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Commissioner

August 21, 2007

PARTIES OF RECORD

RE: Case No. 2007-00300

CONSIDERATION OF THE REQUIREMENTS OF THE FEDERAL ENERGY
POLICY ACT OF 2005 REGARDING FUEL SOURCES AND FOSSIL FUEL
GENERATION EFFICIENCY

Enclosed please find a memorandum that has been filed in the record of the above referenced case. Any comments regarding this memorandum's content should be submitted to the Commission within five days of the receipt of this letter. Questions regarding this memorandum should be directed to Aaron D. Greenwell at 502-564-3940, extension 273.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

Attachments

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File - Case No. 2007-00300

FROM: Aaron Greenwell, Team Leader

DATE: August 21, 2007

SUBJECT: Informal Conference, August 13, 2007

Pursuant to Commission Order, an informal conference ("IC") was held on August 13, 2007. A copy of the conference attendance list is attached. The purpose of the conference was to discuss potential issues concerning the Commission's consideration of the requirements of the Federal Energy Policy Act of 2005 ("EPAct 2005") regarding fuel sources and fossil fuel generation efficiency.

The conference began with a brief discussion of the requirements of EPAct 2005 and previous actions taken by the Commission to meet some of those requirements. A detailed discussion followed regarding the implication of setting a fuel source standard or a fossil fuel generation efficiency standard. The utilities discussed to some extent the manner in which such issues were addressed and reviewed in the Integrated Resource Plans ("IRP") and Certificate of Public Convenience and Necessity ("CPCN") cases.

With regard to fuel source diversity and renewables, utility representatives noted that Kentucky has the DSM statute that can be utilized but that the utilities must consider cost effectiveness. Regarding fossil fuel generation efficiency, the impact of heat rate, system dispatch, and environmental equipment were discussed. The utility representatives also noted that increases in efficiency are directly reflected in rates through the Fuel Adjustment Clause.

The IC ended with a discussion of procedural issues. The parties are to file comments addressing the topics discussed at the IC and recommend how to proceed with this case no later than September 28, 2007.

The IC was then adjourned.

Attachments:

Case No. 2007-00300

Informal Conference Agenda

Monday August 13, 2007

Welcome and Background

Commissions required by EPAAct 2005 to consider 5 new standards:

- Smart metering including demand response and time-based metering
- Interconnection

Which were previously considered and rejected in Case No. 2006-00045

- Net Metering

For which we determined that the net metering statute passed by the Legislature met the prior action exemption provided.

Now considering the last two standards:

- Fuel Diversity
- Generation Efficiency

Fuel Diversity – Each electric utility shall develop a plan to minimize dependence on 1 fuel source and to ensure that the energy it sells to consumers is generated using a diverse range of fuels and technologies including renewable technologies.

If we adopt a fuel diversity standard, we will need to determine what the standard will be and the time by which the standard must be met.

Issues to consider

What information or studies exist?

At least some information in the IRP.

What are the current and foreseeable generation portfolios?

Current portfolio would be the baseline for a fuel diversity plan.

Also, would be an indicator of the resources available.

How would a standard affect risk?

Fuel price risk.

Energy price risk.

Would a standard increase reliability?
Would a standard increase operational flexibility?
Would a standard have positive environmental impacts?

Costs and benefits

Some resources have a higher cost.
Renewable generation generally costs more. Subsidize?
There are political and operational challenges in developing different resources.
Utilities encouraged to use Kentucky coal.
Utilities probably have a lack of experience and expertise with new resources.

Other Issues

Generation Efficiency – Each electric utility shall develop and implement a 10-year plan to increase the efficiency of its fossil fuel generation.

If we adopt the generation efficiency standard, then the utilities would be required to develop a 10-year plan to improve fossil fuel generation.

Generation Efficiency typically measured by heat rate – the amount of energy to produce one kWh of electricity, measured in Btu/kWh. The lower the heat rate, the more efficient the plant.

Is it practical to implement the standard? Yes, we do have jurisdiction.

Do the utilities have comparable plans that can be grandfathered? Not sure what detail has been included in the Integrated Resource Plans (IRPs).

If we required utilities to develop plans, what needs to be included?

The options to consider are all operations of a generating facility including:

- Turbine
- Boiler
- Fuel handling
- Fuel quality
- Environmental control equipment

Also, consider retirement of facilities and construction of new plants.

Evaluation of the options.

Perform cost/benefit analysis to determine overall cost effectiveness of options – lower operating costs of plant, fuel cost savings, O&M savings. Impact on reliability. Environmental benefit – reduced air emissions, reduced water discharges.

Outline procedures to implement the plan.
Contingency or alternative plans.

Other Issues

What's going on in other states?

Refer to Appendix A of the Order.

Many point to the IRP process.

Is what the Kentucky jurisdictional utilities address in the IRP sufficient?

How should we proceed? Next step?

Utilities submit comments – no later than August 31, 2007?

ADMINISTRATIVE CASE NO. 2007-00300
 FUEL DIVERSITY AND GENERATION EFFICIENCY
 INFORMAL CONFERENCE - AUGUST 13, 2007

NAME	REPRESENTING
Aaron Greenwell	KPSC, Financial Analysis
Rick Bechtson	PSC - Attorney
Tyson Kamuf	Sullivan, Monaghan, Steinback & Miller for Big Rivers
Caryl Pfeiffer	Director, Corporate Fuels KU/LG&E
Rick E. Lovekamp	KU/LG&E
Allyson K. Sturgeon	Atty. / LG&E + KU
John Jelbert	Big Rivers
Andrea Schroeder	PSC - Comm. Operations
Daryl Newby	PSC
John Voyles	E.ON U.S.
MARK R. OVERSTREET	STATES & HARRISON PLC - for Ky. Power Company
Errol K Wagner	KPCO
STEVE SANDFOSS	DUKE ENERGY Kentucky
John G. Bloemer	Duke Energy Kentucky
John Finnigan	Duke Energy Kentucky
Ron Handziak	PSC
Quang D. Nguyen	PSC
JOHN SHUPP	PSC

ADMINISTRATIVE CASE NO. 2007-00300
FUEL DIVERSITY AND GENERATION EFFICIENCY
INFORMAL CONFERENCE - AUGUST 13, 2007

NAME	REPRESENTING
CHARLES LICE	EKPC
Jim Lamb	EKPC
Tim MOSHER	KENTUCKY POWER
Mike Thompson	Big Rivers Electric