

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)	CASE NO. 2000-056
OF AN 80 MW (NOMINAL) COMBUSTION)	
TURBINE GENERATING UNIT, RELATED)	
NATURAL GAS PIPELINE LATERAL, AND)	
TRANSMISSION FACILITIES, IN CLARK AND)	
MADISON COUNTIES, KENTUCKY)	

O R D E R

East Kentucky Power Cooperative, Inc. ("East Kentucky") filed its application on March 6, 2000 for a Certificate of Public Convenience and Necessity and a Certificate of Environmental Compatibility to construct an 80 MW combustion turbine ("CT"), 7.95 miles of natural gas pipeline, and approximately 12 miles of 138 KV transmission line and related transmission facilities at its J.K. Smith site in Clark and Madison counties in Kentucky. East Kentucky's load forecast indicated that additional capacity is needed by 2001 to serve its forecasted loads. The proposed CT can be in service by 2002. The Attorney General's Office ("AG") was granted intervention, and a hearing was held at the Commission's offices on May 24, 2000.

East Kentucky submitted to the Natural Resources and Environmental Protection Cabinet ("Natural Resources Cabinet") a statement of environmental compatibility for the proposed CT at the J.K. Smith site. By letter dated April 24, 2000, the Natural

Resources Cabinet reported that East Kentucky's proposed CT will be environmentally compatible.

East Kentucky indicated that additional power would be needed to meet its load requirements and to maintain a 15 percent reserve margin. East Kentucky had issued a request for proposal to utilities and power marketers on January 26, 2000. Several responses were received, but East Kentucky's analysis shows that the proposed CT has the lowest cost. In addition to seeking approval to construct a CT, East Kentucky is seeking approval in Case No. 2000-079¹ of a power purchase agreement with Kentucky Pioneer Energy, LLC ("Pioneer"). Pioneer is proposing to construct a 540 MW Integrated Gasification Combined Cycle at the J.K. Smith site by 2003 and to sell the total output to East Kentucky. East Kentucky is proposing to retain 440 MW from the Pioneer project and to sell the remaining 100 MW on a firm basis to an out-of-state utility for 10 years.

The AG's analysis indicated that it would be less costly for East Kentucky not to construct the proposed CT for 2002 and to retain the 100 MW it is proposing to sell. However, the AG recognized that even if East Kentucky retains the total 540 MW from the Pioneer project, it will need 94 MW of additional capacity by the winter of 2004. Thus, while the AG concludes that it may be less expensive for East Kentucky to delay this CT, the AG acknowledged that there might be other benefits to adding the CT by 2002. Those benefits include a hedge against the risk that the Pioneer project will be delayed beyond 2003 and a hedge against the risk of forced outages at East Kentucky's

¹ Case No. 2000-079, Application of East Kentucky Power Cooperative, Inc. For Approval of a Power Purchase Agreement with Kentucky Pioneer Energy, L.L.C.

Spurlock Unit 2. Ultimately, the AG's recommendation was that East Kentucky perform additional analyses of adding the CT in 2002, 2004, or 2005 to determine the additional costs of adding the CT early.

East Kentucky filed the AG's suggested analysis of adding the CT in 2002. It shows that adding the CT early and selling 100 MW off-system has a lower net present value of \$31.4 million compared to delaying the CT and not selling 100 MW. Based on this analysis and the significant risk-hedging benefits that result from adding the CT by 2002, the Commission finds that the construction should be approved as proposed.

East Kentucky indicated that additional transmission facilities will be needed to provide transmission outlets for the additional generating capacity planned at J.K. Smith. Since East Kentucky's and Kentucky Utilities Company's ("KU") transmission systems are highly interconnected, East Kentucky and KU jointly performed a study to find the best transmission outlet plan for J.K. Smith for approximately the next 8 years. The study shows that a new 138 KV transmission line, approximately 12 miles long, and associated facilities are needed for the CT. The Commission finds the results of the joint study to be reasonable.

The CT will be operated mainly on natural gas, with fuel oil as a backup. East Kentucky considered three interstate pipelines that are in close proximity to the J.K. Smith site that are owned, respectively, by Columbia Gulf Transmission Corporation ("CGT"), Tennessee Gas Pipeline Company, and Texas Eastern Transmission Corporation. East Kentucky chose to connect to CGT's pipeline because it will provide better operational flexibility, higher gas supply, and ready access to storage facilities.

East Kentucky proposes to install 7.95 miles of 20-inch steel pipeline to connect J.K. Smith into the CGT pipeline.

In summary, the Commission finds that there is a need and demand on East Kentucky's system for the proposed CT, transmission facilities, and gas pipeline, all to be in service in 2002. The proposed construction is reasonable, will not result in wasteful duplication of utility facilities, and should be approved. East Kentucky's need for additional capacity to meet its customers' power requirements, and the least-cost nature of the proposed construction compared to available alternatives, outweigh any adverse environmental impacts.

IT IS THEREFORE ORDERED that:

1. East Kentucky is granted a Certificate of Public Convenience and Necessity and a Certificate of Environmental Compatibility to construct an 80 MW CT at the J.K. Smith site at an estimated cost of \$29 million, 12 miles of 138 KV transmission line and associated facilities at an estimated cost of \$5.5 million, and approximately 8 miles of gas pipeline at an estimated cost of \$6.75 million.
2. Two weeks prior to commencing construction, East Kentucky shall file the construction schedule and a copy of the construction drawings.
3. Within 90 days from the completion of construction, East Kentucky shall file an as-built drawing for the pipeline.

Done at Frankfort, Kentucky, this 30th day of June, 2000.

By the Commission

ATTEST:


Executive Director