COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES COMPANY FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO CONSTRUCT A SELECTIVE CATALYTIC REDUCTION SYSTEM AND APPROVAL OF ITS 2006 COMPLIANCE PLAN FOR RECOVERY BY ENVIRONMENTAL SURCHARGE	)))))))	CASE NO. 2006-00206

O R D E R

On December 21, 2006, the Commission granted Kentucky Utilities Company ("KU") a Certificate of Public Convenience and Necessity ("CPCN") to construct Selective Catalytic Reduction ("SCR") equipment at Ghent Unit 2 as needed to comply with Environmental Protection Agency ("EPA") requirements.[1] The estimated cost of the Ghent Unit 2 SCR was approximately $95.0 million. The Commission also approved KU's 2006 Compliance Plan, which included the Ghent Unit 2 SCR as one of five additional capital projects to meet federal, state, and local environmental regulations. The Commission's December 21, 2006 Order also approved KU's proposed changes to its monthly surcharge reporting formats to include the projects contained in the 2006 Compliance Plan.

On October 25, 2007, KU filed a motion to reopen this proceeding to supplement the record with a reported titled "Ghent 2 Selective Catalytic Reduction ("SCR") Analysis

[1] The construction of an SCR at Ghent Unit 2 had been determined to be the least-cost nitrogen oxide ("NOx") compliance alternative, as shown in KU's May 2006 NOx Compliance Strategy ("2006 NOx Study").

Update – Timing of Construction, October 2007" ("2007 SCR Update"). KU also requested that the Commission issue an Order amending KU's 2006 Compliance Plan to remove the Ghent Unit 2 SCR and approve modifications to the monthly environmental surcharge reporting formats to reflect the removal of the Ghent Unit 2 SCR.

2007 SCR Update

The 2007 SCR Update notes that since May 2006, more information relating to NOx regulation had become available and five key assumptions that supported the 2006 NOx Study recommendation to construct the Ghent Unit 2 SCR had changed. Those assumptions are:

1. Construction cost estimates had increased. The SCR was originally estimated to cost $95.0 million, the updated cost had risen to $115.0 million, an approximate increase of 21 percent.

2. NOx emission allowance market price forecasts had decreased. The market price forecasts used in the 2006 NOx Study projected allowance prices of $3,047 to $3,351 per ton. The 2007 SCR Update market price forecasts ranged from $2,250 to $2,366 per ton.

3. The EPA released final emission allocations for the first phase of the Clean Air Interstate Rule.

4. EPA has enacted an early compliance/reduction program for NOx emissions. By operating existing SCRs outside of the Ozone Season in 2008, KU will be eligible to receive Early Reduction Credits that should cover the entire expected NOx emission allowance shortfall for 2009 and cover much of the expected NOx shortfall for 2010.[2]

[2] The 2006 NOx Study and the 2007 SCR Update modeled and evaluated NOx compliance of KU and Louisville Gas and Electric Company ("LG&E") on a combined basis.

> 5. KU and LG&E have revised the combined NOx emissions forecast to reflect changes in projected emission levels and the receipt of more allowances than originally anticipated from the EPA.

As a result of the changes in these assumptions, KU reevaluated the timing of the construction of the Ghent Unit 2 SCR and concluded that construction at this time was no longer the least-cost alternative. KU decided to delay the construction of the Ghent Unit 2 SCR and instead achieve NOx compliance through emission allowances and better utilization of its existing SCRs.

KU presented its decision to delay the construction of the Ghent Unit 2 SCR during an informal conference held on October 18, 2007 with the Commission Staff and the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"). As a result of the delay, KU planned to allow the CPCN for the Ghent Unit 2 SCR to lapse on December 21, 2007.[3] KU stated its intention to continue to evaluate the economics of the Ghent Unit 2 SCR at least annually. If at a future date KU determines that constructing the Ghent Unit 2 SCR is the least-cost alternative it will apply for a new CPCN and request authority to recover the costs through its environmental surcharge.

In its October 25, 2007 motion,[4] KU noted that the Ghent Unit 2 SCR was one of the projects included in its 2006 Compliance Plan. As KU had decided to allow the CPCN to lapse, it stated that the Ghent Unit 2 SCR project should be removed from the

[3] Pursuant to KRS 278.020(1), a certificate to construct new facilities becomes void if not exercised within one year of its issuance.

[4] Copies of the October 25, 2007 motion were filed with the AG and the Kentucky Industrial Utility Customers, Inc. ("KIUC"), the intervenors in this case.

2006 Compliance Plan and excluded from the monthly environmental surcharge reporting formats.[5] KU included with its motion copies of the proposed revisions to its monthly environmental surcharge reporting formats to reflect the exclusion of the Ghent Unit 2 SCR. Neither the AG nor KIUC has filed comments on KU's motion.

The Commission has reviewed KU's 2007 SCR Update and finds that the analysis should be filed in the record of this proceeding. The Commission has also reviewed KU's motion and finds it reasonable and agrees that as the CPCN for the Ghent Unit 2 SCR has lapsed, KU's 2006 Compliance Plan should be amended to remove that project and KU's monthly environmental surcharge reporting formats should be revised to reflect this amendment to the 2006 Compliance Plan.

The Commission further finds that KU should continue to at least annually evaluate the economics of constructing the Ghent Unit 2 SCR and periodically report these evaluations to the Commission. KU should include the most current SCR evaluation as part of its integrated resource plan ("IRP") filing, which is required every 3 years,[6] and may submit more frequent reports if it believes circumstances warrant.

IT IS THEREFORE ORDERED that:

1. KU's 2007 SCR Update shall be incorporated into the record of this proceeding.

2. KU's 2006 Compliance Plan approved by the December 21, 2006 Order is amended to remove the Ghent Unit 2 SCR project.

---

[5] Beginning with the monthly environmental surcharge reflecting the expense month ending September 30, 2007, KU has excluded the construction work in progress associated with the Ghent Unit 2 SCR from the surcharge calculations.

[6] KU's next IRP filing is due on April 21, 2008.

3. The revisions to remove the Ghent Unit 2 SCR project from the monthly surcharge reporting formats, as proposed by KU, are approved. Previous reporting formats shall no longer be submitted.

4. KU shall supplement subsequent IRP filings to include the most current Ghent Unit 2 SCR evaluation, beginning with its next IRP filing due April 21, 2008.

Done at Frankfort, Kentucky, this 28th day of February, 2008.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

Commissioner Clark Abstains

ATTEST:

Executive Director