

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| THE UNION LIGHT, HEAT AND POWER |) | CASE NO. |
| COMPANY'S INTEGRATED RESOURCE PLAN |) | 2004-00014 |

O R D E R

The Union Light, Heat and Power Company ("ULH&P") is one of six jurisdictional electric utilities required to triennially file an Integrated Resource Plan ("IRP") with the Commission, pursuant to Administrative Regulation 807 KAR 5:058. The regulation also prescribes that IRPs shall be subject to Staff review, which concludes with a Staff report critiquing the IRP and offering suggestions and recommendations for future IRP filings. However, ULH&P was ordered, in Case No. 2001-00058, to submit a formal IRP for review by the Commission, rather than Commission Staff.¹

In Case No. 2001-00058, the Commission approved a purchase power contract under which ULH&P purchases power from the Cincinnati Gas and Electric Company ("CG&E") as a full requirements customer. That contract, which runs through 2006, calls for ULH&P to purchase power at a fixed price containing a market price component.² In its approval Order in that case, the Commission expressed its interest in ULH&P acquiring generation in order to insulate itself, in the future, from the impacts

¹ Case No. 2001-00058, The Application of The Union Light, Heat and Power Company for Certain Findings Under 15 U.S.C. § 79Z, Order of May 11, 2001 at 17.

² ULH&P and CG&E are both part of Cinergy Corp. ("Cinergy"). CG&E's rates to ULH&P include a market component due to its generation being deregulated under Ohio's electric restructuring and the Federal Energy Regulatory Commission's ("FERC") mandate that wholesale rates be market-based rather than cost-based. Prior to this current contract, CG&E's rates to ULH&P had been FERC-approved cost-based rates.

of market prices for wholesale power. The Commission also required ULH&P to file a formal stand-alone IRP by June 30, 2004, in order to evaluate its future resource needs.

In Case No. 2003-00252, in response to the Commission's interest that it acquire generation, ULH&P requested approval to purchase 1,105 Mw of generating capacity from CG&E. The Commission gave preliminary approval to this request on December 5, 2003, pending its review of the final transaction documents after CG&E and ULH&P receive FERC approval of the transaction and various related agreements.³ Based on its planned acquisition of this generation, ULH&P proposed to defer its next IRP filing until 2006. However, in response to concerns expressed by the Attorney General of the Commonwealth of Kentucky ("AG"), ULH&P agreed to file its stand-alone IRP by June 2004, which resulted in the filing of the IRP that is the subject of this proceeding.

Intervenors are the AG and the Kentucky Division of Energy ("KDOE"). A procedural schedule was established that allowed for two rounds of discovery of ULH&P. At the conclusion of the discovery phase of the proceeding, in response to a Commission Order, both the AG and KDOE stated that the case could be submitted on the record.⁴

APPLICATION

In this filing, ULH&P proposes to go forward with its plan to acquire 1,105 Mw of generation from CG&E, to terminate its existing purchase power agreement with CG&E,

³ Case No. 2003-00252, The Application of The Union Light, Heat and Power Company for a Certificate of Convenience to Acquire Certain Generation Resources and Related Property; for Approval of Certain Purchase Power Agreements; for Approval of Certain Accounting Treatment; and for Approval of Deviation of Requirements of KRS 278.2207 and 278.2213(6).

⁴ The record was considered complete after discovery, except for an informal conference, requested by ULH&P to discuss the status of the FERC filings related to the CG&E to ULH&P generation asset transfer, the subject of Case No. 2003-00252.

and to continue with its existing Demand-Side Management (“DSM”) programs, as part of its overall resource supply plan. CG&E and ULH&P recently filed applications at FERC for approval of the back-up power agreements related to this generation transfer and approval to terminate the existing purchase power agreement.

Because there was less than one year between when ULH&P filed its application in Case No. 2003-00252 for approval to acquire the CG&E generation and when it filed this IRP, few of the conditions or assumptions in the IRP regarding its future resource needs differ from what they were in the application filed in that proceeding. There was a slight change in ULH&P’s load forecast, but not enough to alter when it would need additional capacity, beyond the capacity it will acquire from CG&E. The need for additional capacity is still forecast to occur in the 2011-2012 time period, when ULH&P anticipates it will need to purchase blocks of 25-50 Mw to meet its summer peak demand. ULH&P forecasts a need for additional generation beyond 2011-2012 in the form of 25 Mw fuel cells and 70 Mw pulverized coal fluidized bed generating units. For practical purposes, these increments of capacity are “placeholders” for whatever new capacity ULH&P might require during the period 2013-2023.

ULH&P’s IRP also reflects its plan to continue its existing DSM programs as part of its overall resource plan. Those programs, which have been approved by ULH&P’s DSM Collaborative, are part of the annual DSM filing pending in Case No. 2004-00389.⁵ That case is expected to be concluded in the near future.

⁵ Case No. 2004-00389, The Annual Cost Recovery Filing for Demand Side Management by The Union Light, Heat and Power Company.

DISCUSSION

This IRP filing reflects ULH&P's intent to go forward with the long-term resource plan given preliminary approval in Case No. 2003-00252 slightly more than one year ago. Based on acquiring 1,105 Mw of generation from CG&E, ULH&P forecasts it will need no additional capacity until the 2011-2012 period.

Case No. 2003-00252 was recently re-opened to review the status of ULH&P's related FERC filings. It will remain open for the Commission to review final transaction documents regarding the CG&E to ULH&P asset transfer once approvals are received from FERC. In consideration of the Commission's previous support for ULH&P's efforts to acquire generation and, also, in recognition of continued concerns about volatility in wholesale power prices, the Commission finds that ULH&P's IRP should be approved. This approval is consistent with the preliminary decision in Case No. 2003-00252 and it maintains a logical sequence of events by resolving this case prior to completing the pending DSM case and the final review of the CG&E to ULH&P asset transfer.

While we are approving the IRP filed in this proceeding, we are not deciding when ULH&P's next IRP shall be filed. Due to the significance of the proposed CG&E to ULH&P generation asset transfer, we will defer a decision on the timing of ULH&P's next IRP until that matter is resolved in Case No. 2003-00252.

IT IS THEREFORE ORDERED that ULH&P's IRP, as filed herein, is approved by this Commission.

Done at Frankfort, Kentucky, this 14th day of January, 2005.

By the Commission

ATTEST:



Executive Director