



Mr. Jeff DeRouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

September 5, 2012

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RE: *The Application of Kentucky Utilities Company for Certificates of Public Convenience and Necessity and Approval of Its 2011 Compliance Plan for Recovery by Environmental Surcharge*
Case No. 2011-00161

The Application of Louisville Gas and Electric Company for Certificates of Public Convenience and Necessity and Approval of Its 2011 Compliance Plan for Recovery by Environmental Surcharge
Case No. 2011-00162

Dear Mr. DeRouen:

I am writing in response to your letter of August 22, 2012. As you stated in your letter, the U.S. Court of Appeals for the D.C. Circuit issued an order vacating the Cross-State Air Pollution Rule (“CSAPR”) on August 21, 2012. You asked Louisville Gas and Electric Company (“LG&E”) and Kentucky Utilities Company (“KU”) (collectively, the “Companies”) to provide the Commission a statement of the impact, if any, of the court’s action on the Companies’ environmental compliance plans (“2011 Plans”), which the Commission recently approved in Case Nos. 2011-00161 and 2011-00162.

As the Companies stated in their applications, testimony, and responses to discovery requests in those cases, the three environmental regulations primarily driving the Companies’ plans were the National Ambient Air Quality Standards (“NAAQS”),¹ the Mercury and Air Toxics Rule (“MATS Rule”),² and

¹ 75 FR 6474, Feb 9, 2010 (NO2); 61 FR 52852, Oct 8, 1996 (NO2); 73 FR 16436, Mar 27, 2008 (ozone); 75 FR 35520, Jun 22, 2010 (SO2); 38 FR 25678, Sept 14, 1973 (SO2).

CSAPR.³ Of the three regulations, NAAQS and the MATS Rule were the primary substantive drivers, and the MATS Rule was the primary construction-schedule driver. Therefore, the court's action does not significantly alter the Companies' 2011 Plans, and the Companies do not presently expect the timing of the projects required by NAAQS and MATS Rule to change.

More specifically, the limited number of KU 2011 Plan items required solely by CSAPR were modifications to Ghent Units 1, 3, and 4 to permit the units' Selective Catalytic Reductions systems ("SCRs") to function effectively at wider generating-unit-operating ranges. These SCR-related modifications were part of KU Project 35, and had a line item estimated cost of \$21 million. Because the Companies' proposed construction schedule slated the Ghent Unit 3 modification to occur in the second half of 2013 and the Ghent Units 1 and 4 modifications to occur in the first half of 2014, KU has incurred only a relatively small amount of engineering cost related to these items of approximately \$300,000. KU will not proceed further with these modifications due to the court's vacating CSAPR.

The LG&E 2011 Plan items required solely by CSAPR were modifications to Mill Creek Units 3 and 4 to permit the units' Selective Catalytic Reductions systems ("SCRs") to function effectively at wider generating-unit-operating ranges, as well as an upgrade of Mill Creek Unit 4's SCR to enhance its NOx removal ability. The SCR-related modifications were part of LG&E Project 26, and had a line item estimated cost of \$14 million. Because the Companies' proposed construction schedule slated the Mill Creek Unit 3 modification to occur in the second half of 2013 and the Mill Creek Unit 4 modification to occur in the second half of 2014, LG&E will not proceed with these modifications due to the court's vacating CSAPR.

Concerning the upgrade to Mill Creek Unit 4's SCR to enhance its NOx removal ability, in accordance with the construction schedule the Companies included in their 2011 Plan applications, LG&E has already completed the physical portion of the SCR upgrade for Mill Creek Unit 4, which the construction schedule slated for the first half of 2012. The project was moved from CWIP to Plant-in-Service in the July 2012 expense month ECR filing at approximately \$2 million. The upgrade's projected total cost, \$2.3 million, has been significantly less than the estimated amount included in LG&E's 2011 Plan, \$5.6 million. The total projected cost accounts for the actual spend to date

² 77 FR 9304, Feb. 16, 2012.

³ 76 FR 48208, August 8, 2011.

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plus a small amount of testing and commissioning which remains on the contract. LG&E plans to complete the testing and commissioning by October 2012. The upgrade will support LG&E's ability to comply with the still-in-effect Clean Air Interstate Rule and NAAQS related to NOx emissions.

All of the other projects contained in the Companies' 2011 Plans continue to be the lowest-reasonable-cost means of complying with the NAAQS and MATS Rule. In particular, the flue-gas-desulfurization-related construction at Mill Creek continues to be necessary to ensure compliance with the tightened NAAQS 1-hour SO₂ requirement that will be required by 2017 as a part of the State Implementation Plan (SIP) for the non-attainment status of Jefferson County, which the Companies stated in their analyses supporting their 2011 Plans. Additionally, the higher FGD efficiencies support each generating unit's ability to meet the MATS Rule acid gas SO₂ surrogate limit of 0.20lbs/mmBtu by the compliance date of April 2016, assuming a one-year extension. Also, vacating CSAPR does not affect the proposed construction schedule for the remaining projects, which are needed to ensure the greatest degree of timely compliance with the MATS Rule while adhering to reasonable unit outage schedules.

If you have any further questions or concerns about this matter, please do not hesitate to contact me.

Sincerely,



Lonnie E. Bellar

cc: Parties of Record