SULLIVAN, MOUNTJOY, STAINBACK & MILLER PSC

ATTORNEYS AT LAW

Ronald M. Sullivan
Jesse T. Mountjoy
Frank Stainback
James M. Miller
Michael A. Fiorella
William R. Dexter
Allen W. Holbrook
R. Michael Sullivan
P. Marcum Willis
Bryan R. Reynolds
Tyson A. Kamuf
Mark W. Starnes
Julia B. Hawes

RECEIVED
JUN 08 2005
PUBLIC SERVICE COMMISSION

June 7, 2005

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard, P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: In the Matter of: An Assessment of Kentucky's Electric Generation, Transmission and Distribution Needs, PSC Administrative Case No. 2005-00090

Dear Ms. O'Donnell:

Enclosed are an original and ten copies of the comments of Michael H. Core and David A. Spainhoward, prepared in response to the request of the Commission in its May 11, 2005, order in this matter. I certify that copies of this letter and attachment have been served, by mail, on each of the persons identified on the attached service list.

Sincerely yours,

James M. Miller

JMM/ej

cc: Michael H. Core
David Spainhoward
Service List

Telephone (270) 926-4000
Telecopier (270) 683-6694

100 St. Ann Building
PO Box 727
Owensboro, Kentucky
42302-0727

SERVICE LIST
PSC CASE NO. 2005-00090

Allen Anderson
South Kentucky RECC
P.O. Box 910
925-925 N. Main Street
Somerset, KY 42502-0910

Kent Blake
Director-State Regulation and Rates
Louisville Gas and Electric Company
220 W. Main Street
P.O. Box 32010
Louisville, KY 40232-2010

Daniel W. Brewer
Blue Grass Energy Cooperative Corp.
P.O. Box 990
1201 Lexington Road
Nicholasville, KY 40340-0990

Sharon K. Carson
Finance & Accounting Manager
Jackson Energy Cooperative
P.O. Box 307
U.S. Highway 421S
McKee, KY 40447

Carol H. Fraley
President and CEO
Grayson R.E.C.C.
109 Baby Park
Grayson, KY 41143

Larry Hicks
Salt River Electric Cooperative Corp.
111 West Brashear Avenue
P.O. Box 609
Bardstown, KY 40004

Burns E. Mercer
Meade County R.E.C.C.
P.O. Box 489
Brandenburg, KY 40108-0489

Mark A. Bailey
Kenergy Corp.
3111 Fairview Drive
P.O. Box 1389
Owensboro, KY 42302

Sarah Botkin
Business Service Manager
Berea College
Electric Utility Department
CPO 2207
Berea, KY 40404

Jackie B. Browning
Farmers R.E.C.C.
504 South Broadway
P.O. Box 1298
Glasgow, KY 42141-1298

James B. Gainer
Legal Division
The Union Light Heat & Power Co.
139 E. Fourth Street
Cincinnati, OH 45202

James L. Jacobus
Inter-County Energy Cooperative
Corporation
1009 Hustonville Road
P.O. Box 87
Danville, KY 40423-0087

Michael L. Miller
President & CEO
Nolin R.E.C.C.
411 Ring Road
Elizabethtown, KY 42701-8701

Michael S. Beer
VP- Rates & Regulatory
Kentucky Utilities Company
c/o Louisville Gas & Electric Co.
P.O. Box 32010
Louisville, KY 40232-2010

Dudley Bottom Jr.
Shelby Energy Cooperative, Inc.
620 Old Finchville Road
Shelbyville, KY 40065

Paul G. Embs
Clark Energy Cooperative, Inc.
P.O. Box 748
2640 Ironworks Road
Winchester, KY 40392-0748

Bill Duncan
Kerry K. Howard
Licking Valley R.E.C.C.
P.O. Box 605
271 Main Street
West Liberty, KY 41472

Ted Hampton
Cumberland Valley Electric, Inc.
Highway 25E, P.O. Box 440
Gray, KY 40734

Robert M. Marshall
Owen Electric Cooperative, Inc.
8205 Highway 127 North
P.O. Box 400
Owenton, KY 40359

Timothy C. Mosher
American Electric Power
101A Enterprise Drive
P.O. Box 5190
Frankfort, KY 40602

Barry L. Myers
Manager
Taylor County R.E.C.C.
100 West Main Street
P.O. Box 100
Campbellsville, KY 42719

G. Kelly Nuckols
Jackson Purchase Energy Corporation
2900 Irvin Cobb Drive
P.O. Box 4030
Paducah, KY 42002-4030

Anthony P. Overbey
Fleming-Mason Energy Cooperative
P.O. Box 328
Flemingsburg, KY 41041

Roy M. Palk
East Kentucky Power Cooperative, Inc.
4775 Lexington Road
P.O. Box 707
Winchester, KY 40392-0707

Bobby D. Sexton
President/General Manager
Big Sandy R.E.C.C.
504 11th Street
Paintsville, KY 41240-1422

Hon. David Edward Spenard
Hon. Elizabeth E. Blackford
Hon. Dennis G. Howard, II
Assistant Attorneys General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

Hon. Donald T. Prather
Mathis, Riggs & Prather, P.S.C.
P.O. Box 1059
500 Main Street, Suite 5
Shelbyville, Kentucky 40065
Counsel for Shelby Energy Cooperative, Inc.

Michael L. Kurtz, Esq.
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202
Counsel for Kentucky Industrial Utility
Customer, Inc.,
Alcan Primary Products Corporation, and
Century Aluminum of Kentucky, LLC

Hon. David Brown
Stites & Harbison
1800 Providian Center
400 West Market Street
Louisville, Kentucky 40202
Counsel for Alcan Primary Products
Corporation, and
Century Aluminum of Kentucky, LLC

W. Ashley Hess, Esq.
Mark H. Longnecker, Jr. Esq.
Greenebaum Doll & McDonald PLLC
255 E. Fifth Street, Suite 2800
Cincinnati, OH 45203-4728
Counsel for Kentucky Pioneer Energy, LLC

Hon. J. Daniel Kemp
Kemp, Ison, Hartson, Tilley & Holland
Tilley & Holland
612 South Main Street
P.O. Box 648
Hopkinsville, KY 42340
Counsel for Pennyrile RECC

Hon. Elizabeth Marshall
Municipal Electric Power Association
110 A. Todd Street
Frankfort, KY 40601

Thomas A. Martin, P.E.
VP of Technical Services
Warren RECC
951 Fairview Avenue
P.O. Box 1118
Bowling Green, KY 42102-1118

Hon. W. Jeffrey Scott
P.O. Box 608
Grayson, KY 41143
Counsel for Grayson RECC

Hon. John J. Scott
Whitlow & Scott
108 E. Poplar Street
P.O. Box 389
Elizabethtown, KY 42702-0389
Counsel for Nolin RECC

Hon. Elizabeth L. Cocanougher
Senior Corporate Attorney
LG&E Energy LLC
220 W. Main Street
P.O. Box 32010
Louisville, Kentucky 40232

Hon. Kendrick R. Riggs
Hon. J. Gregory Cornett
Ogden, Newell & Welch, PLLC
1700 PNC Plaza
500 W. Jefferson Street
Louisville, KY 40202
Counsel for Kentucky Utilities Company
and Louisville Gas & Electric Co.

John J. Finnigan, Jr. Esq.
Senior Counsel
Cinergy Corp.
139 East Fourth Street
P.O. Box 960
Cincinnati, OH 45201-0960
Counsel for The Union Light, Heat and
Power Company

Hon. Mark Overstreet
Stites & Harbison, PLLC
421 W. Main Street
P.O. Box 634
Frankfort, KY 40602-0634
Counsel for Kentucky Power Company

Donald D. Blackburn
Berea Municipal Utilities
P.O. Box 926
Berea, KY 40403

Gray Cassity
Benton Electric System
436 Mayfield Road
P.O. Box 10
Benton, KY 42025

Mr. David Estepp
Manager of Finance & Administration
Big Sandy R.E.C.C.
504 11th Street
Paintsville, KY 41240-1422

Hon. Brendon D. Miller
Breathitt County Courthouse
Office of the Breathitt County Attorney
1137 Main Street, Room 209
Jackson, KY 41339

RECEIVED
JUN 08 2005
PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ASSESSMENT OF KENTUCKY'S ELECTRIC GENERATION, TRANSMISSION AND DISTRIBUTION NEEDS	)	ADMINISTRATIVE CASE NO. 2005-00090

WRITTEN COMMENTS OF MICHAEL H. CORE AND DAVID A. SPAINHOWARD OF BIG RIVERS ELECTRIC CORPORATION

These are the written comments of Michael H. Core and David A. Spainhoward, prepared in response to the direction of the Public Service Commission ("Commission") in its order setting a technical conference in its Administrative Case No. 2005-00090. Michael H. Core serves as President and CEO of Big Rivers Electric Corporation ("Big Rivers"). Mr. Core came to Big Rivers as President and CEO in January of 1997. Before arriving at Big Rivers, he had served over five years as CEO of the Indiana Statewide Association of Rural Electric Cooperatives. He also worked in the electric cooperative program in Ohio for 14 years, including four years as the CEO of a distribution cooperative.

Mr. Core has a Bachelor of Science degree from Bowling Green State University, Bowling Green, Ohio, and has done post graduate work at both St. Francis College in Ft. Wayne, Indiana, and Wright State University in Fairborn, Ohio.

David A. Spainhoward serves as the Vice President of Contract Administration and Regulatory Affairs at Big Rivers Electric Corporation. Mr. Spainhoward has been an employee of Big Rivers for over 33 years, since January of 1972.

Mr. Spainhoward is a graduate of Oakland City University where he has earned a Master of Science degree in Management. He also has received a Bachelor of Science degree in Management from Oakland City College, and has an Associate degree in Data Processing Management.

Big Rivers is an electric generation and transmission ("G&T") cooperative located in Henderson, Kentucky, that serves wholesale electric power to three member distribution cooperatives. The three distribution cooperatives provide retail electric service to approximately 107,000 consumers in 22 counties in Western Kentucky. Big Rivers has leased the operation of its owned and leased generation units to subsidiaries of LG&E Energy Corp. Mr. Spainhoward is responsible for the oversight and compliance of the contracts involved in that lease arrangement. Additionally, Mr. Spainhoward is responsible for regulatory and governmental affairs at Big Rivers.

Cooperatives are set apart from other organizations for several major reasons. Big Rivers and its three member distribution cooperatives are essentially locally owned. Where many businesses maximize profits for shareholders, cooperatives are not-for-profit. The members' customers are also called members. Those members elect the people who sit on the distribution boards and the distribution systems' boards nominate and elect the directors on Big Rivers' board.

Electric cooperatives are an integral part of the communities they serve. Though many larger electric utilities are closing local offices, electric cooperatives continue to be located in the communities they serve, making them easily accessible and responsive to the consumer needs.

In its Order of May 11, 2005, the Commission requested Big Rivers to comment on the following questions:

1. What additional information or data, if any, should the Commission consider in developing the Strategic Blueprint?
2. What are the top issues facing the electric power industry in Kentucky over the next 20 years?
3. What barriers exist, if any, to meeting future investment needs in electric power infrastructure in Kentucky?

We will address those questions as follows:

What additional information or data, if any, should the Commission consider in developing the Strategic Blueprint?

The Commission should keep in mind the unique status of Big Rivers as it develops its recommendations for the Strategic Blueprint. On July 17, 1998, Big Rivers entered into a complex series of agreements, including a lease transaction, with LG&E Energy LLC and certain of its affiliates, whom we will refer to collectively in these comments as the "LG&E Parties." Under these agreements, one of the LG&E Parties operates Big Rivers' generating units as an Exempt Wholesale Generator (Big Rivers is a jurisdictional utility). Certain of the LG&E Parties also operate the City of Henderson's Station Two units under contracts that exist between Big Rivers and the City of Henderson, and in that regard, deliver certain amounts of power from those units to the City of Henderson's Henderson Municipal Power and Light. Under the LG&E Parties' agreements with Big Rivers, one of the LG&E Parties' affiliates, LG&E Energy Marketing Inc. ("LEM"), sells a certain amount of power to Big Rivers on a firm basis, 24 hours a day, 7 days a week at a generally fixed price. Under separate agreements, the LG&E Parties also sell Kenergy Corp. a specified amount of power to serve two aluminum smelters, Alcan Primary Products Corporation ("Alcan") and Century Aluminum of Kentucky LLC ("Century"), who are parties to this proceeding. Kenergy's purchase of power to serve the smelters is the only exception to the all-requirements contracts between Big Rivers and its members. The power for the smelters is delivered across Big Rivers' transmission system.

Big Rivers continues to own the generating units that are operated by one of the LG&E Parties, and the contracts under which the City of Henderson Station Two is operated. Big Rivers' ownership of its transmission system was unaffected by the transaction. Big Rivers still performs its contractual obligations to provide the wholesale electric power requirements of its three member distribution cooperatives. The LG&E affiliates are responsible for complying with all existing and new environmental laws and regulations regarding Big Rivers' owned and leased generating facilities. Big Rivers is responsible for complying with all existing and new laws and regulations, including environmental laws and regulations regarding its transmission system.

The term of the arrangement with the LG&E Parties continues until December 31, 2023 unless terminated early. If a portion of Big Rivers' entitlement from LEM is not available from the generating units, then LEM must purchase and deliver any deficit to Big Rivers at the same price Big Rivers would otherwise have paid.

In addition, Big Rivers purchases 178 MW of firm capacity and 267,000 MWH of associated energy from the Southeastern Power Administration. The capacity available from the two sources described above is sufficient to satisfy Big Rivers' contractual power supply obligations to its members currently, and for several years into the future.

LEM supplies capacity and energy to Kenergy Corp at fixed prices which in turn is sold by Kenergy to Alcan and to Century. Under the agreement related to Alcan, Kenergy has a minimum hourly take of 215 MW and a maximum hourly take of 233 MW. The agreement also provides Kenergy the ability to call for additional power at fixed prices at LEM's cost for power purchased to provide additional power. Kenergy is allowed to buy energy from the market to serve Alcan's requirements in excess of the contract minimum. The Alcan agreements terminate at the end of 2011.

Under the agreements related to Century, Kenergy has a minimum hourly take of 309 MW and a maximum hourly take of 339 MW. The agreement also provides Kenergy the ability to call for additional power at fixed prices at LEM's cost for power purchased to provide additional power to Century. Kenergy is allowed to buy energy from the market to serve Century's requirements in excess of the contract minimum. The Century agreements terminate at the end of 2010.

Big Rivers has been working with a Peabody Coal Company subsidiary, Thoroughbred Generating Company LLC ("Thoroughbred"), regarding transmission to connect Thoroughbred's proposed merchant generating facility in Muhlenberg County to Big Rivers' transmission system. An interconnection agreement for the interconnection and system transmission requirements has been entered into, subject to the Kentucky Public Service Commission and any other necessary approvals.

East Kentucky Power Cooperative ("East Kentucky") has a proposed 161kv transmission project which will connect its transmission system to Big Rivers' transmission system at Big Rivers' Wilson plant site in Ohio County. This project is projected to be 17.5 miles of new line that East Kentucky will build to improve power quality and reliability for its planned service to Warren RECC.

From Big Rivers perspective, it believes the foregoing information and the information and data previously sought by the Commission are appropriate for developing the Strategic Blueprint.

What are the top issues facing the electric power industry in Kentucky over the next 20 years?

The top broad-based issue facing the electric power industry is protecting Kentucky's low-cost electric power advantage. We will discuss in the following paragraphs some issues that could affect this advantage.

1. **Environmental.** Big Rivers owns and leases the operation of eight coal fired, base load units, one coal/natural gas fired base load unit and one natural gas/fuel oil fired combustion turbine. By 2006, all of the eight coal fired units will have scrubbers which will reduce SO_2 emissions. The units have been retrofitted with NO_x compliance equipment to meet current laws. It is important that Kentucky encourage Congress to enact meaningful reforms to the Clean Air Act. Big Rivers, other cooperatives across the nation and the National Rural Electric Cooperative Association support the Clear Skies Act. However, any legislation, whether state or national, should be based on the following principles to achieve a proper balance of economic, energy and environmental goals:
    A. Programs to reduce emissions should be flexible, and include emissions trading.

B. The timing and magnitude of emissions reductions for any program or combination of programs should not impair the fuel diversity needed to provide affordable and reliable electricity to Kentucky's consumers.

C. Programs to reduce emissions should incorporate adequate future regulatory certainty.

D. Any Mercury reduction policies should be phased in over a reasonable period of time.

E. Multi-emission reduction strategies under the Clean Air Act should not include carbon dioxide. CO_2 is a greenhouse gas, and is not like pollutants that are currently regulated under the Clean Air Act.

F. Programs should allow sufficient lead times and phase-in periods for installation of additional pollution controls. Compressed time lines would unnecessarily escalate overall compliance costs.

G. Programs incorporating the trading of emissions credits should be structured to equitably benefit all entities that must comply with the program, and should be based on fossil fuel utilized to generate electric power.

2. **RTOs.** As the Commission is aware, Big Rivers is not a member of any RTO. The two principal reasons Big Rivers has not joined a RTO are the cost of membership, and the absence of offsetting benefits from membership. In the Commissions' Order of December 21, 2001, in P.S.C. Case No. 387, beginning at page 54, the Commission reported that "One of the Commission's major objectives was to ensure that any costs added to Kentucky customers through an

RTO were offset by benefits from the RTO." The Commission should maintain this position, and Kentucky should reject choices by electric utilities in Kentucky to join RTOs unless such choices can be demonstrated to increase reliability, maintain or lower costs or provide other offset benefits.

3. **Economic Development.** While economic development and growth are good, the Commonwealth of Kentucky must be cautious to prepare an Energy Policy that not only encourages growth, but also maintains the relatively low energy rates in an environmentally friendly manner, and provides incentives for electric utilities to build infrastructure to accommodate the growth. The key to maintaining lower energy rates in Kentucky is a sufficient supply of reasonably priced coal and other fuels necessary for existing and new generation to meet the power requirements of industries being retained in, and new ones being recruited to, Kentucky.

The topic of economic development should encompass retention of existing industry. Significant industries already in Western Kentucky are aluminum smelting, coal mines and electric power production. We mention these industries in particular because of the impending expiration of the aluminum smelter power supply agreements mentioned earlier. The two aluminum smelters in Western Kentucky employ approximately 1500 people, collectively utilize over 800 megawatts of electricity, 24 hours a day, 7 days per week and provide other economic benefits to the region. The smelters must have low cost sources of electricity beyond 2010 and 2011 in order to survive in Western Kentucky. Big

Rivers urges the Commission and the Commonwealth of Kentucky to be extremely sensitive to this issue while developing its energy policy.

What barriers exist, if any, to meeting future investment needs in electric power infrastructure in Kentucky?

This is a very difficult question to answer until the Commonwealth determines how much generation is too much. The electric utilities in Kentucky, whether electric cooperatives, public power or investor-owned, have spent billions of dollars to build the generators, the transmission systems and the distribution systems necessary to supply low-cost electricity to consumers (whether residential, commercial or industrial) in Kentucky. Each utility planned for its own growth, and the infrastructure to meet that growth.

Merchant generating facilities can restrict the ability of Kentucky electric utilities to add generating capacity, and add to the costs of continuing to operate existing generating facilities. Initially, merchant generation consisted primarily of natural gas fired plants which were located near an intersection of major gas and electric transmission lines. Then merchant coal fired generation was proposed primarily to sell coal by wire, out of state. The merchant operation has no Kentucky customer base, no obligation to serve, and only sells to the highest bidder. As the growth of merchant generating plants consumes the existing legal emissions capacity in Kentucky, there comes an added responsibility of existing utilities to retrofit generating units with environmental control equipment or in some cases retire the units in order to meet more stringent statewide compliance obligations. Whether the electric utility builds new generation or purchases from the merchant operator to meet its growing capacity requirements, the result is higher electric prices to the Kentucky consumer. While the economic opportunities from new power plants and coal sales provide jobs and a good revenue (tax) base for Kentucky, the Commonwealth must very carefully weigh the benefits against the detriments.

This concludes the written comments of Michael Core and David Spainhoward.

On this the 7th day of June, 2005.

/s/ Michael H. Core
Michael H. Core, President/CEO
Big Rivers Electric Corporation
201 Third Street, P.O. Box 24
Henderson, Kentucky 42419-0024
Phone No. (270) 827-2561

/s/ David A. Spainhoward
David A. Spainhoward
VP, Contract Administration and
Regulatory Affairs
Big Rivers Electric Corporation
201 Third Street, P.O. Box 24
Henderson, Kentucky 42419-0024
Phone No. (270) 827-2561