COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY, AND A SITE COMPATIBILITY CERTIFICATE, FOR THE EXPANSION OF THE TRIMBLE COUNTY GENERATING STATION	)	CASE NO. 2004-00507

O R D E R

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively "the Companies") filed a joint application on December 17, 2004 for a Certificate of Public Convenience and Necessity and a Site Compatibility Certificate ("CPCN") to construct Trimble County Unit 2 ("TC2"), a 750 MW super-critical pulverized-coal base load unit. TC2 will be located adjacent to Trimble County Unit 1 ("TC1"), the existing base load generating unit at LG&E's Trimble County Generating Station in Trimble County, Kentucky. The estimated total cost of TC2 is $1.1 billion. The Companies also requested approval of a land sale associated with the shared ownership of TC2.[1]

Pursuant to the terms of a Participation Agreement filed in this case,[2] TC2 will be built in partnership with the Indiana Municipal Power Agency ("IMPA") and the Illinois Municipal Electric Agency ("IMEA"). The Companies will own 75 percent of the capacity

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[1] The Companies filed an amended joint application on April 15, 2005 seeking the approval of the land sale.

[2] See Blake Direct Testimony, Exhibit KWB-1 and the Response to the Commission Staff's First Data Request dated February 10, 2005, Item 11(d).

of TC2. KU will own 81 percent and LG&E will own 19 percent of the Companies' collective 75 percent share of TC2, based on their energy and capacity needs, pursuant to the Power Supply System Agreement executed by KU and LG&E on October 9, 1997. The remaining 25 percent will be owned by IMPA and IMEA.

The Commission granted full intervention to the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"); the International Brotherhood of Electrical Workers, Local 2100, and the Greater Louisville Building and Construction Trades Council ("Unions"); the Kentucky Industrial Utility Customers, Inc. ("KIUC"); IMEA; IMPA; and the Louisville/Jefferson County Metro Government. A public hearing was held on June 28, 2005. The parties have submitted post-hearing briefs and the case stands submitted for decision.

ISSUES

The Companies based the application and request for a CPCN on their 2004 joint load (demand and energy) forecasts. They stated that their 2004 joint load forecasts project a need for base load capacity beginning in 2010. Their joint demand forecast projects capacity needs ranging between 90 and 235 MW in 2010, between 285 and 434 MW in 2011, and between 401 and 552 MW in 2012. These levels of additional capacity will be required to serve the Companies' native load and maintain their present reserve margin range of 13-15 percent. The Companies issued a Request for Proposals ("RFP") on April 1, 2003 for their power supply needs. The RFP was sent to over 90 potential energy suppliers, with nine responses being received. Four responses were eliminated from consideration due to their significantly higher costs. The Companies performed a Net Present Value of Revenue Requirements ("NPVRR") analysis of the remaining responses. The following table shows the NPVRR ranking of the alternatives that were considered:

CASE	NPVRR ($000)	RANK	DELTA FROM MIN ($000)
TC2 in 2010 and Marketer F's purchase power alternative ("PPA") in 2013	16,370,555	1	0
Marketer F's PPA in 2010 and TC2 2011	16,377,517	2	6,962
TC2 and Marketer F's PPA in 2010	16,399,793	3	29,238
TC2 in 2010	16,443,935	4	73,380
TC2 in 2011	16,450,735	5	80,180
Marketer E's Joint Ownership and Marketer F's PPA in 2010	16,462,347	6	91,792
Marketer E's Joint Ownership in 2010	16,508,339	7	137,784
Marketer E's Joint Ownership in 2011	16,512,364	8	141,809
No Baseload Addition	16,850,301	9	479,746

Based on the Companies' joint load forecasts, their analyses show that the construction of TC2 in 2010 together with a PPA with WV Hydro ("Marketer F") in 2013 is the least cost alternative. Marketer F's revised offer, which was incorporated into the Companies' resource assessment, consists of three 80 MW hydroelectric projects using conventional hydro technology.[3] The Companies stated in their brief, "WV Hydro has yet again revised its proposal to offer only one 77 MW facility to the Companies. Firm pricing for that latest revised offer from WV Hydro was not available at the time of the hearing, although indications from the supplier were that pricing would not be more favorable."[4]

The AG agreed that the Companies' next capacity addition should be base load capacity. However, he recommended that the Companies' CPCN request, with TC2

[3] Marketer F had originally offered two 80 MW hydroelectric projects, which would be built at two dams on the Ohio River using relatively new design technology. It later revised its offer to consist of three 80 MW projects using conventional hydro technology. See LG&E and KU Joint Post-Hearing Brief at 18.

[4] LG&E and KU Joint Post-Hearing Brief at 18-19.

becoming operational in 2010, be denied. The AG offered the following reasons in support of his recommendation:

(1) Currently, the Companies have over 1,000 MW of capacity that is surplus to what is needed to meet reserve margin requirements;

(2) The Companies have been in a no growth trend for the last 5 years;

(3) If growth began today at the Companies' projected rate, new generating capacity would not be needed until 2012;

(4) Ratepayers would pay a substantial extra cost if base load capacity is added before it is needed; and

(5) The Companies should demonstrate growth in their load over the next 2 years to show that the substantial surplus capacity available today will be used and that new capacity will be needed.

The AG stated that the Marketer F option has the advantage of being smaller in size than TC2, and that in a period of uncertain future load growth, the risk associated with a smaller capacity addition is lower for ratepayers if load growth fails to materialize. The AG argued that even if the Marketer F option is attractive, no new capacity can be justified until 2012 at the earliest. The AG recommended that the Companies fully explore the option of purchasing the plants outright from Marketer F because of the long-term benefits to ratepayers that are not captured in a 30-year NPVRR analysis.

The Companies responded to the AG's recommendation by claiming his focus was misdirected. The AG points to the lack of growth in peak demand in recent years, but the Companies contend that the problem to be addressed is the growth in their combined energy requirements. The Companies argued that the critical issue is whether there will be enough baseload capacity to meet their customers' energy requirements in the next decade.

KIUC recommended that a CPCN be granted for construction of TC2 with an in-service date in 2010 as proposed by the Companies.

The Unions recommended that Kentucky workers be utilized for the construction of TC2.

ANALYSIS

The Commission appreciates the AG's concern, but given the circumstances associated with this application, disagrees with his position. The Companies' peak demands have been somewhat lower than their forecasted demands in recent years. However, the Commission agrees with the Companies that the primary concern is whether baseload capacity will be sufficient to meet the Companies' forecasted energy requirements. While the Companies' actual peak demands have not matched their forecasted peak demands, their energy sales growth has been consistent with their forecasted energy sales, and the AG did not take issue with the Companies' energy forecasts.

The risk of granting a CPCN when one will not be required is that customers will pay for the new plant in the utility's rate base before it is needed; the risk of denying a CPCN when one is needed is that a utility will have to run high-price peaking units or buy high-price peaking power to meet the baseload requirements of its customers. The Commission believes the risk of the latter is of such significance that it should be avoided, if at all possible. We also believe the risk of the former can be managed by monitoring the accuracy of the Companies' energy forecasts in the coming years. By examining whether actual energy sales are consistent with the Companies' energy forecasts, the Commission, the intervenors, and especially the Companies can judge whether they may need to speed up, slow down, or cancel construction before too much has been invested in the project.

The Commission, therefore, will require the Companies to monitor the accuracy of their forecasts and advise us immediately if they notice any material divergence between their energy and peak forecasts and actual usage that could call into question the advisability of further pursuit of construction of TC2. Upon such a report, any party to this case, or the Commission on its own motion, may reopen this case to determine if further action is warranted.

The Unions have requested that the Commission require certain hiring practices. While agreeing that the benefits of such a project should accrue primarily to Kentucky citizens, we are faced with competing concerns. On the one hand, we would like to see the construction jobs for the plant filled by Kentucky workers; on the other hand, our statutory mandate is to maintain low rates for utility customers. We, therefore, do not believe the strict language the Unions have requested is appropriate. The Commission does, however, strongly encourage the Companies to provide as many jobs as possible to Kentucky citizens.

Regarding the approval of the land sale required in the Participation Agreement, the Companies stated that the entire TC2 footprint is approximately 6.5 acres, which has been appraised at a value of $55,900.[5] IMEA and IMPA will pay $25,000 for their collective 25 percent undivided ownership interest in the land underlying TC2. Because this amount is above both current market value and original cost, the Commission finds that the sale is in the public interest and should be approved.

SUMMARY

Based upon the evidence of record, the Commission finds that there is a need on the Companies' system for 75 percent of the proposed 750 MW TC2. The proposed construction is reasonable and will not result in wasteful duplication of utility facilities. This approval is conditioned, however, on the Companies' monitoring for the accuracy of their forecasts, as discussed previously in this Order. Further, the Commission finds that the land sale to IMPA and IMEA as proposed by the Companies at a total cost of $25,000 is reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The Companies are granted a CPCN to construct a 750 MW super-critical pulverized-coal base load unit, TC2, at LG&E's Trimble County Generating Station in Trimble County, Kentucky, subject to the forecast monitoring requirements discussed in this Order.

2. The Companies' land sale to IMPA and IMEA of a 25 percent undivided ownership interest in the 6.5 acres that constitute the TC2 footprint at a cost of $25,000 is approved.

[5] The Companies stated that the original cost of the land for the Trimble County Generating Station was $1,636 per acre. An independent appraisal of the land in March 2001 determined that the fair market value was $8,600 per acre. The purchase price stated in the Participation Agreement for IMEA's and IMPA's 25 percent ownership share reflects a price of $15,385 per acre. See the Companies' Amended Joint Application at 3.

Done at Frankfort, Kentucky, this 1st day of November, 2005.

By the Commission

ATTEST:

Executive Director