

1 **TESTIMONY OF DAVID A. SPAINHOWARD**

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3 **Q1. Please state your name, occupation, and business address.**

4 Response: My name is David A. Spainhoward. My current position is Vice President of  
5 Contract Administration and Regulatory Affairs at Big Rivers Electric Corporation. My  
6 business address is 201 Third Street, Henderson, Kentucky 42420. I have been an employee  
7 of Big Rivers since January 1972 and in my current position since 1998.

8 **Q2. Please describe your educational background and experience in the electric utility**  
9 **industry.**

10 Response: I am a graduate of Oakland City University in Oakland City, Indiana where I  
11 have earned a Master of Science degree in Management. I also received a Bachelor of  
12 Science degree in Management from Oakland City College and have an Associate degree in  
13 Data Processing Management. I have previously held positions at Big Rivers in various  
14 departments including Corporate Planning, Real Estate, Accounting and Purchasing. I have  
15 also previously submitted testimony and personally appeared before the Kentucky Public  
16 Service Commission in other matters.

17 Big Rivers Electric Corporation is an electric generation and transmission (G&T)  
18 cooperative located in Henderson, Kentucky that serves wholesale electric power to three  
19 member distribution cooperatives. The three distribution cooperatives provide retail electric  
20 service to consumers in 22 counties in Western Kentucky. Big Rivers has leased the  
21 operation of its owned and leased generation units to subsidiaries of LG&E Energy Corp.  
22 Along with other responsibilities, I monitor the operation and compliance of the contracts  
23 involved in that lease arrangement. Additionally, I am responsible for all regulatory and  
24 governmental affairs at Big Rivers.

25 **Q3. Please explain Big Rivers' interest in the proposed Thoroughbred generating facility.**

1 Response: First, you must understand what Big Rivers is all about. Big Rivers came into  
2 existence in 1961, when three electric distribution cooperatives were seeking a better, less  
3 expensive source of wholesale power. They formed Big Rivers. The principal purpose for  
4 Big Rivers being in existence is to make electricity available to the rural areas of the  
5 Commonwealth of Kentucky at the lowest cost consistent with sound business methods and  
6 prudent management. Big Rivers sells electricity at wholesale to its three member  
7 distribution cooperatives for resale at retail to their respective customers. Both the wholesale  
8 rates and the retail rates are approved by the Public Service Commission as “just and  
9 reasonable.”

10 Big Rivers differs in this respect from an investor-owned utility operating in  
11 Kentucky, which is in business to obtain a return for its shareholders on their investments.  
12 Investor-owned utilities sell electricity to retail customers in Kentucky at rates that the Public  
13 Service Commission determines are just and reasonable. Unlike Big Rivers, some investor-  
14 owned utilities are or have been in the merchant electric generating business. Unlike either  
15 electric cooperatives or investor-owned utilities, a merchant generator sells power at the  
16 highest price available on the market, is in business to obtain a return on investment for its  
17 shareholders, and charges rates that are not regulated by the Kentucky Public Service  
18 Commission.

19 Big Rivers’ member cooperatives are, with one narrow exception, bound to purchase  
20 all their wholesale power requirements from Big Rivers, and to pay for that wholesale power  
21 at rates that cover Big Rivers’ expenses and produce a reasonable margin. If Big Rivers’  
22 expenses go up, then its rates go up, the member cooperatives will pay more for wholesale  
23 power, and the member cooperatives’ retail member-consumers ultimately pay more for the  
24 electricity they use in their homes and businesses. Big Rivers is involved in this proceeding  
25 to learn whether the proposed Thoroughbred generating facility will have an adverse effect  
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1 on Big Rivers' costs, ultimately raising the cost of retail electric service to approximately  
2 110,000 homes and businesses who buy retail electricity from Big Rivers' members.

3 Big Rivers has intervened in this proceeding for several reasons. First, Big Rivers  
4 wants to make sure that the ratepayers of Big Rivers' three member distribution cooperatives  
5 are not adversely affected by the construction of Thoroughbred's proposed facility. Second,  
6 while Big Rivers welcomes expansion of generation in Kentucky, additional jobs, and  
7 additional use of Kentucky coal, Big Rivers would have preferred that any generation  
8 facilities constructed in this area be located at the existing Big Rivers Wilson generating  
9 plant site in Ohio county. But Big Rivers has no interest in partnering with an entity that has  
10 the reservations Thoroughbred expressed about Big Rivers at pages 7 and 8 of its September  
11 12, 2003 response to Big Rivers' motion to dismiss the Thoroughbred application. While  
12 Big Rivers wants to respond to the accuracy of those statements, we will await the  
13 elaboration on those points that Thoroughbred has promised will be included in its pre-filed  
14 testimony.

15 Third, Big Rivers is seeking assurances that its members' customers will not  
16 ultimately have to pay for transmission and interconnection facilities required by the  
17 construction and operation of Thoroughbred. Fourth, Big Rivers is seeking assurances that  
18 the generation expansion potential at the Big Rivers Wilson plant site in Ohio county is not  
19 limited by the construction and operation of Thoroughbred. Finally, Big Rivers is seeking  
20 assurances that economic development potential in western Kentucky is not diminished by  
21 the building of Thoroughbred.

22 **Q4. Why does Big Rivers contend that the application is incomplete?**

23 Response: There are two reasons that the Thoroughbred application is incomplete. First,  
24 Thoroughbred fails to summarize in its application the efforts it made to locate the proposed  
25 facility on a site where existing electric generating facilities are located. Second,  
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1 Thoroughbred's application contains an incomplete analysis of the economic impact of the  
2 proposed facility on the affected region and the state because it completely ignores the  
3 existence of any negative economic impact of its project.

4 **Q5. Why does the failure of Thoroughbred to summarize in its application the efforts it**  
5 **made to locate the proposed facility on a site where existing electric generating facilities**  
6 **are located have such significance?**

7 Response: The application is required by law to contain a summary of Thoroughbred's  
8 efforts to locate its proposed facility on a site where existing generation is located, and  
9 whether or not Thoroughbred did so is a basis on which the Siting Board can approve or deny  
10 the application for a construction permit. We understand that Thoroughbred is not required  
11 by law to make an effort to locate its facility on an existing generating site. But  
12 Thoroughbred should be required to say in its application that it has made no effort to locate  
13 its facility on an existing generating site, or to summarize any efforts it contends that it did  
14 make. Otherwise the application does not conform to the requirements of the law, and the  
15 Siting Board sends a message that it will not hold an applicant to those requirements.

16 Section 9 of Thoroughbred's application, which purports to contain the  
17 required information, contains a two paragraph statement of the permit work Thoroughbred  
18 did before SB 257 was adopted, the desirability of the site for Thoroughbred, and the  
19 impracticability of changing the site. For some undisclosed reason, Thoroughbred avoids  
20 making a straightforward statement summarizing any efforts it made to locate the facility at  
21 an existing generation site, or saying that no such efforts were made.

22 In its response to Big Rivers' Data Request No. 1, Thoroughbred implies that  
23 it met with Big Rivers about locating its project at the Wilson Site. In fact, at the first  
24 meeting with Thoroughbred on February 27, 2001, Thoroughbred representatives  
25 unequivocally rejected the suggestion by Big Rivers' representatives that Thoroughbred  
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1 consider relocating its project to the Wilson site. As noted on page 9 of Thoroughbred's  
2 response to Big Rivers' motion to deny its application, Thoroughbred met with Big Rivers on  
3 numerous occasions to discuss joint development of one or more additional units at the  
4 Wilson site. Thoroughbred made it clear that its involvement in those meetings would end if  
5 any parties to the discussions negatively intervened in its proposed siting application  
6 proceeding. It refused to participate in joint funding of monitoring and permitting activities  
7 unless the other parties agreed that they would not oppose Thoroughbred's anticipated siting  
8 application.

9 **Q6. And have you reached a conclusion about whether the proposed Thoroughbred**  
10 **generating facility will have an adverse economic effect on Big Rivers?**

11 Response: Yes, in part. As Travis Housley states in his pre-filed testimony, there is a  
12 potential for adverse economic impacts on Big Rivers if the recommended interconnection  
13 and transmission additions and upgrades are not installed, and if Thoroughbred is not  
14 required to pay the costs and expenses of those facilities. But these risks can be mitigated if  
15 Thoroughbred pays the costs and expenses of the transmission additions and upgrades.

16 The testimony of Mick Durham of Stanley Associates shows that the  
17 emissions and discharges from Thoroughbred have a strong potential to cause Big Rivers to  
18 spend more money for environmental controls at its existing Wilson generating station, and  
19 at any new generation facilities constructed on the Wilson Site. Those emissions and  
20 discharges could prevent construction of a new generating unit at the Wilson Site, either  
21 because the facility cannot be permitted, or because the cost of the additional environmental  
22 facilities makes the project cost-prohibitive. These same considerations can impact  
23 economic development in the area of the project, and in the state. If Big Rivers incurs  
24 additional costs, as noted above, those costs will eventually be paid by retail electric  
25 consumers in the 22 counties in which Big Rivers' member cooperatives provide electric  
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1 service.

2 The potential impact of these economic issues is illustrated in a September 14, 2003,  
3 article in the Henderson *Gleaner* about the concerns of two Western Kentucky aluminum  
4 smelters over future availability of an affordable supply of electricity. A copy of this article  
5 is attached to my testimony, and marked DAS-1. This article about two industries that  
6 currently employ over 1500 persons in Western Kentucky emphasizes the tension between  
7 generating electricity for purposes of sale at the highest market price, and generating  
8 electricity on a non-profit basis with the goal of keeping the price as low as possible,  
9 consistent with prudent business practices. Big Rivers may find itself in the ironic position  
10 of raising its rates because of the Thoroughbred project, which is generating and selling its  
11 power into another state for use in economic development competition with Kentucky.

12 Big Rivers believes the General Assembly wanted full public disclosure in the  
13 application of both the positive and negative economic impacts of a proposed merchant  
14 generating project. The public and the Siting Board are entitled to this fundamental  
15 information when considering whether a project construction certificate should be issued.  
16 We are left to wait for the hearing to see what other evidence may develop of adverse  
17 economic impacts from this project.

18 **Q7. So does this mean that Big Rivers opposes the Thoroughbred project if there is a chance**  
19 **that Big Rivers' costs may be impacted in the future?**

20 Response: Big Rivers' emphasis on the potential adverse economic impact of the  
21 Thoroughbred project is tied to its motion to deny the application. The adverse economic  
22 implications of the Thoroughbred project that Big Rivers has disclosed should have been  
23 studied by Thoroughbred, and included in its application. It is inconceivable to me that  
24 sophisticated business people, like those at Peabody and Thoroughbred, would reach this  
25 point in the Thoroughbred project without studying potential negative economic impacts of  
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1 the project. I also have difficulty believing that the General Assembly intended that the  
2 applicant for a certificate to construct a merchant generating plant should only be required to  
3 report the positive economic impacts of its project in its application.

4 The Siting Board's analysis of the economic impacts of a merchant generating  
5 project is a shallow exercise indeed if the applicant is not required to include negative  
6 economic impacts in its application. The contents of a generating plant construction  
7 certificate application are particularly important because the compact schedule for reviewing  
8 and ruling on an application does not permit extensive discovery.

9 **Q8. Is Big Rivers concerned that Thoroughbred will become a competitor of Big Rivers?**

10 Response: No. Thoroughbred will be trying to sell its power generated to anyone in the  
11 country at the highest price available on the wholesale market. Big Rivers, as noted earlier in  
12 my testimony, is in the business of providing power to its members at the lowest cost  
13 consistent with good business practices. It makes power sales to non-members only when its  
14 supplies exceed its members' needs, and is limited by law as to the amount of business it can  
15 do with non-members. Big Rivers has no interest in being in the merchant generating  
16 business, although it is willing to entertain proposals to locate a merchant generating facility  
17 at its Wilson site. As recognized by the General Assembly in SB 257, there are good  
18 business reasons to locate a new merchant generating facility at the site of an existing  
19 generating facility.

20 **Q9. What action is Big Rivers requesting the Siting Board to take on the Thoroughbred**  
21 **application?**

22 Response: At this point Big Rivers requests that the Siting Board not issue a construction  
23 certificate until Thoroughbred has completed its application, and provided the assurances Big  
24 Rivers is seeking, as described on pages 2 and 3 of this testimony. If this requires denying  
25 the application and Thoroughbred refile, this could actually benefit the public and the  
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1 Siting Board by allowing more time for them to study and consider the impacts of this project  
2 on the area and the state. Big Rivers knows of no reason why a delay in the project would be  
3 a problem for Thoroughbred. Based upon the last information received by Big Rivers,  
4 Thoroughbred still has no investors and no contracts for sale of power. Big Rivers will  
5 reexamine its position on the Thoroughbred application in its brief.

6 **Q10. Does this conclude your testimony?**

7 Response: Yes.  
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**VERIFICATION**

I verify, state, and affirm that the foregoing testimony is true and correct to the best of my knowledge and belief.

David Spainhoward  
David A. Spainhoward

STATE OF KENTUCKY

COUNTY OF HENDERSON

Subscribed and sworn to before me by David A. Spainhoward on this the 6<sup>th</sup> day of October, 2003.

Mary E. Johnson  
Notary Public, Ky. State at Large  
My Commission Expires 7/29/07

# Smelters face power shortage

Ten years ago, when officials of Big Rivers Electric Corp. and Alcan's Sebree smelter sat down together, it often involved finger-pointing, accusations and strained negotiation.



**Chuck Stinnett**

Business editor

Five years ago, when they sat down together, it was to put the finishing touches on the bankruptcy settlement that saved Big Rivers.

Now, when they sit down, it's to talk about saving the Sebree smelter.

It's a strange tale in which former adversaries are working together to resolve a looming crisis whereby the Alcan smelter and Century Aluminum smelter in Hawesville might not have enough electricity to stay in operation. Big Rivers — once castigated because it had too much electric generating capacity and had to raise rates to try to repay a crushing debt — is trying to come to the rescue.

## The power behind the metal

Anaconda Aluminum and National-Southwire, which built the Alcan and Century smelters, respectively, came to western Kentucky more than 30 years ago largely because Big Rivers could supply the vast amount of electricity needed to convert powdery alumina into metallic aluminum.

But Big Rivers and the smelters had a falling out 20 years ago when the power company built the Wilson generating station, which it didn't really need, and had to raise rates to pay for it.

Five years ago, Big Rivers emerged from a bankruptcy reorganization but had lost its two biggest customers. Alcan and Southwire didn't want their fortunes tied to Big Rivers any longer. Instead, they signed deals with LG&E Energy Corp., whose Western Kentucky Energy subsidiary had leased and would operate Big Rivers' power plants for the next 30 years.

But the smelters' contracts weren't 30-year deals; they will expire in 2010 and 2011. The smelters anticipated going onto what they expected would be an open market for electricity. But after the California deregulated electricity market debacle, the prospects for buying a lot of power on the open market is pretty dicey.

While there's adequate generating capacity in the Big Rivers-WKE system today, there may not be in seven or eight years.

"We may enter into new contracts" to serve part of the smelters' needs, said David Spainhoward, Big Rivers' vice president for contract administration and regulatory affairs. But he cautioned: "By the time we get there, the power we have may be consumed by our existing customers."

Pam Schneider, the controller at the Sebree smelter, said Alcan is concerned that LG&E won't want to grant the smelters new contracts, that it would rather sell power at a higher price out of state or ship it to Louisville. (LG&E Energy spokesman Doug Bennett said the company "hasn't ruled anything out, hasn't ruled anything in. We haven't had any negotiations.")

Still, Spainhoward said, "There may not be enough power to serve those two industries."

"If we don't find a solution, those two smelters could go the way of the smelters in the Pacific Northwest" that have shut down in recent years because of power issues, Schneider said.

That could cost some or all of the 670 jobs at Alcan and the 850 or so at Century, as well as hundreds of jobs of suppliers, vendors and others. "If either one of those two smelters shut down," Spainhoward observed, "it would be devastating."

## A solution's in the works

But behind the scenes, Big Rivers, Alcan, Century and others, including Henderson County Judge-executive (and former Alcan supervisor) Sandy Watkins, have been meeting, talking through possible solutions.

Incredible as it may seem, one solution could be for another generating unit to be constructed at the site of the Wilson plant, where considerable infrastructure is already in place. Yes, the possibility exists of a Wilson II, a brother to the plant that almost destroyed Big Rivers.

Schneider said Alcan and Century are considering helping Big Rivers with financing and long-term contracts that would make the project viable. State or federal assistance might also be needed.

All of this is part of the reason that Big Rivers has intervened in Peabody Energy's proposal to build the huge Thoroughbred power plant eight miles away in Muhlenberg County — it's fearful that Thoroughbred's emissions would wreck any opportunity to acquire air permits for a Wilson II and that Thoroughbred's 1,500 megawatts would strain the region's transmission system.

"We want to make sure our customers are protected," Spainhoward said.

In the meantime, Watkins said the meetings and earnest talks are evidence of the seriousness of the matter. "When you bring Alcan and Big Rivers to the table and they both say, 'That's a great idea,' you know that the problem is really real.