

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| AN INVESTIGATION OF EAST KENTUCKY |) | |
| POWER COOPERATIVE, INC.'S NEED |) | |
| FOR THE GILBERT UNIT AND THE |) | CASE NO. 2003-00030 |
| KENTUCKY PIONEER ENERGY, LLC |) | |
| PURCHASE POWER AGREEMENT |) | |
| | | |
| THE APPLICATION OF EAST KENTUCKY |) | |
| POWER COOPERATIVE, INC. FOR |) | CASE NO. 2000-00079 |
| APPROVAL TO PURCHASE POWER |) | |
| AGREEMENT |) | |

O R D E R

By Order dated July 11, 2000, in Case No. 2000-00079, the Commission approved East Kentucky Power Cooperative, Inc.s (East Kentucky) request to purchase the output from Kentucky Pioneer Energy, LLC (Kentucky Pioneer), which has proposed to construct a coal gasification merchant generating plant. The Kentucky Pioneer plant is to be constructed on land leased from East Kentucky at its J.K. Smith generating site in Clark County, Kentucky. East Kentucky was approved to purchase the entire 540 megawatt (MW) output of Kentucky Pioneer, and then resell 100 MW to Wabash Valley Power Association (Wabash Valley) for a term of 10 years.

Kentucky Pioneer was subsequently unable to obtain financing for its coal gasification project, and East Kentucky filed a new application with the Commission requesting approval to construct a 268 MW coal-fired, fluidized bed generating unit, known as Gilbert, at its Spurlock Station in Maysville, Kentucky. East Kentucky stated

in that application, Case No. 2001-00053,¹ that Kentucky Pioneer's inability to obtain financing rendered the coal gasification project unreliable and East Kentucky could no longer wait to secure additional base load generation to meet its customers' projected needs. East Kentucky was issued a certificate authorizing construction of the Gilbert Unit on September 26, 2001. In granting that approval, the Commission recognized that if Kentucky Pioneer could obtain financing by mid-2002, it might be less costly to cancel the Gilbert Unit and proceed with Kentucky Pioneer.

By January 2003, Kentucky Pioneer had still not obtained project financing, although East Kentucky had made no effort to terminate its purchase power agreement for the output of that project. On January 30, 2003, the Commission initiated Case No. 2003-00030 to investigate whether East Kentucky had a need for both the base load capacity to be generated by the Gilbert Unit and the base load capacity to be purchased from Kentucky Pioneer. The Commission subsequently issued two information requests to East Kentucky. East Kentucky responded, and an informal conference was held at the Commission's offices on March 12, 2003.

Based on the information filed by East Kentucky in response to requests for information, as well as the summary of the March 12, 2003 informal conference, it appears that East Kentucky has financially passed the point of no return with respect to constructing the Gilbert Unit. In any event, cancellation is not an option since Kentucky

¹ 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 a 250 MW Coal-Fired Generating Unit (with a Circulating Fluid Bed Boiler) at the Hugh L. Spurlock Power Station and Related Transmission Facilities, Located in Mason County, Kentucky, to be Constructed Only in the Event That the Kentucky Pioneer Energy Power Purchase Agreement Is Terminated.

Pioneer has still not obtained project financing. Although the Commission had approved the Kentucky Pioneer purchase power agreement based on East Kentucky's need for additional base load capacity, East Kentucky's recent annual resource assessment filing in Administrative Case No. 387² projects that, with the Gilbert Unit, only gas-fired combustion turbines will be needed through 2009, followed by a 268 MW coal-fired base load unit in 2011. Significantly, East Kentucky's resource plan does not include the base load capacity to be purchased from Kentucky Pioneer. However, East Kentucky indicated at the March 12, 2003 informal conference that the purchase power agreement has not been terminated and that the additional base load generation could be substituted for future combustion turbines. Although substituting Kentucky Pioneer for future combustion turbines will result in excess generation, East Kentucky believes that the excess can be economically sold off-system.

The Commission finds that the January 11, 2000 Order in Case No. 2000-00079 approved the Kentucky Pioneer purchase power agreement based on East Kentucky's need for additional base load generating capacity. Since that need for base load capacity will now be met by the Gilbert Unit, the findings supporting the January 11, 2000 Order are no longer valid. Therefore, Case No. 2000-00079 is being reopened and East Kentucky must now demonstrate that it is reasonable and cost-effective to continue with the Kentucky Pioneer purchase power agreement in lieu of adding combustion turbines to meet its load later in this decade. As part of this demonstration, East Kentucky should file testimony that includes the following:

² Administrative Case No. 387, A Review of the Adequacy of Kentucky's Generation Capacity and Transmission System. East Kentucky's Integrated Resource Plan, filed April 21, 2003, includes these same projections.

- (a) an analysis of the cost to purchase the output of Kentucky Pioneer compared to the cost of constructing and operating combustion turbines as projected in East Kentucky's most recent annual resource assessment. The analysis should disclose all assumptions and reflect the total cost per year, as well as the net present value of the total cost;
- (b) the number of years and the number of hours per year that the purchase from Kentucky Pioneer would result in excess generation on East Kentucky's system;
- (c) the prices at which East Kentucky would have to sell the excess Kentucky Pioneer generation for the purchase to be economical, and the basis for East Kentucky's conclusion that the excess generation can be sold at such prices;
- (d) an explanation of any operational problems on East Kentucky's system resulting from the excess Kentucky Pioneer generation;
- (e) a detailed discussion of Kentucky Pioneer's efforts to address the June 2002 conclusions of East Kentucky's consultant that additional development work is required to enable the coal gasification technology to be applied in the manner envisioned by the Kentucky Pioneer project;
- (f) the specific reasons why East Kentucky's contract with Wabash Valley includes an option for the buyer to extend the purchase for an additional 9.5 years beyond the initial term, when the Commission's approval was specifically limited to the initial term;
- (g) the sources and quantities of excess base load generation on East Kentucky's system during the 9.5-year time frame, assuming that Wabash Valley exercises its option to continue purchasing power during that period; and
- (h) a detailed discussion of the reasons why East Kentucky entered into a contract in late 2001 for the purchase of 105 MW from Energy Services & Technical Support, and the current status of that contract. A copy of the contract should be filed, along with any written documents evidencing an assignment or cancellation of the contract.

The above list is not intended to be exclusive. East Kentucky and the intervenors may address any other issue relevant to this inquiry.

IT IS THEREFORE ORDERED that:

1. Case No. 2000-00079 is reopened.
2. East Kentucky shall file testimony that includes, at a minimum, the issues enumerated in the findings above.
3. The procedural schedule set forth in Appendix A, attached hereto, shall be followed in this case. Each copy of the information requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet shall be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention shall be given to copied material to ensure its legibility.

Done at Frankfort, Kentucky, this 13th day of June, 2003.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION
IN CASE NOS. 2003-00030 AND 2000-00079 DATED June 13, 2003

East Kentucky shall file direct testimony in
verified prepared form no later than 07/07/03

Information requests to East Kentucky
shall be filed no later than 07/17/03

East Kentucky shall file responses to
information requests no later than 07/28/03

Intervenor testimony, if any, shall be filed
in verified prepared form no later than..... 08/11/03

Information requests to intervenors
shall be filed no later than 08/21/03

Intervenors shall respond to requests for
information no later than..... 09/02/03

Public hearing shall begin at 9:00 a.m.,
Eastern Daylight Time, in Hearing Room 1
of the Commission s offices at 211 Sower
Boulevard, Frankfort, Kentucky To be scheduled