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NEWS RELEASE

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PSC Approves Kentucky Power Purchase of Biomass Energy *ecoPower plant in Hazard will produce electricity from wood*

FRANKFORT, Ky. (Oct. 10, 2013) – The Kentucky Public Service Commission (PSC) has approved a 20-year contract that will allow Kentucky Power Co. to purchase electricity generated by a biomass-fueled plant near Hazard.

Although the biomass power is more expensive than electricity from other sources, the PSC noted in an order issued today that a law enacted by the Kentucky General Assembly earlier this year, KRS 278.271, directed the PSC to consider factors other than cost in any case in which a utility seeks to purchase power from “a biomass energy facility that has (been approved by) the Kentucky State Board on Electric Generation and Transmission Siting” (Siting Board). The PSC historically has applied a least-cost test to proposals to produce or purchase power.

“While the Commission recognizes that the cost of the proposed (contract) would not have withstood scrutiny based strictly on a least-cost analysis, our consideration of the (contract) must also take into account the policy mandates” set forth by the legislature, the PSC said in its order.

Kentucky Power’s agreement to purchase electricity from the 58.5-megaWatt ecoPower Generation-Hazard LLC biomass plant “promotes the inducement of an innovative energy-related business located in Kentucky that would advance the public purposes of achieving energy independence, creating new jobs and new investment, and creating new sources of tax revenues,” the PSC said in its order.

According to testimony given by Kentucky Power, construction of the ecoPower plant will employ 230 people for two years. The plant will employ 30 people and create an additional 225 jobs for loggers and truckers. Kentucky power also contended that the plant is in accordance with state energy policy, which calls for increased use of renewable energy sources in general and biomass in particular.

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PSC Approves Kentucky Power Purchase of Biomass Energy – Page 2

The ecoPower plant, which already has received necessary permits and approvals from other state agencies, including the Siting Board, will burn various wood wastes and low-quality timber.

Kentucky Power stated that the generating capacity provided by ecoPower is needed both to replace capacity that will be lost because of reductions in power production at the company's Big Sandy plant in Lawrence County and to help meet its future need for power.

The utility also argued that the ecoPower contract will spur economic development in its service territory and diversify its generation portfolio, which now relies largely on coal.

Kentucky Power has about 173,000 customers in 20 counties in eastern Kentucky.

The price Kentucky Power will pay for electricity from the biomass plant has not been made public because the utility is contesting a PSC decision that denied confidential treatment of the information.

Evidence submitted in the case states the annual cost of the biomass power will begin at about \$50 million in 2017, when ecoPower is scheduled to go into operation. The price paid for the power will be passed through on a dollar-for-dollar basis to Kentucky Power ratepayers.

Kentucky Power estimates that the biomass contract will increase total monthly bills for its customers by 5.99 percent in the first year that ecoPower is in operation. The contract with ecoPower includes an annual increase in the price paid by Kentucky Power. (The amount of the increase is also the subject of the dispute with the PSC over confidentiality.)

Other parties to the case included the Kentucky Office of Attorney General, which represented ratepayers as a whole, and the Kentucky Industrial Utility Customers, Inc., which represented large industrial power consumers.

The PSC conducted an evidentiary hearing in the case on Aug. 28 and 29.

Today's order, related documents in the case, and a video of the hearing are available on the PSC website, psc.ky.gov. The case number is 2013-0144.

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 90 employees.