unit would have to be shut down in April 2015.

The PSC said converting Big Sandy Unit 1 also permits Kentucky Power to diversify its fuel supply and thus be less vulnerable to future “regulatory or economic changes targeted at a single fuel source.”

After Kentucky Power determined that it made no economic sense to retrofit the 50-year-old Big Sandy Unit 1 to meet stricter air quality standards in order to continue burning coal, the company analyzed a number of options for replacing its generating capacity. These included purchasing power on the open market and eventually building a new natural-gas fired plant.

At a cost of \$50 million, the coal-to-gas conversion of Big Sandy Unit 1 proved to be the most reasonable and lowest-cost option, and will have the lowest impact on rates, the PSC said. In addition to converting the unit, which will reduce its capacity from 278 MW to 268 MW, the plan calls for construction of a natural gas pipeline to serve the facility.

-more-

Columbia Gas Transmission, LLC will build and operate the pipeline and will recover the \$49 million cost from Kentucky Power over a 15-year period.

The coal-to-gas conversion of Big Sandy Unit 1 is the final piece of Kentucky Power's restructuring of its electric generation portfolio. The PSC last year authorized Kentucky Power to purchase a 50 percent interest in Ohio Power Company's Mitchell power plant, located south of Moundsville, West Virginia. Kentucky Power and Ohio Power are both subsidiaries of American Electric Power Co.

The 780 MW of coal-fired capacity at Mitchell will replace the 800-MW Unit 2 at Big Sandy. Under a 2007 federal court consent decree, Kentucky Power decided to close the unit in mid-2015 rather than upgrade it to meet stricter air emission standards. The purchase of the Mitchell capacity was far less costly than upgrading Big Sandy Unit 2 and would have a much smaller impact on rates, the PSC said in approving the transaction.

Kentucky Power has 173,000 ratepayers in 20 eastern Kentucky counties. In addition to the Mitchell and Big Sandy plants, Kentucky Power obtains electricity from an AEP plant in Rockport, Indiana and has a contract for future purchases from a 58.5 MW biomass plant to be built near Hazard in Perry County.

The PSC conducted a hearing on the conversion proposal on June 4. The only other party to the case was Kentucky Industrial Utility Customers, Inc., (KIUC) which represents large industrial power users. KIUC did not oppose the Kentucky Power proposal.

Today's order, a video of the hearing and documents in the case are available on the PSC website, psc.ky.gov. The case number is 2013-00430.

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 85 employees.