COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR AN APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT	)	CASE NO. 2012-00063

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1. Refer to the Direct Testimony of Stephen J. Baron ("Baron Testimony"), Baron Exhibit_(SJB-2) which was filed under petition for confidentiality. Provide this Exhibit for the years 2017 and 2018.

RESPONSE:

See attached confidential .zip file. Please note that KIUC's recommendation in this case is to utilize Big Rivers' proposed ES cost allocation upon the depletion of the Rural Economic Reserve fund. As discussed in Mr. Baron's testimony, the RER is expected to be depleted in 2017 if KIUC's proposed cost allocation is adopted versus 2018 under Big Rivers' proposed cost allocation. During the period prior to the depletion of the RER, the impact of KIUC's proposed cost allocation on the Rural class will be identical to Big Rivers' proposed cost allocation. Also, after (or during 2018) when the RER would be depleted under Big Rivers' proposed cost allocation, the KIUC cost allocation will be identical to the Big Rivers cost allocation. Thus, the only period of time in which the KIUC proposed cost allocation will result in higher charges to

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the Rural class is the period beginning some time in 2017 and ending some time in 2018.

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2. Refer to the Baron Testimony, Baron Exhibit_(SJB-3) which was filed under petition for confidential treatment.

a. Explain how the 2016 Base Case Revenues were derived. Include in your response specific cell references to the Big Rivers Financial Forecast (2012-2026) Base Case which was filed on June 14, 2012 under petition for confidential treatment.

b. Confirm that this exhibit shows that, under the KIUC proposal, the Rural Economic Reserve would be depleted by $3,387,759 more in 2016 than under Big Rivers' proposal.

c. Provide this Exhibit for the years 2017 and 2018.

RESPONSE:

a. The 2016 Base Case revenues shown in Exhibit_(SJB-3) for each rate class were developed by removing the environmental charge and the RER credit (Rural class only) from the average effective rate per mWh for each rate class and multiplying the result by TWH sales for each class. The data relied on was obtained from Big Rivers' Base Case Financial Forecast, TAB "Stmts RUS."

Specifically, refer to Column AI (2016). For the Rural class, the value in row 37 (Effective Rate of 51.27) was reduced by the value in row 31 (Environmental Surcharge) of 3.50 and the value in row 35 of -7.62 (RER) to produce a net rate of 55.38. This amount was multiplied times the value in row 7 of 2.52 (TWH sales) to produce the revenue amount of 139.54 ($millions) shown in Exhibit_(SJB-3). Note, the amounts shown are rounded; the actual calculation was based on the full dollar value.

For the Large Industrial class, the value in row 54 (Effective Rate of 51.64) was reduced by the value in row 49 (Environmental Surcharge) of 3.50 to produce a net rate of 48.14. This amount was multiplied times the value in row 8 of 0.96 (TWH sales) to produce the revenue amount of

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46.29 ($millions) shown in Exhibit_(SJB-3). Note, the amounts shown are rounded; the actual calculation was based on the full dollar value.

For the Smelter class, the value in row 79 (Effective Rate of 54.45) was reduced by the value in row 76 (Environmental Surcharge) of 3.50 to produce a net rate of 50.94. This amount was multiplied times the sum of the values in row 9 (Century TWH) of 4.15 and row 10 (Alcan TWH sales) of 3.17, to produce the revenue amount of 372.77 ($millions) shown in Exhibit_(SJB-3). Note, the amounts shown are rounded; the actual calculation was based on the full dollar value. Also, the Smelter revenues were <u>not reduced</u> by the TIER Adjustment, as indicated in the column heading on Exhibit_(SJB-3).

b. Yes, in 2016 the RER would be depleted by the additional amount of $3,387,759.

c. See attached.

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3. Refer to the Direct Testimony of Lane Kollen ("Kollen Testimony") at pages 8-9, wherein Mr. Kollen provides factors that he believes weigh against environmental compliance Projects 4 (Wilson Unit 1 scrubber) and 5 (Green Unit 2 SCR) included in the Build Case but not in the Buy Case. On page 9, Mr. Kollen lists one of the factors as being "the flexibility that the Buy Case affords the Commission to subsequently revisit the Build alternative if the economics support such a decision in the future." Is Mr. Kollen suggesting that Big Rivers should buy power and mothball the Wilson and Green units? If yes, what costs does Mr. Kollen believe would be associated with mothballing the plants?

RESPONSE:

No. KIUC does not propose that Big Rivers mothball the Wilson and Green units and completely rely on purchase power to replace the output of those generating units. KIUC recommends that the Buy case studied by Big Rivers be adopted. In the Buy case, the Company will comply with CSAPR by constraining the operation of the Wilson and Green generating units

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to limit emissions or purchasing allowances, to the extent that is more economic than continuing the operation of the units. In general, this strategy results in less generation from those generating units, which in turn requires additional purchases by the Company and results in lower market sales. In the CD that is being provided in response to this question, KIUC has broken out by megawatthour the amount of internal generation from the Big Rivers power plants, purchased power and off-system sales under both the Build and Buy scenarios.

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4. Refer to the Kollen Testimony at pages 17 and 18. Provide Mr. Kollen's definition of fixed production maintenance expense as discussed here. Include examples of fixed production maintenance expenses as defined here. Identify fixed production maintenance expenses that could be reduced by 25 percent in the event of the loss of smelter load.

RESPONSE:

In its three scenarios and two sensitivities, the Company kept its O&M expense constant, except for variable environmental O&M expense that was the result of its production cost modeling. In other words, it assumed that all other O&M expense was fixed. As such, the Company failed to recognize any reduction in operation or maintenance expense that would occur due to the reduced operation of the generating units, including, but not limited, to outage maintenance expense.

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5. Refer to the Kollen Testimony at page 18, line 5. Provide all support for the $133 million reduction in net present value that would result from a 25 percent reduction in fixed production maintenance expense.

RESPONSE:

Please see attached Mr. Kollen extracted the Company's projection of annual fixed O&M expense from the Stmts RUS spreadsheet in the various FM scenario workbooks (all the same), discounted the annual expenses using the Company's 7.93% discount factor, multiplied the discounted expenses by 25% to determine the annual reductions, and then summed the net present value of the reduction in expenses.

BIG RIVERS ELECTRIC CORPORATION
FIXED MAINTENANCE EXPENSE
($ Million)

			7.93%	25%
2012	49.89	0	49.89	12.47243
2013	46.20	1	42.80	10.70028
2014	56.83	2	48.78	12.19584
2015	52.02	3	41.37	10.34298
2016	53.78	4	39.63	9.908733
2017	55.40	5	37.82	9.456124
2018	57.06	6	36.10	9.02419
2019	58.77	7	34.45	8.611985
2020	60.53	8	32.87	8.218609
2021	62.35	9	31.37	7.843201
2022	64.22	10	29.94	7.484941
2023	66.15	11	28.57	7.143046
2024	68.13	12	27.27	6.816768
2025	70.17	13	26.02	6.505393
2026	72.28	14	24.83	6.208241
				132.9328

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6. Refer to the Kollen Testimony at page 23, lines 8-13. Reference is made to average rate increases for the rural and large industrial classes of 69 percent under the Build Scenario and the Smelters terminating their contracts and 84 percent increase under the Buy Scenario and the Smelters terminating their contracts. Provide all support for these percentage increases.

RESPONSE:

Please see attached. The amounts were obtained from the Rates spreadsheet in the Company's Excel FM workbooks for the two Smelter load loss sensitivities and include the rate increases necessary to achieve the 1.24 Contract TIER.

BIG RIVERS ELECTRIC CORPORATION

REVENUE BY CUSTOMER CLASS UNDER SMELTER LOAD LOSS SENSITIVITIES

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Build Case Smelter Load Loss															
Rural Revenue	105.378	110.320	187.25	173.78	168.92	154.07	129.51	125.60	109.41	85.68	71.38	29.55	25.30	22.81	50.67
Large Industrial Revenue	35.772	37.230	62.57	69.94	68.11	51.28	42.98	41.43	35.95	28.27	23.63	10.87	9.62	8.91	16.98
Smelter Revenue	376.163	380.758	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Market Revenue	35.990	49.403	303.86	351.00	415.54	513.63	556.42	597.76	625.36	672.79	701.83	783.63	798.22	841.10	797.95
Buy Case Smelter Load Loss															
Rural Revenue	107.318	116.243	214.37	206.81	194.57	181.96	187.14	196.49	177.75	171.47	142.98	114.49	100.03	133.18	141.47
Large Industrial Revenue	36.487	39.405	72.36	76.50	75.91	66.89	61.99	64.50	57.94	55.40	46.12	37.04	32.45	41.93	43.92
Smelter Revenue	386.529	404.337	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Market Revenue	12.285	12.372	188.72	212.95	272.94	321.72	349.76	351.73	402.46	409.30	480.82	524.77	574.90	535.80	552.21

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7. State fully and succinctly the KIUC recommendation. If the KIUC recommendation is for Big Rivers to forego Projects 4 and 5 of its proposed environmental compliance plan and instead pursue the Buy Scenario, would KIUC agree that the Buy Scenario is not without risk? Does KIUC have any suggestions on ways to mitigate some of the risk associated with pursuing the Buy Scenario?

RESPONSE:

KIUC recommends that the Commission not approve projects 4 and 5 at this time. All other projects should be approved. This recommendation is consistent with the assumptions used by the Company in its Buy scenario and will result in constraining the operation of the Wilson and Green generating units. The KIUC recommendation will not result in the retirement or mothballing of these units and only a portion of the reduction in generation from these units will be replaced with purchased power.

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KIUC agrees that there is risk in the Buy scenario, primarily the risk of near-term increases in market prices. However, there also is risk in the Build scenario, including, but not limited to, the risk of cost overruns, the risk of additional environmental requirements, the risk of Smelter load loss, the risk of sustained lower market prices, and the risk of essentially converting Big Rivers into a merchant generator. The risk of the Buy scenario is mitigated by the ability of the Commission to revisit projects 4 and 5 in the future if and when circumstances change. However, the risk of the Build scenario cannot be mitigated.

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8. Refer to the Kollen Testimony, page 29, lines 12 thru 15. Did KIUC consider the likely commodity, equipment and labor cost increases associated with the delay of Projects 4 and 5? If so, provide an estimate of the potential increases and provide support for the estimates.

RESPONSE:

No. KIUC did not model any scenarios in which projects 4 and 5 were implemented at a later date than proposed by the Company. It should be noted that the Company's project costs, including projects 4 and 5, the ones with the most impact in the Build case, were never escalated to nominal dollars in its modeling. This was another error that understated the effects of these two projects in the Build scenario.

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9. Refer to pages 30-31 of the Kollen Testimony at which Mr. Kollen discusses Big Rivers' credit rating. Is Mr. Kollen aware that Fitch Ratings recently reaffirmed Big Rivers BBB-rating on the $83.3 million County of Ohio, Kentucky's pollution control refunding revenue bonds series 2010A?

RESPONSE:

Yes. However, this was on existing debt. The Company's proposed ECP will result in an increase of nearly 40% in the existing debt and will strain the Company's finances even further.

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10. Refer to the Direct Testimony of Philip Hayet ("Hayet Testimony"), pages 21 and 22. Provide electronic versions of the analysis used to prepare the tables on pages 21 and 22 of the Hayet Testimony. List all assumptions and identify all data sources used in the analysis.

RESPONSE:

Please refer to Mr. Hayet's response to Big River's First Request to KIUC 1-11, 1-12, and 1-13. In addition, the changes Mr. Hayet made to the cases that APM performed are listed in his testimony beginning on page 19, along with the reasons the changes were made. The first change Mr. Hayet made is discussed on line 7 of that page. A list and explanation of the rest of the changes Mr. Hayet made is provided beginning on line 12 of that page.