



PPL companies

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

LG&E and KU Energy LLC
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.lge-ku.com

RECEIVED

JAN 13 2012

PUBLIC SERVICE
COMMISSION

Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@lge-ku.com

January 13, 2012

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 to you on behalf of Kentucky Utilities Company and Louisville Gas and Electric Company to respond to your letter of January 6, 2012, concerning the December 30, 2011 staying of the implementation of the Cross-State Air Pollution Rule (“CSAPR”) and the signing on December 16, 2011, of the final Mercury and Air Toxics Standards for Power Plants (“MATS Rule”). As I describe further below, the Companies’ current analysis indicates that neither the CSAPR stay nor the final MATS Rule affects the ultimate need for the environmental projects the Commission approved in the above-captioned cases, although the CSAPR stay will avoid the need to alter the Companies’ dispatch of their units as originally described in the presentation made on November 16, 2011. Consistent with their long-standing business practice, the Companies will continue to analyze the projects and the applicable environmental requirements until the point at which it is necessary to make contract commitments.

The CSAPR Stay

As you noted in your letter, the United States Court of Appeals for the District of Columbia Circuit issued an order on December 30, 2011, staying the implementation of CSAPR. The order indicates the court's desire to hear the case by April 2012. The order further prescribes that the currently effective Clean Air Interstate Rule ("CAIR") will remain in effect during the pendency of the court challenge to CSAPR.

The CSAPR stay is affecting the way the Companies had anticipated they would be dispatching their units. The Companies presented to the Commission November 16, 2011, the dispatch changes planned to comply with CSAPR in the most cost-effective way through 2015, when the Mill Creek Flue Gas Desulfurization ("FGD") work would be complete and would allow compliance under a more conventional dispatch arrangement. Because CSAPR is now stayed, it is not currently necessary to dispatch the Companies' units according to the plan the Companies presented in November.

Issuance of Final MATS Rule

The final MATS Rule, previously referred to by EPA as the Electric Utility MACT Rule, was signed by EPA on December 16th. The MATS Rule becomes effective for new units 60 days after being published in the Federal Register and becomes effective for existing units three years after publication. It generally takes 30 – 45 days to publish the rule. The MATS rule regulates hazardous air emissions from coal- and oil-fired electric generating units, namely, mercury, acid gases, and other non-mercury metal particulate matter emissions. The final rule does allow permitting agencies (e.g., Kentucky Division for Air Quality) broad latitude to grant a one-year extension. Additionally, EPA explains that additional extensions necessary for "reliability-critical units" could be granted through case-by-case administrative orders under Section 113 of the Clean Air Act (i.e., consent decrees).

Major differences between the proposed rule and the final rule include:

- 1) Compliance with numerical limits will be determined on 30-day rolling averages. However, the final rule includes an exclusion of startup and shutdown periods from the compliance determinations and mercury emission maximum averaging period is reduced from annual to a choice of either 30 or 90 days.

2) EPA proposed a total PM limit (surrogate for non-mercury metals) of 0.03 lb/MMBtu for existing coal units. In the final rule, EPA utilized a filterable PM limit at the same level as the proposed total PM limit (0.03 lb/MMBtu) for existing coal units. Likewise, EPA raised the non-mercury metal limit from 0.000040 lb/mmBtu to 0.000050 lb/mmBtu.

3) As a result of correcting technical errors, the final mercury standard was revised to 1.2 lb/TBtu; however, this error and the revised limit were disclosed in May 2011, well before the final rule issuance. The Companies therefore included the revised limit in their analyses in these cases.¹ As with the proposed rule, EPA is allowing an alternative compliance period for mercury. However, the maximum average period has been reduced from one-year to 90 days. In addition, the limit for the longer (90-day) averaging period is 1.0 lb/TBtu.

4) Due to the exclusion of startup and shutdown periods from inclusion in the emission level determinations, the final rule includes work practice standards. In general, the work practices are described as requiring the use of “clean fuel,” namely natural gas or distillate oil, during these startup and shutdown periods.

As noted above, the Companies do not believe any of the changes contained in the final MATS Rule affect the necessity of the projects approved in these cases to which the rule applies. This is primarily because the final mercury emission limit, which is unchanged from the limit the Companies analyzed in these cases, continues to necessitate constructing pulse-jet fabric filters in conjunction with the injection of powder activated carbon at the Companies’ remaining coal units.

¹ See, e.g., KU Direct Testimony of Gary H. Revlett at 12 (June 1, 2011) (“However in May 2011, EPA revised the proposed existing source mercury MACT limit to 1.2 lbs/TBtu (13 lbs/TWh).”); LG&E Direct Testimony of Gary H. Revlett at 11 (June 1, 2011) (“However in May 2011, EPA revised the proposed existing source mercury MACT limit to 1.2 lbs/TBtu (13 lbs/TWh).”).

Mr. Jeff DeRouen
January 13, 2012

If you have any questions or concerns, please do not hesitate to contact me. The Companies look forward to answering any questions you might have at the meeting you indicated the Commission will soon schedule.

Sincerely,

A handwritten signature in black ink, appearing to read "Lonnie E. Bellar". The signature is written in a cursive style with a large, stylized initial "L".

Lonnie E. Bellar

cc: Parties of Record