



Ernie Fletcher  
Governor

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Teresa J. Hill, Secretary  
Environmental and Public  
Protection Cabinet

Commonwealth of Kentucky  
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John W. Clay  
Commissioner

Timothy J. LeDonne  
Commissioner  
Department of Public Protection

December 22, 2006

Kent W. Blake  
Director State Regulations and Rates  
Kentucky Utilities Company  
220 W. Main Street  
P. O. Box 32010  
Louisville, KY 40232-2010

CERTIFICATE OF SERVICE

RE: Case No. 2006-00493  
Kentucky Utilities Company

I, Beth O'Donnell, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on December 22, 2006.

A handwritten signature in black ink, appearing to read "Beth O'Donnell", written over a horizontal line.

Executive Director

BOD/jc  
Enclosure



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Honorable Elizabeth L. Cocanougher  
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2000 PNC Plaza  
500 W Jefferson Street  
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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES	)	
COMPANY TO MODIFY CERTAIN CERTIFICATES	)	
OF PUBLIC CONVENIENCE AND NECESSITY TO	)	CASE NO.
CONSTRUCT DUCTWORK FOR TWO FLUE GAS	)	2006-00493
DESULFURIZATION UNITS AT THE GHENT	)	
POWER STATION	)	

O R D E R

On the November 16, 2006, Kentucky Utilities Company ("KU") filed an application seeking modifications to two prior Certificates of Public Convenience and Necessity ("CPCN") granted by the Commission for the construction of flue gas desulfurization units ("FGD") at KU's Ghent Power Station. In Case No. 1992-00005, KU was granted a CPCN to construct an FGD at Ghent Unit 1.<sup>1</sup> More recently, in Case No. 2004-00426, KU was granted a CPCN to construct FGDs at Ghent Units 2, 3, and 4.<sup>2</sup>

With its current application, KU requests that the CPCN awarded in Case No. 1992-00005 be prospectively modified to allow the certificated Ghent Unit 1 FGD to serve Ghent Unit 2. KU also requests that the CPCN awarded in Case No. 2004-00426

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<sup>1</sup> Case No. 1992-00005, The Application of Kentucky Utilities Company for a Certificate of Convenience and Necessity to Construct a Scrubber on Unit No. 1 of its Ghent Generating Plant, final Order dated July 24, 1992.

<sup>2</sup> Case No. 2004-00426, The Application of Kentucky Utilities Company for a Certificate of Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of its 2004 Compliance Plan for Recovery by Environmental Surcharge, final Order dated June 20, 2005.

be prospectively modified to allow the certificated, but not yet constructed, Ghent Unit 2 FGD to serve Ghent Unit 1. Finally, KU requests that the description of the "Generating Station" portion of Project No. 21 included in the Environmental Surcharge Compliance Plan approved by the Commission in Case No. 2004-00426 be clarified to include Ghent Unit 1 and to exclude Ghent Unit 2. KU also includes in its application an updated analysis demonstrating that constructing three new FGDs at the Ghent Station continues to be the most cost-effective means of complying with relevant emission limits.

### BACKGROUND

KU's request for a CPCN to construct an FGD at Ghent Unit 1 was based on the emissions reductions to be imposed during Phase I (1995 – 2000) of the Clean Air Act Amendments of 1990 ("CAAA"). At that time, KU's compliance strategy was to scrub Ghent Unit 1 and purchase emission allowances. However, it continually analyzed whether installing an FGD at Ghent Unit 2 would be a more cost-effective strategy than purchasing allowances during Phase I and, later, as a less costly means of complying with further emission reductions imposed during Phase II (Post 2000) of the CAAA.

The adoption of the Clean Air Interstate Rule ("CAIR") in 2005 imposed broader and more stringent emissions reductions than the CAAA. KU, for the first time, determined that having FGDs installed at all four Ghent units would be necessary in order to cost effectively comply with the more recent emission limits. That was the basis for its application in Case No. 2004-00426, in which it sought, and was granted, CPCNs to install FGDs at Ghent Units 2, 3, and 4.

In Case No. 2004-00426, KU provided an analysis in which it estimated that installing FGDs at Ghent Units 2, 3, and 4 would reduce Present Value Revenue Requirements ("PVRR") by \$121.5 million over 20 years compared to complying with the CAIR limits solely by purchasing emission allowances. The analysis in KU's current application, based on changes in capital costs, fuel costs, and the prices of allowances, estimates that PVRR will be reduced by \$378.3 million over 20 years by installing three new FGDs, compared to a compliance strategy based on purchases of allowances.<sup>3</sup>

### DISCUSSION

With its current application, KU requests that the Commission recognize certain changes from what had been approved in prior cases. In order to reduce installation costs, make more efficient use of the limited space at the Ghent Station, and achieve greater operational efficiencies at Ghent Units 1 and 2, KU requests the modifications described herein to the CPCNs awarded in Case Nos. 1992-00005 and 2004-00426. KU's proposal would involve rerouting the ductwork, which connects the existing Ghent FGD to Ghent Unit 1, in order to connect it to Ghent Unit 2. The proposal would also involve connecting Ghent Unit 1 with new ductwork to the yet to be constructed FGD previously planned for Ghent Unit 2.

The proposed changes would reduce the amount of new ductwork from 500 feet to 110 feet, resulting in a savings of approximately \$9.5 million. Reducing the amount of ductwork will also better utilize the limited space at the Ghent Station and allow better access for maintenance of existing plant operating equipment. In addition, because of

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<sup>3</sup> Malloy Direct Testimony at 20-21.

the reduced amount of ductwork, less auxiliary power will be required in order for fans to move the flue gas through the shorter ducts.<sup>4</sup>

### FINDINGS AND CONCLUSIONS

The information and analysis filed by KU clearly demonstrate that a compliance strategy which includes installing three additional FGDs at the Ghent Station is the most cost-effective means of complying with the emissions limits imposed by the CAIR. The information also shows that modifying the CPCNs awarded for the construction of FGDs at Ghent Units 1 and 2 is preferable and less costly than adhering to the conditions of those CPCNs. Therefore, the Commission finds that:

1. KU's request that the CPCN awarded in Case No. 1992-00005 be prospectively modified to allow the existing Ghent Unit 1 FGD to serve Ghent Unit 2 is reasonable and should be approved.

2. KU's request that the CPCN awarded in Case No. 2004-00426 be prospectively modified to allow the certificated, but not yet constructed, Ghent Unit 2 FGD to serve Ghent Unit 1 is reasonable and should be approved.

3. KU's request that the description of the "Generating Station" portion of Project No. 21 included in the Environmental Surcharge Compliance Plan approved in Case No. 2004-00426 be clarified to include Ghent Unit 1 and to exclude Ghent Unit 2 is consistent with Findings 1 and 2, is reasonable and should be approved.

4. KU's updated PVRR analysis demonstrates that constructing three new FGDs at the Ghent Station continues to be the most cost-effective means for KU to comply with the relevant emission limits imposed by the CAIR.

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<sup>4</sup> Application at 4-5.



5. KU's cost analysis demonstrates that the proposed reduction of ductwork from 500 feet to 110 feet should produce a cost savings of \$9.5 million.

IT IS THEREFORE ORDERED that:

1. The CPCN awarded in Case No. 1992-00005 is prospectively modified to allow the existing Ghent Unit 1 FGD to serve Ghent Unit 2.

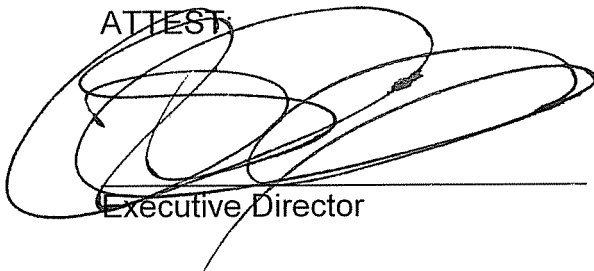
2. The CPCN awarded in Case No. 2004-00426 is prospectively modified to allow the certificated, but not yet constructed, Ghent Unit 2 FGD to serve Ghent Unit 1.

3. The description of the "Generating Station" portion of Project No. 21 included in the Environmental Surcharge Compliance Plan approved in Case No. 2004-00426 is clarified to include Ghent Unit 1 and to exclude Ghent Unit 2.

Done at Frankfort, Kentucky, this 22nd day of December, 2006.

By the Commission

ATTEST



Executive Director