

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER)
COOPERATIVE, INC. FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY, AND)
A CERTIFICATE OF ENVIRONMENTAL)
COMPATIBILITY FOR THE CONSTRUCTION OF)
300 MW (NOMINAL) OF COMBUSTION TURBINE)
PEAKING CAPACITY AND RELATED)
TRANSMISSION FACILITIES IN CLARK AND)
MADISON COUNTIES IN KENTUCKY)

CASE NO. 92-112

O R D E R

East Kentucky Power Cooperative, Inc. ("East Kentucky") filed its application with the Commission on March 20, 1992, requesting a Certificate of Public Convenience and Necessity ("CCN") and a Certificate of Environmental Compatibility ("CEC") to construct 300 megawatts of peaking capacity, in the form of combustion turbines ("CTs"), at its J. K. Smith Power Station site in Clark County, Kentucky. The CTs, designed to burn either oil or natural gas, would be sized in 100 megawatt units. Originally, East Kentucky scheduled two units for completion in 1994 with the third unit scheduled for completion in 1995. In August 1992, East Kentucky deferred the first two units for one year so that all three units were scheduled for completion in 1995. East Kentucky made its decision to defer based on an analysis which showed that short-term capacity purchases in the summer of 1994 and the winter of 1994-1995 were available at costs that, when combined with the one-year

deferral, would result in a lower present value revenue requirement ("PVRR") than under the original completion schedule.

The Attorney General's Utility and Rate Intervention Division ("AG") intervened in this proceeding and argued that East Kentucky should be required to explore the potential for further delaying the construction of one or more of the CTs and reducing the PVRR related to the new capacity. After a public hearing on East Kentucky's request, the Commission entered an Order on December 7, 1992, requiring East Kentucky to determine: (1) if capacity purchase alternatives were available that might permit a delay in completing some of the CTs beyond 1995; (2) what costs would be imposed by the CT supplier, Asea Brown Boveri ("ABB"), for any delay beyond 1995; and (3) the PVRR reflecting the impacts of any such delays and capacity purchases.

East Kentucky filed its response to the Commission's December 7, 1992 Order on January 8, 1993. East Kentucky's response shows that capacity purchases are available from several sources at reasonable costs but that such purchases, when combined with the costs incurred by delaying the CTs beyond 1995, produce a PVRR greater than the PVRR which results from completing the CTs in 1995.

ANALYSIS

The supplemental information filed by East Kentucky shows that constructing the CTs in the proposed time frame is less costly than making short-term capacity purchases and deferring a portion of the proposed CT capacity beyond 1995. The primary reason for this

result is the level of costs imposed by ABB for delaying the CTs beyond 1995. As noted by the AG, "The problem arises due to the fact that the contract was signed before this certificate case was even filed."¹ While recommending that East Kentucky be granted the requested CCN and CEC, the AG opines that East Kentucky should be strongly reprimanded for applying for such certificates after making a major financial commitment to the proposed construction project. The AG argues that East Kentucky should be instructed to never again submit a certificate case after a major commitment has been made to the related project.

Pursuant to KRS 278.025, East Kentucky filed a statement of environmental compatibility with the Kentucky Natural Resources and Environmental Protection Cabinet ("KNREPC") which filed its report with the Commission on May 14, 1992, recommending that a CEC be issued to East Kentucky for this project. KNREPC later supplemented this report with a technical review which determined that the water withdrawals from the Kentucky River for the proposed CTs would not negatively impact the downstream water supply. East Kentucky has demonstrated that it needs the requested peaking capacity and, under the circumstances arising from the timing of its contract with ABB, East Kentucky's evidence supports completing the CTs by 1995.

The AG has expressed its concerns about the procedures employed by East Kentucky in filing its application and in entering

¹ AG's Brief dated September 22, 1992, page 2.

into a contract for the purchase of CTs prior to such filing. The Commission shares the AG's concerns regarding East Kentucky's actions and finds the potential for misuse and abuse of the certificate process to be substantial. Under these circumstances, the Commission was placed in the position of either approving the project or potentially causing East Kentucky to incur substantial financial penalties. By separate Order, the Commission is initiating a show cause proceeding to investigate this matter and determine whether East Kentucky violated KRS 278.020(1).

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:


1. East Kentucky requires 300 megawatts of peaking capacity by 1995 and constructing CTs at the J.K. Smith Power Station without purchasing additional capacity from other sources is the least cost alternative available to East Kentucky to meet this requirement.

2. East Kentucky's proposed construction is compatible with the requirements and regulations of the KNREPC which has recommended that a CEC be issued to East Kentucky for this project.

IT IS THEREFORE ORDERED that East Kentucky be and it is hereby granted a Certificate of Public Convenience and Necessity and a Certificate of Environmental Compatibility to proceed with the construction of 300 megawatts of peaking capacity, in the form of combustion turbines, and related electric transmission facilities as more specifically described in the application and record.

Done at Frankfort, Kentucky, this 11th day of March, 1993.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director