

**Expert Testimony Appearances
of
Lane Kollen
As of April 1993**

Date	Case	Jurisdct.	Party	Utility	Subject
1/93	8487	MD	Maryland Industrial Group Bethlehem Steel Corp.	Baltimore Gas & Electric Co.	OPEB Expense, Deferred Fuel, CWIP in Rate Base.
1/93	39498	IN	PSI Industrial Group	PSI Energy, Inc.	Refunds due to overcollection of taxes on Marble Hill Cancellation.
3/93	92-11-11	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	OPEB Expense.
3/93	U-19904 (Surrebuttal)	LA	Louisiana Public Service Comm. Staff	Gulf States Utilities/Entergy Corp.	Merger.
3/93	93-01 EL-EFC	OH	Ohio Industrial Energy Consumers	Ohio Power Co.	Affiliate Transactions.
3/93	EC92-21000 ER92-806-000	FERC	Louisiana Public Service Comm. Staff	Gulf States Utilities/Entergy Corp.	Merger.
4/93	92-1464- EL-AIR	OH	Air Products Armco Steel Industrial Energy Consumers	Cincinnati Gas	Revenue Requirements issues, Phase-in Plan.
4/93	EC92-21000 ER92-806-000 (Rebuttal)	FERC	Louisiana Public Service Comm. Staff	Gulf States Utilities/Entergy Corp.	Merger.

**COMPUTATION OF INTEREST ON
ILLEGAL, IMPROPER, AND QUESTIONABLE PAYMENTS
(\$millions)**

<u>Payer</u>	<u>Payee</u>	<u>Start</u>	<u>Stop</u>	<u>Total Pmts</u>	<u>Time Period I</u>				<u>Time Period II</u>			
					<u>Before 11/1/90</u>	<u>#yrs</u>	<u>per yr</u>	<u>Tot w/int</u>	<u>11/1/90 – 4/30/93</u>	<u>#yrs</u>	<u>per yr</u>	<u>Tot w/int</u>
Mr. Eddie Brown	Ms. Denise Perkins	1/81	6/88	\$0.098	\$0.098	7.50	\$0.013	\$0.154				
Jim Smith Contracting	Mr. Bill Thorpe	1988	1988	0.500	0.500	1.00	0.500	0.530				
E&M Coal	Mr. Shirley Pritchett	1981	9/92	3.000	2.511	9.83	0.255	4.622	0.489	1.92	0.255	0.548
Green River Coal	Mr. Eddie Brown/ Mr. Shirley Pritchett	1/17/84	4/93	.300/yr*	2.050	6.83	0.300	3.101	0.750	2.50	0.300	0.869
Green River Coal	Mr. Charles Steele/ Mr. Harry Foster	10/31/81	6/88	.100/yr	0.392	3.92	0.100	0.494				
	delivery start 8/84		6/88	.050/yr	0.196	3.92	0.050	0.247				
Green River Coal	Blue Grass Consultants/ Mr. Lester Thompson	12/9/87	6/88 and 1/19/88	0.663	0.332	0.50	0.664	0.342				
Mr. Eddie Brown	Mr. DeMayo/ Mr. Barker (RIA) (Pyramid Mining)	1987	4/90	0.291	0.291	3.33	0.087	0.354				
Totals:					<u>\$6.368</u>			<u>\$9.845</u>	<u>\$1.239</u>			<u>\$1.417</u>

* Approximate annual amount

GUILTY PLEA AGREEMENT
OF
MR. EDDIE BROWN

b. Eight counts of mail fraud, in violation of 18 USC 1341, and one count of use of interstate facilities in aid of racketeering activity, in violation of 18 USC 1952; each offense arising from a long term criminal scheme wherein the defendant paid illegal commercial bribes in order to obtain and maintain service and supply contracts with an electric power utility business known as the Big Rivers Electric Company.

c. One count of engaging in a pattern of racketeering activity, in violation of Title 18 USC 1962(c), as arising from the defendant conducting business through a pattern of making illegal commercial bribery payments in order to obtain and maintain contracts for his various businesses.

d. Five counts of wilfully attempting to evade income taxes owed to the United States, in violation of Title 26 USC 7201; each offense arising from the defendant's attempt to reduce his income tax liability by deducting illegal commercial bribery payments as business expenses.

e. One count of perjury, in violation of 18 USC 1623, arising from false testimony by the defendant during a deposition conducted in the course of civil litigation in United States District Court, Western District of Kentucky.

2. EDDIE RAY BROWN will cooperate fully with law enforcement officials in its ongoing investigation into all matters related herein; including but not limited to, the investigation into other persons who solicited and/or received commercial bribes from EDDIE RAY BROWN. The defendant will

provide truthful interviews to investigators and truthful testimony to any grand jury or trial jury before which he may be called as a witness. EDDIE RAY BROWN agrees and understands that, should he fail to provide truthful statements or testimony, the United States will be relieved of all of its obligations herein and may bring charges for all criminal conduct in which the defendant has engaged and seek any period of imprisonment, fine and other punishment allowed by law.

3. EDDIE RAY BROWN will cooperate fully with the Examination Division of the Internal Revenue Service in making a determination as to the individual income tax liability due and owing to the United States for the calendar years 1987, 1988, 1989, 1990 and 1991. In doing so, EDDIE RAY BROWN acknowledges and agrees that neither the findings of the Criminal Investigation Division of the Internal Revenue Service nor the specific terms of this Guilty Plea Agreement shall bind the Examination Division of the Internal Revenue Service in assessing the taxes, penalties and interest which it may deem to be due and owing by EDDIE RAY BROWN to the United States.

4. EDDIE RAY BROWN, as a specific term of this agreement, will pay a total of \$2,000,000 in back taxes, penalties and interest and in forfeiture of profits illegally derived, in the following amounts and manner:

a. Within fourteen days of the execution of this Guilty Plea Agreement, EDDIE RAY BROWN will deposit \$1,000,000 into an interest bearing escrow account as approved by the United States.

b. No fewer than twenty-one days before the scheduled sentencing of the defendant herein, EDDIE RAY BROWN will deposit an additional \$1,000,000 into the same escrow account as approved by the United States.

c. Prior to his sentencing herein, EDDIE RAY BROWN will use funds on deposit in the escrow account to pay all back taxes, penalties and interest owed to the Internal Revenue Service for the years 1987, 1988, 1989, 1990 and 1991.

d. Prior to his sentencing herein but following the payment of the above referenced obligation to the Internal Revenue Service, EDDIE RAY BROWN will forfeit to the United States, at his election, either: 1. the balance of all funds on deposit in said escrow account, or 2. stock in B.F.C. Coal Company, Inc. (BFC) equal to an amount of cash representing the difference between \$2,000,000 and the payment of all back taxes, penalties and interests as required in this agreement. EDDIE RAY BROWN will further execute all documents necessary to accomplish the forfeiture and as directed by the United States.

5. EDDIE RAY BROWN acknowledges and understands that his sentencing will be governed by the Sentencing Reform Act and the applicable provisions of the Federal Sentencing Guidelines. He further understands that the determination of his presumptive sentencing range rests entirely with the Court and that the Court

is authorized to impose any sentence which it deems to be appropriate and within the law; including a sentence of imprisonment, criminal fines and restitution.

6. The defendant and the United States each reserve the right to present their respective views to the Court concerning the appropriate application of the Federal Sentencing Guidelines to the facts of this case. EDDIE RAY BROWN acknowledges and understands that he shall have no right to withdraw his guilty pleas in the event the Court rejects his sentencing arguments and/or imposes a sentence more harsh than that sought by the defendant.

7. In return for the defendant's pleas of guilty, his full cooperation with the government's ongoing criminal investigation and the payment of \$2,000,000 in back taxes, penalties, interest and forfeiture, the United States agrees as follows:

a. The United States Attorneys for the Southern District of Indiana and the Western District of Kentucky each agree that no other charges will be brought against EDDIE RAY BROWN as arising from the conduct of business by Rose Brothers Trucking, E & M Coal, Embro Holdings, or Rose Disposal Services Inc. Further, the United States Attorneys of the Southern District of Indiana and the Western District of Kentucky each agree that no other charges will be brought against Rose Brothers Trucking, E & M Coal and Embro Holdings.

b. Prior to the time of sentencing, the United States will file with the Court a Notice of Substantial Assistance, pursuant to Section 5K.1 of the Federal Sentencing Guidelines, and at the time of sentencing will inform the Court of the full nature and extent of the defendant's cooperation with law enforcement officials.

c. At the time of sentencing, the United States will recommend to the Court that the defendant be sentenced to a term of imprisonment of fifteen (15) months and a period of three years supervised release. The United States will seek no criminal fine.

d. The United States Attorney for the Western District of Kentucky will consent to the transfer, pursuant to Rule 20 of the Federal Rules of Criminal Procedure, of any charges filed in that district against the defendant to the Southern District of Indiana for disposition.

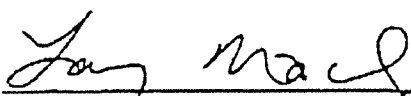
8. The above seven paragraphs constitute the entire agreement between EDDIE RAY BROWN and the United States herein.

Respectfully submitted,

Deborah J. Daniels
United States Attorney

DATE: _____

6/8/93



Larry A. Mackey
Chief, Criminal Division

DATE: 6/8/93

Alexander Taft / by LAM
Alexander Taft
Assistant United States Attorney

DATE: 6-8-93

Eddie R. Brown
Eddie Ray Brown
Defendant

DATE: 6/8/93

Forrest B. Bowman, Jr.
Forrest B. Bowman, Jr.
Attorney for Defendant

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF INDIANA
EVANSVILLE DIVISION

11-11-93

UNITED STATES OF AMERICA,)
)
Plaintiff,)
)
v.)
)
EDDIE R. BROWN.)
)
Defendant.)

CAUSE NO. EV 93-9-CR
EV 93-13-CR

*cc: J. Martin
Fax: M. Kurtz
4/26/93*

STIPULATED FACTUAL BASIS
FOR GUILTY PLEAS

Now comes the United States of America, by and through its counsel, Timothy M. Morrison, Temporary Acting United States Attorney for the Southern District of Indiana, and Larry A. Mackey, Assistant United States Attorney, and the Defendant, Eddie Ray Brown, personally and through his attorney, Forrest B. Bowman, Jr. and submits this Stipulated Factual Basis in support of the parties Guilty Plea Agreement. By way of this stipulation, Defendant Eddie Ray Brown admits to the following facts and acknowledges that the United States could prove the same at any trial herein:

From the mid-1970's, Eddie R. Brown was the President and owner of Rose Brothers Trucking, and from the late-1970's, President and owner of E & M Coal. Rose Brothers Trucking was primarily engaged in the business of hauling of coal and fly ash, a sludge like waste material. E & M Coal was primarily engaged in

the business of arranging contracts for, or brokering, the sale of coal between suppliers and purchasers of that commodity.

Bribes Paid To Obtain Business With Pyramid Mining

In or about 1978, Rose Brothers Trucking started to provide trucking services to Pyramid Mining Company, a coal mining company based out of Owensboro, Kentucky. In 1981, Pyramid Mining Company was purchased by First Mississippi Corporation, a Jackson, Mississippi, based corporation. As part of its restructuring of Pyramid Mining Company, First Mississippi hired a President who also served as Chief Executive Officer, and a Director of Pyramid Mining from October 1, 1982, until his termination on May 17, 1990. Another senior executive, was employed by Pyramid Mining since 1978, and continued on as Vice President in charge of operations at Pyramid Mining after its purchase by First Mississippi.

In or about late 1982, Brown first approached the Vice President and sought to obtain a long term written contract between Pyramid and Rose Brothers Trucking. Prior to that time, Rose Brothers provided trucking services without the benefit of a written agreement. Sometime prior to July 1983, Brown met with the President and the Vice President at the offices of Pyramid Mining at which time he learned of a "consulting" partnership which the President and Vice President had begun. At that meeting, the President requested that Brown begin paying the consulting business the sum of \$9,000 per month. Motivated by the intent to obtain the long term contract from Pyramid Mining, Brown agreed to the

arrangement to pay monies to the President and Vice President through their consulting business. In September 1983 and prior to making the first payment, however, Brown met with the President and Vice President and requested an increase in the monthly payments from Pyramid Mining to Rose Brothers Trucking. The amount of the rate increase sought by Brown was approximately equal to the amount initially agreed by Brown as payment to the consulting business. The President approved the rate increase on or about September 19, 1983 and in November 1983 Brown began making monthly payments to the President and Vice President's consulting business. A few months later, in April 1984, Brown's company was awarded a long term written contract by Pyramid Mining.

Between November 1983 and December 1986, Brown made the payments to the consulting business (then known as Resource Management Associates) by mailing the checks to a post office box located in Rockport, Indiana; which post office box had first been opened by the President in June 1983.

In or about December of 1986, Brown informed the President that he could no longer afford to make the payments to RMA. It was agreed that Brown could temporarily cease making the payments, but that the subject would be discussed later. Indeed, later in 1987, the President and Vice President again periodically requested money from Brown; requests to which Brown acceded by delivering currency to the President and/or Vice President totaling approximately \$20,000.

For several years prior to 1987, Brown had been doing business with a Western Kentucky utility known as Big Rivers Electric Company. In June 1987, Brown entered into an agreement with Big Rivers whereby Rose Brothers Trucking would haul away flyash produced by the D.B. Wilson power plant located near Centertown, Kentucky. Also in June of 1987, Brown entered into an agreement with the Vice President, acting on behalf of Pyramid Mining, that allowed Rose Brothers Trucking to dispose of the D.B. Wilson fly ash, free of charge, into a deposit area consisting of two strip-mined coal pits controlled by Pyramid Mining, and located in Ohio County, Kentucky. During 1987, it was agreed between Brown, the President and Vice President that as soon as Brown could determine the profitability of this new arrangement to haul and dump Big River Electric's fly ash, Brown would resume his secret payments to the President and Vice President. In December of 1987, Brown resumed his payments to the President and Vice President, causing checks drawn on the account of Rose Brothers Trucking to be issued and payable to the consulting business (then known as Resource Investment Associates, or RIA; a new partnership formed by the President and Vice President earlier in 1987, to replace RMA). Rather than the previous lump sum monthly payment schedule first begun in 1983, under this new arrangement, Brown agreed to pay the President and Vice President \$.25 for every ton of fly ash dumped into Pyramid's site in McHenry. At the direction of the President and Vice President, the checks from Brown to RIA were mailed to the Vice President's home address in Owensboro, Kentucky. These

payments were made until April of 1990. Three of the RIA checks are identified in paragraph 76 of Counts 1 through 3.

From 1983 to 1990, Brown paid a total of \$629,586.27 in unlawful bribe and kickback payments to the President and Vice President for the sole purpose of receiving favorable treatment from the President and Vice President toward Rose Brothers in the negotiation and renewal of waste disposal and coal-hauling contracts with Pyramid. Based upon an analysis of the RMA and RIA bank accounts, the President and Vice President received approximately equal benefit from the monies paid by Brown and used the funds for personal living expenses and to fund other personal investments.

Brown acted to conceal the unlawful nature of this bribe and kick-back scheme by characterizing the payments to RMA and RIA, on the books of his companies as "royalties," "professional fees," and "disposal expenses," when, in fact as he well knew, Brown received virtually no consulting advice or services from either the President or Vice President.

In or about October, 1990, First Mississippi filed suit against Brown and others alleging that Brown's payments to their executives were improper. On January 16, 1991, during the course of that lawsuit, Brown provided sworn testimony during a deposition conducted in Louisville, Kentucky. In order to conceal the true criminal character of his bribe and kickback scheme with the President and Vice President, Brown falsely testified that the

payments were legitimate fees paid for services in fact received by Rose Brothers Trucking and had no relationship to receiving or maintaining contracts with Pyramid.

Big Rivers Electric Corporation

A. Bribes and Kickbacks Paid For The Award of Coal Supply Business To E & M Coal

In the latter part of the 1970's, Brown was interested in expanding the coal supply and brokering services of E & M Coal. In the fall of 1979, Brown approached Shirley Pritchett, a business man and farmer residing in Henderson, Kentucky, about assisting Brown in securing a long-term coal supply contract with Big Rivers Electric Corporation, of Henderson, Kentucky. Brown, who had been unable on his own to obtain a long term contract, approached Pritchett because Pritchett had been able to secure a favorable trucking contract for himself with Big Rivers Electric in the 1970's. In addition, Brown was familiar with Pritchett's reputation as a close associate to Big Rivers management. Pritchett agreed, for a fee, to assist Brown in securing a coal supply contract with Big Rivers Electric. Thereafter, Pritchett arranged for a meeting between Brown and the general manager at Big Rivers. After the meeting, the general manager assured Pritchett that he would aid Brown in obtaining a long term coal supply contract with Big Rivers but that he (the manager) would require personal payment as well.

During the same time period in 1980, while Brown's bid for the contract was still pending at Big Rivers, the manager approached Brown about the prospect of hiring his daughter as a Brown employee. Brown agreed to the request and, beginning in January 1981 and after the award of the contract to E & M Coal by Big Rivers, Brown sent periodic checks to the manager's daughter at her residence. Between 1981 and 1988, Brown issued checks for gross wages totaling approximately \$98,000 to the daughter; even though the daughter never provided any services to Brown or his companies. Brown made the payments because of the request made by the manager and understood it to be part of the means by which the manager would receive benefit in return for awarding the Big Rivers contract to Brown's company.

In the summer and fall of 1980 and prior to the award of the contract to E & M Coal, in addition to the payments to the manager's daughter, Brown agreed to make periodic payments to Pritchett with the understanding that those payments would be shared with the manager. In return, Brown understood that he would receive the manager's influence in winning a long term coal supply contract. Pursuant to that agreement, Brown received inside information from Pritchett, which Brown understood in turn had originated from the manager. Brown used the inside information to reformulate his written bid and, after the revision, in September 1980, E & M Coal received a ten year contract from Big Rivers. Beginning in 1981 and continuing until 1992 Brown mailed periodic checks, on a near monthly basis, to Pritchett at his residence in

Henderson, Kentucky from Brown's office in Lynnville, Indiana. During the same time period, E & M Coal was awarded a series of other coal supply contracts by Big Rivers and, in addition, made certain spot market sales to Big Rivers. As a result of coal sales made in that time period, Big Rivers paid E & M Coal more than \$181 million. During the same time period, Brown mailed checks totaling approximately \$2.4 million to Pritchett; which checks represented his bribe and kickback payments for the E & M Coal business awarded by Big Rivers. The details of five of those checks are set forth in paragraph 79 of Counts 5,7,9,11 and 12.

**B. Bribes and Kickbacks Paid For The Award Of
Coal Supply Business To Green River Coal Company**

In the fall of 1978, Big Rivers issued a bid invitation for a coal supply contract that came to be known as Contract #527.

A company known as Green Rivers Coal Company entered into negotiations with Big Rivers to secure Contract #527. In March of 1981, Green Rivers submitted a written proposal for Contract #527.

Sometime after the submission of its proposal in March of 1981, the owners of Green River Coal Company contacted Eddie Brown, requesting his assistance in securing Contract #527 for Green River Coal. Brown agreed to assist, for a fee. Brown then approached Pritchett, who in turn approached the manager about assisting Green River Coal in obtaining Contract #527. Ultimately Brown, Pritchett and the manager agreed that, in return for the payment of certain monies, the manager would use his position to influence the award

of the contract to Green River Coal. In execution of that agreement, inside bid information was relayed from the manager and eventually to at least one principal of Green River who used the information to revise Green River's bid with Big Rivers. After the revised bid and on the recommendation of the manager, Big Rivers awarded a twenty year coal supply contract (#527) to Green River Coal in May 1982. Green River Coal first began supplying coal pursuant to the contract in 1984. A short time before doing so, in January 1984, Green River Coal entered into a written agreement whereby they promised to pay Brown 1% of all monies received by Green River from Big Rivers for the sale of coal. In March of 1984, Brown entered into a written agreement with Pritchett agreeing to pay Pritchett 50% of the monies which he received from Green River. Brown made the agreement with the understanding that the payments to Pritchett would be shared with the manager in return for the award of the Green River contract. Pritchett and the manager agreed to divide the payments equally.

Prior to the first payment being made from Brown to Pritchett under the March 1984 agreement, the manager approached Pritchett and Brown and requested that they buy out his interest in their arrangement. Brown and Pritchett agreed to do so for the sum of \$200,000. Brown and Pritchett each agreed to pay \$100,000. It was agreed between the parties that the manager's payments would be made in currency and paid on a quarterly basis in the amount of \$20,000.

Between 1984 and 1990, Big Rivers paid Green River Coal more than \$154 million for coal supplied by Green River. During the same time period, Green River paid Brown approximately \$1.7 million. Brown mailed checks totaling approximately \$651,000 to Pritchett at Pritchett's residence in Henderson, Kentucky. The particulars of three of those checks are described in paragraph 79 in Counts 6, 8 and 10.

Tax Fraud

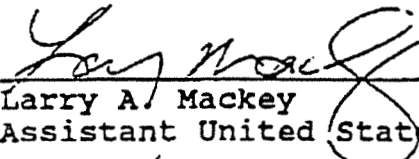
Brown filed federal tax returns for each of the years in which he made his illegal bribe and kickback payments to Pritchett and the executives at Pyramid Mining and the manager at Big Rivers. In addition during the same time period, Embro Holding and Rose Brothers Trucking filed corporate tax returns. On the corporate returns, Brown deducted as legitimate business expenses the bribe and kickback payments which he had made in the respective years. In doing so, he thereby reduced the amount of income which he reported as earned from those businesses on his personal tax return. Moreover, Brown reduced the amount of income which he reported as earned from Green River Coal on his Schedule C 's by the amount of his payments to Pritchett made pursuant to that portion of his illegal arrangement. The result of these treatments was that Brown understated his true taxable income and therefore had additional tax due and owing to the IRS. Brown knew at that the time he took the deductions that they represented criminal payments and could not legitimately be relied upon to reduce his tax indebtedness. In

this manner, for the years 1987 through 1991, Brown understated his taxable income in the approximate total amount of \$ 626,000. Accounting for taxes, interest and penalties Brown owed more than \$1.5 million.

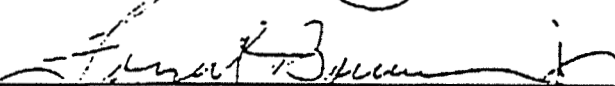
Respectfully submitted,

TIMOTHY M. MORRISON
TEMPORARY ACTING
UNITED STATES ATTORNEY

8/26/93
Date

By: 
Larry A. Mackey
Assistant United States Attorney

8/26/93
Date


Forrest B. Bowman, Jr.
Counsel for Defendant

8-26-93
Date

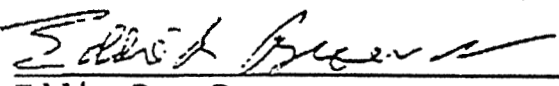

Eddie Ray Brown
Defendant

EXHIBIT 1)BREAKDOWN OF COST OF OPERATIONS - 1972
(Estimate)RETIKI MINE

	<u>Cost Per Month</u>	<u>Cost Per Ton</u>
<u>PRODUCTION COSTS</u>		
LABOR		
Mine	\$ 48,270	\$.82
Supply	1,820	.03
Maintenance	10,920	.19
Outside	4,760	.08
Overtime	11,250	.19
Idle Day Overtime	4,500	.08
Saturday Overtime Production	4,050	.07
Supervisory	10,260	.17
Engineering	1,220	.02
Office Salaries and Wages	1,050	.02
Sub-Total	<u>\$ 98,100</u>	<u>\$ 1.67</u>
BENEFITS		
Safety & Production Incentive	\$ 17,640	\$.30
Vacation Pay	2,750	.05
Christmas Pay	920	.02
Workmen's Compensation	4,520	.08
Hospitalization Insurance	2,550	.04
Profit Sharing	8,820	.15
FICA	3,600	.06
Unemployment Insurance	850	.01
Retirement	5,880	.10
Sub-Total	<u>\$ 47,530</u>	<u>\$.81</u>
TOTAL LABOR AND BENEFITS	\$ 145,630	\$ 2.48
SUPPLIES		
Mine	\$ 3,600	\$.06
Rock Dust	2,030	.03
Sub-Total	<u>\$ 5,630</u>	<u>.10</u>
VENTILATION, DRAINAGE & TRACK		
Ventilation	\$ 3,560	\$.06
Drainage - Water Lines	1,000	.02
Track	1,000	.02
Sub-Total	<u>\$ 5,560</u>	<u>\$.09</u>

EXHIBIT D
Page 2**PRODUCTION COSTS (Continued)**

	<u>Cost Per Month</u>	<u>Cost Per Ton</u>
MAINTENANCE SUPPLIES		
Lubrication	\$ 2,700	\$.05
Freight and Express	300	.01
Supplies - Misc.	1,800	.03
Loading Machine	2,940	.05
Cutting Machine	2,940	.05
Shuttle Cars	2,400	.04
Coal Drill	1,200	.02
Roof Bolter	1,800	.03
Belt Feeder	1,200	.02
Power System	900	.02
Supply and Mantrip	1,200	.02
Belt and Conveyors	1,200	.02
Rock Miner	500	.01
Sub-Total	<u>\$ 21,080</u>	<u>\$.36</u>
EXPLOSIVES	\$ 5,400	\$.09
SAFETY		
Dust Control	\$ 600	\$.01
Mine Safety Expense	4,200	.07
Sub-Total	<u>\$ 4,800</u>	<u>\$.08</u>
BITS, BARS AND CHAINS		
Bits - Cutter	\$ 3,600	\$.06
Bits - Roof Bolter	1,200	.02
Bits - Coal Drill	300	.01
Cutter Bars and Chains	1,200	.02
Bit Grinding	300	.01
Sub-Total	<u>\$ 6,600</u>	<u>\$.11</u>
POWER AND ELECTRICITY		
Power Transmission	\$ 300	\$.01
Trailing Cable	3,600	.06
Power - Electricity	5,880	.10
Sub-Total	<u>\$ 9,780</u>	<u>\$.17</u>
ROOF SUPPORT		
Roof Bolts	\$ 15,000	\$.26
Timbers	4,200	.07
Sub-Total	<u>\$ 19,200</u>	<u>\$.33</u>
OUTSIDE EXPENSES		
Outside Coal Handling	\$ 1,200	\$.02
Payloader	500	.01
Mine Machinery Rental	900	.02
Bldg. Repair and Maint.	500	.01
Sub-Total	<u>\$ 3,100</u>	<u>\$.05</u>
TOTAL SUPPLY COSTS:	\$ 81,150	\$ 1.38

EXHIBIT D
Page 3

	<u>Cost Per Month</u>	<u>Cost Per Ton</u>
TOTAL PRODUCTION COSTS:	\$ 226,780	\$ 3.86
<u>INDIRECT COSTS</u>		
ROYALTY	\$ 12,940	\$.22
MISC. OPERATING EXPENSES		
Engineering Supplies	\$ 60	\$.00
Insurance and Bonds	1,800	.03
Travel Expense	600	.01
Telephone & Telegraph	200	.00
Office Supplies	350	.01
Legal and Auditing	800	.01
Dues and Subscriptions	50	.00
Auto and Truck Expense	120	.00
Postage	50	.00
Professional Services	150	.00
Medical Examinations	90	.00
Miscellaneous Expense	150	.00
Contributions	20	.00
Sub-Total	<u>\$ 4,440</u>	<u>\$.07</u>
TAXES		
Property Tax	\$ 500	\$.01
Taxes and Licenses	100	.00
Sub-Total	<u>\$ 600</u>	<u>\$.01</u>
GENERAL & ADMINISTRATIVE - COAL DIVISION (TULSA)		
Salaries and Wages	\$ 1,600	\$.03
Materials and Supplies	50	.00
Automobile	20	.00
Travel, Meals, Etc.	250	.00
Telephone & Telegraph	20	.00
Memberships	20	.00
Other	100	.00
Legal	100	.00
Group Health Insurance	30	.00
Sub-Total	<u>\$ 2,190</u>	<u>\$.04</u>
DEPRECIATION AND AMORTIZATION	<u>\$ 19,160</u>	<u>\$.33</u>
TOTAL INDIRECT COSTS:	<u><u>\$ 39,330</u></u>	<u><u>\$.67</u></u>

EXHIBIT D
Page 4

	<u>Cost Per Month</u>	<u>Cost Per Ton</u>
TOTAL OPERATING COSTS	\$ 266,110	\$ 4.53
MANAGEMENT FEE	<u>\$ 66,440</u>	<u>\$ 1.13</u>
TOTAL F. O. B. MINE -- BIG RIVERS COSTS:	\$ 332,810	\$ 5.66
SEVERANCE TAX	<u>\$ 17,640</u>	<u>\$.30</u>
TOTAL F. O. B. GOLDSBERRY MINE- BIG RIVERS PRICE:	\$ 350,450	\$ 5.96

EXHIBIT F

MANAGEMENT FEE

Fixed Portion Based on 10% Return on
Capital Expenditures Estimated at \$3,054,000
(\$305,400 per year)

<u>Tons Per Unit Shift</u>	<u>Management Fee Per Ton</u>		
	<u>Total</u>	<u>Variable</u>	<u>Fixed</u>
922 or more	\$ 1.30	\$.96	\$.34
904	1.28	.93	.35
885	1.27	.92	.35
867	1.25	.89	.36
848	1.24	.87	.37
830	1.22	.84	.38
811	1.21	.82	.39
793	1.19	.80	.39
775	1.18	.78	.40
756	1.16	.75	.41
738	1.15	.73	.42
719	1.13	.69	.44
701	1.12	.67	.45
682	1.10	.64	.46
664	1.09	.62	.47
645	1.07	.59	.48
627	1.06	.56	.50
609	1.04	.53	.51
590	1.03	.50	.53
572	1.01	.46	.55
553	1.00	.43	.57
535	.98	.39	.59
516	.97	.36	.61
498	.95	.32	.63
480	.94	.29	.65
461 or less	.92	.24	.68

NOTE: The fixed portion of the management fee will vary depending on the final total of capital expenditure required using a 10% return. The total management fee will remain constant regardless of the capital expenditure required.

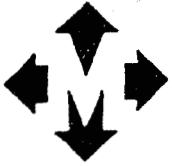
MAPCO LETTER RE:
ACCRUAL FOR RETIKI MINE CLOSURE COSTS

009312

BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO
FOCUSED MANAGEMENT AUDIT OF FUELS PROCUREMENT
INITIAL DATA REQUEST

Item 178) Provide describe the "back end" (mine closing) costs that may be incurred under the Retiki contract. Provide an estimate of the costs. Also provide a copy of any documents that discuss the costs.

Response) Attached is a letter of September 8, 1992 from MAPCO, giving MAPCO's estimate of the mine closing costs. The only other documents which discuss the costs are being furnished under Item 110, subject to non-disclosure agreement.



MAPCO COAL INC.

Robert G. Sachse
VICE PRESIDENT
MARKETING
919 592-7267

Mr. Joe L. Craig
Vice General Manager of Fuels
Big Rivers Rural Electric Cooperative, Corp.
201 Third Street
P.O. Box 24
Henderson, KY 42420

September 8, 1992

RE: ACCRUAL FOR RETIKI MINE CLOSURE COSTS

Dear Joe:

As you are aware, under the provisions of Section 3.02 of the Big Rivers/Retiki Coal Sales ("Agreement"), the term of the Agreement has a scheduled termination date of January 13, 1996, being twenty-three and one-half years from July 14, 1972.

As provided under Section 3.04, upon termination of the Agreement, MAPCO Coal has the option of either 1) closing the Retiki Mine and selling all assets, with any value over net book value paid to Big Rivers or 2) continuing operation of the Retiki Mine and employing an independent appraiser to appraise all assets, with MAPCO paying Big Rivers the appraised value in excess of net book value of the assets.

With the Big Rivers' Green Plant being the only logical market for the Retiki Mine quality coal, and absent Big Rivers' agreement to extend the term of the Agreement, MAPCO intends to close the Retiki Mine immediately after the scheduled termination date of January 13, 1996.

As provided under Section 2.10 of the Agreement, Big Rivers pays all costs and expenses incurred in operating the Retiki Mine. In accordance with Section 2.16 of the Agreement, MAPCO shall

maintain its books and records of all matters relating to operation of the Agreement in accordance with generally accepted accounting principles ("GAAP"). Accordingly, in preparing for the scheduled termination of the Agreement and related closure of the Retiki Mine, accounting procedures must be established to accrue for certain costs associated with the production of coal sold to Big Rivers during the term of the Agreement, which costs will be incurred by MAPCO prior to and after the scheduled termination date. Since there are only three and one-half years remaining under the term of the Agreement, MAPCO is now in a position to reasonably estimate these costs, thereby providing a basis for accrual accounting.

Accrual accounting will be adopted for employee benefit costs relating to workers compensation claims (i.e., traumatic injury and black lung), long-term disability and medical claims. The estimated net present value of these costs is \$4.3 million dollars equating to a \$1.23 cost per ton, when pro rated over the 3.5 million tons anticipated to be produced and delivered during the contract years 1993-1995. A description of these costs and estimated net present value of these costs is set forth under the attached Exhibit A-1.

MAPCO is open to discuss any alternatives in funding the accrual in the most accurate and efficient method so as to ensure that Big Rivers is paying only the actual costs incurred. Depositing the monies in an interest bearing escrow account to be reviewed

000014

and adjusted annually by a mutually agreed to third party consultant or actuary is one idea to be considered.

Based upon our review of RDI information over the ten year period 1983-1992, Retiki has been the lowest cost supplier to the Green Plant when compared to the average cost of all other suppliers to the Green Plant. Retiki also has been by far the lowest cost supplier in providing approximately 25% of Big Rivers total system burn when compared to the weighted average cost of Big Rivers other plants.

Big Rivers is an extremely valued customer to MAPCO and we wish to continue our business relationship. In this regard, we believe it will be in both MAPCO's and Big River's mutual best interest to extend the Retiki Mine Agreement through the year 2000 to fully exhaust the existing mineable reserves. By extending the Agreement, Big Rivers will continue to receive reliable and consistent shipments of coal. In addition, the per ton cost of the accrual will be spread over a longer period of time and more tons.

MAPCO looks forward to further discussions regarding the above matters and on ways MAPCO may continue to supply a portion of Big Rivers fuel supply requirements.

Sincerely,



Robert G. Sachse

RGS/mb

CC: J. W. Craft
J. B. Gill
K. C. Eastwood

**BIG RIVERS ELECTRIC CORPORATION
PSC MANAGEMENT AUDIT
REQUEST FOR DOCUMENT**

CONSULTANT complete items 1 through 5. Forward to Tonda Lockett.

- 1. Request date: 3/1/93
- 2. Requestor: Initial Data Request
- 3. Document requested (refer to form name/number, if available):
See attached
- 4. Special instructions: _____
- 5. Date documents are due: _____

PROJECT COORDINATOR complete items 6 through 8

- 6. Date received: _____
- 7. Date forwarded to area coordinator: _____
- 8. Date due from area coordinator: _____

RESPONDENT complete items 9 through 14 after reading instructions.

- 9. Did this document exist prior to this request? Yes[] No[]
If no, reasonable delivery date (if other than that requested): _____
- 10. Status of request (check appropriate box):
 - Document sent as requested [x]
 - Document unavailable []
 - Incomplete (explain on back) []
- 11. Prepared by: Joe L. Craig
- 12. Date completed: 3/8/93
- 13. Reviewed and approved for release by:
 - I. _____ Date: _____
 - II. _____ Date: _____
 - III. _____ Date: _____
- 14. Comments: _____

EXHIBIT A-1
RETIKI MINE CLOSURE COSTS

EMPLOYEE BENEFITS ACCRUALS

DESCRIPTION	# OF CLAIMS	PRESENT VALUE OF CLAIMS
(In Thousands)		
Existing Major Traumatic Injury Awards Existing major traumatic injury awards with indemnification and/or medical payments that extend beyond the contract. Majority of liability attributable to one individual.	13	\$526
Existing Long Term Disability Awards Existing Long Term Disability awards under Webster County's Plan.	4	217
Projected Traumatic Injury Awards Actuarial projection of age-related degenerative disease/cumulative trauma claims.	33	1,200
Projected Black Lung Awards Actuarial projection of black lung awards.	25	1,592
Post Mine contributions to Kentucky Special Fund. Retiki's outstanding Workers' Compensation reserves will be included in the formula the State of Kentucky uses for calculating Workers' Compensation self insurance premiums.		<u>800</u>
TOTAL	<u>\$ 4,335</u>	

EXHIBIT A-2

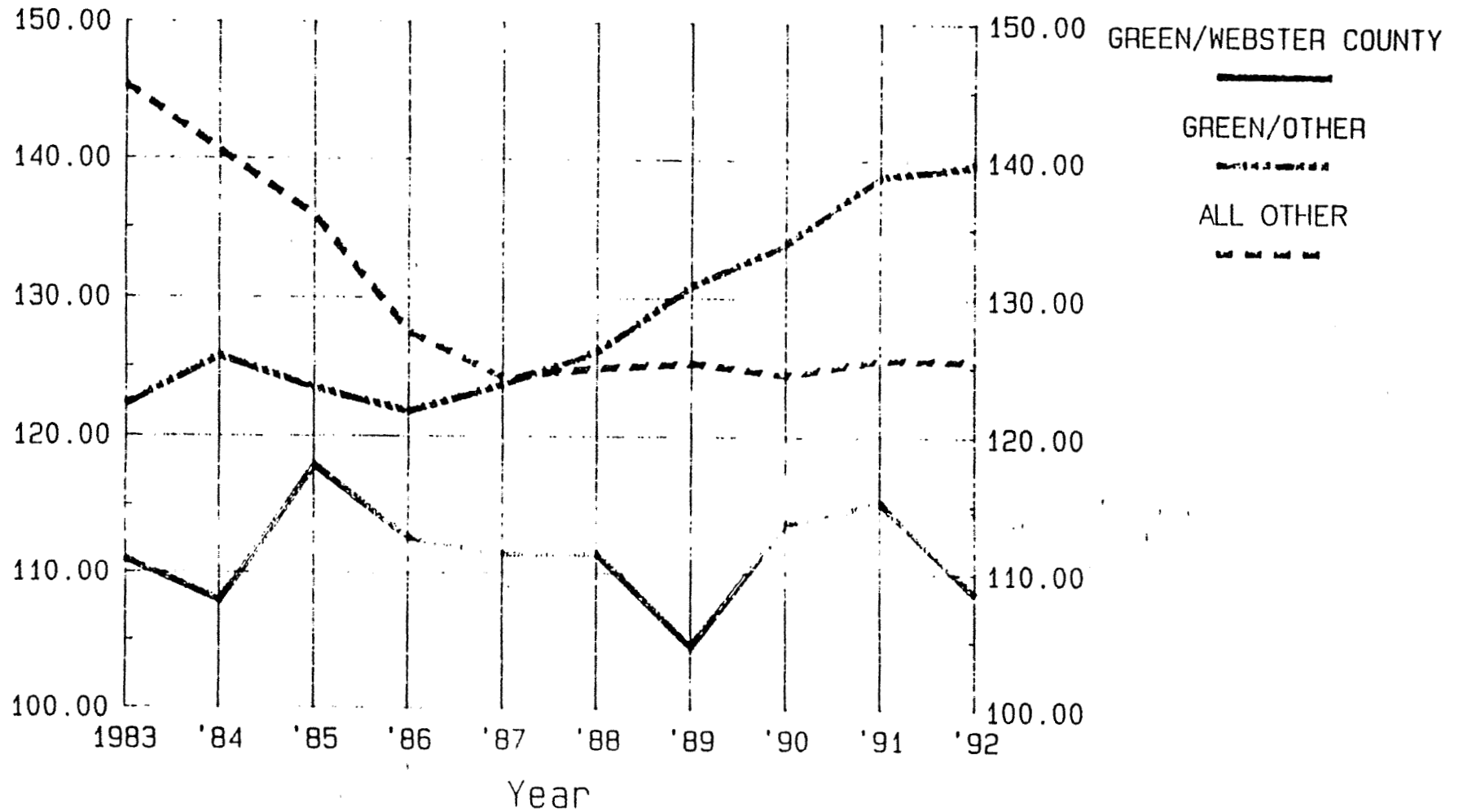
In addition to the benefit expenses described in Exhibit A-1, depreciation expense, pension expense and post-mine closure and reclamation expense are expected to increase during the remainder of the contract.

	(In 000's)
DEPRECIATION	\$ 1,600
At mine closure, the salvage value of Retiki's fixed assets is expected to be nominal. Using current depreciation lives, the remaining net book value of existing fixed assets at contract expiration will be approximately \$1,600,000. Webster County proposes to change the depreciation to straightline over the useful life of the assets or contract, whichever period is shorter.	
PENSION	\$ 1,425
On a stand-alone basis, the plan assets held in the MAPCO Inc. Pension Plan attributable to contributions made by Big Rivers approximates the projected benefit obligation attributable to Retiki employees. Since 1986, Retiki's expenses have been reduced by a pro-rata allocation of the net pension credit attributable to the overfunded status of the MAPCO Coal portion of the MAPCO Inc. Pension Plan. Annual expense reductions have ranged between \$455,000 and \$515,000. The total pension credit through June 30, 1992 was \$3,034,000. Although the net pension expense (credit) for the remainder of the contract cannot be determined at this time, it is probable that there will be a net cost rather than the net credit that has been allocated to Retiki since 1986.	
POST MINE CLOSURE AND RECLAMATION	\$ 300
Certain expenses will be incurred in reclaiming underground equipment and the surface site. The majority of these expenses will be incurred after production ceases.	
TOTAL	\$ 3,325

009327

Big River Competitive Fuel Cost Analysis 1983-1992

Cents/MMBTU



NOTE: ALL OTHER = COLEMAN, REID/HENDERSON,
WILSON, & HENDERSON

**KPMG PEAT MARWICK
AGREED UPON PROCEDURES REPORT
RETIKI MINE COSTS**

**BIG RIVERS ELECTRIC CORPORATION -
MAPCO COAL, INC.**

**Amended Coal Sale Agreement
Dated July 14, 1972**

Agreed-Upon Procedures Report

December 31, 1991

KPMG Peat Marwick

Certified Public Accountants

The Fifth Avenue Building
444 South Fifth Street
Louisville, KY 40202

Big Rivers Electric Corporation
P. O. Box 24
Henderson, Kentucky 42420

MAPCO Coal, Inc.
P. O. Box 21628
Tulsa, Oklahoma 74121-1628

Dear Sirs:

We have applied certain agreed-upon procedures, as discussed below, to the accounting records of MAPCO Coal, Inc. (MAPCO) for the year ended December 31, 1991, solely to assist you with your evaluation of the coal pricing provisions of the Amended Coal Sale Agreement (Agreement) between Big Rivers Electric Corporation (Big Rivers) and Webster County Coal Corporation dated July 14, 1972. It is understood that this report is solely for your information and is not to be referred to or distributed for any other purpose to anyone who is not a member of management of Big Rivers, Webster County Coal Corporation or MAPCO. Our procedures and findings are presented by component, as delineated in the Agreement.

General

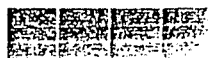
- We obtained and reviewed the Agreement including all amendments.

Production Tonnage

Section 2.03 of the Agreement states that Big Rivers is to take substantially all coal produced at the Retiki Mine. At a minimum, Big Rivers is to purchase 850,000 tons during the contract year.

Procedures

- We obtained monthly summaries of tons produced and sold for the contract year.
- We agreed the tons sold per the monthly summaries to tons received per Big Rivers' monthly invoice details and verified tons received were greater than 850,000 as stated in the contract.
- We agreed 24 daily truck tickets from Retiki to tons received per the Big Rivers' monthly invoice details for the respective day.
- We inquired of MAPCO personnel whether any coal stockpiled for Big Rivers' exceeded 40,000 tons during the year, as per section 2.05 of the Agreement.
- We reviewed the lab analyses of coal shipments for each month and compared the ash content of the coal to the 18% specification as outlined by the Agreement.



Member Firm of

BIG RIVERS ELECTRIC CORPORATION -
MAPCO COAL, INC.

Findings

In both January and February, the ash content of the coal exceeded 18.5%. We recalculated the refund submitted to Big Rivers without exception. March, May, July and August coal shipments all exceeded the 18% maximum ash content per the contract, however, no penalty was assessed to MAPCO. Per discussions with Big Rivers and MAPCO personnel, the penalty is not assessed unless the ash content exceeds the maximum by at least 1/2%. The noted months did not exceed 18.5% ash content.

Billings

Per section 2.09 of the Agreement, Big Rivers is billed on a monthly basis. Each invoice contains a preliminary estimate of the current month's charges and a final adjusted billing from the previous month.

Procedures

- We obtained a summary of 1991 billings to Big Rivers and verified its mathematical accuracy.
- We compared the summary to the invoices sent to Big Rivers and reconciled the schedule to the Retiki Mine general ledger.
- We verified the mathematical accuracy of each invoice.
- We agreed charges to amounts tested in the remaining areas.
- We confirmed the summary with Big Rivers.

Findings

No exceptions were noted in this area based on the procedures performed.

General and Administrative Costs of MAPCO, Tulsa Coal Division

Per Section 2.01 of the Agreement, the general and administrative costs of MAPCO's Coal Division in Tulsa, Oklahoma are prorated to the Retiki Mine based on production as compared to MAPCO's entire coal production, but not to exceed 1.5% of the total wages and benefits of the Retiki Mine employees.

Procedures

- We obtained a schedule of the general and administrative costs of the Tulsa Coal Division and analyzed it for reasonableness including comparison to prior year.
- We recalculated the allocation of expenses to Retiki as performed by MAPCO.
- We compared the amount allocated to Big Rivers to the 1.5% limitation as prescribed by the Agreement.

Findings

No exceptions were noted in this area based on the procedures performed.

BIG RIVERS ELECTRIC CORPORATION -
MAPCO COAL, INC.

Purchase Price of Coal

The purchase price of coal is the mine operating costs as calculated in accordance with Exhibit D of the Agreement plus a management fee as stated in Section 2.09 of the Agreement.

Labor

Procedures

- A random sample of 48 employees was selected from payroll journals throughout the year. Job codes were traced to employee files. Hours worked were traced to foreman's daily timesheets. Gross pay was recalculated and applicable wage rates were agreed to a management approved rate table. Net pay was traced to copies of canceled checks.
- A random sample of 10 pay periods was selected. The payroll registers were footed for mathematical accuracy. The amounts for each payroll register tested were traced to the appropriate general ledger journal entries. The journal entries were then traced to the general ledger.
- We reviewed wages, benefits and other payroll related items for reasonableness.

Findings

Based on our review of benefits and other payroll expense, we noted a substantial increase in the workers' compensation expense allocated to the Retiki Mine. Based on our discussions with MAPCO personnel, the majority of the increase resulted from a change in MAPCO's allocation of the state workers' compensation premium. This premium is charged to MAPCO by the state based upon past claims experience and total payroll costs for all MAPCO mines in Kentucky. In prior years, MAPCO allocated the premium to BREC based upon a prorata share of payroll expense. In 1991, the allocation to BREC was changed and is now based upon actual past claims experience for Retiki. Retiki has experienced higher claims than other MAPCO mines. KPMG tested the methodology of the new allocation without exception.

We also noted expenses of approximately \$60,000 relating to an injury which occurred during 1977. Per MAPCO, these charges were erroneously charged to Dotiki in previous periods.

Black Lung Excise Taxes

The Black Lung Excise Tax is a flat tax charged by the Federal government at 4.4% of the sales price for underground mines, prior to inclusion of the tax, to a maximum of \$1.10 per ton.

Procedures

- We obtained the 1991 quarterly Federal Excise Tax Returns for Webster County Coal, including a breakdown of Retiki's portion.
- We agreed the amount passed through to Big Rivers to Retiki's portion of tax paid.
- We recalculated the tax in accordance with the applicable tax law.
- We traced payments for Webster County Coal to validated tax deposits.

BIG RIVERS ELECTRIC CORPORATION -
MAPCO COAL, INC.

Findings

As was noted in the prior year, MAPCO was calculating the Black Lung Tax on the sales price, including the Black Lung Tax. This resulted in an overstatement of tax and tax allocated to Big Rivers of \$184,667 for the years 1987 - 1991. These amounts were refunded to Big Rivers in December 1991 as a deduction to December's bill. KPMG recalculated the refund and found it to be reasonable.

Federal Reclamation Fee

The Federal Reclamation Fee is a 15¢ per ton charge on coal sold, less a credit for moisture in excess of inherent moisture present in the coal. The fee is payable quarterly to the Department of the Interior, Office of Surface Mining (OSM).

Procedures

- We obtained the 1991 quarterly Federal Reclamation Fee Reports and recalculated the tax.
- We combined the tax per reports for Retiki together with Dotiki amounts and agreed total to wire transfer confirmations.
- We compared the tax paid to the Retiki Mine general ledger.

Findings

As was noted in the prior year, MAPCO has been taking the appropriate credit for excess moisture content of its coal sold to Big Rivers. However, MAPCO was not passing this credit on to Big Rivers. In December 1991, MAPCO refunded the excess moisture credits to Big Rivers for the periods from 1988 - 1991. The refunds amounted to \$7,938. KPMG recalculated the refund and found it to be reasonable.

Property and Franchise Taxes

Property taxes represent the taxes paid on the January 1, 1991 assessment of personal and tangible real property at the Retiki Mine. The franchise tax is a flat rate tax of .0021¢ per dollar of long-term debt and capital of Retiki Mine.

BIG RIVERS ELECTRIC CORPORATION -
MAPCO COAL, INC.

Procedures

- We obtained the 1991 property tax assessment and traced the payment to the canceled check.
- We vouched the 1991 franchise tax payment for Webster County Coal to the canceled check.
- We reviewed out-of-period adjustments for reasonableness.
- We agreed the amounts to the general ledger.

Findings

No exceptions were noted in this area based on the procedures performed.

Kentucky Severance Taxes

The state of Kentucky levies a 4.5% tax on severed coal. The tax is calculated by taking the sales price, including the tax, times the tax rate. The tax is paid monthly.

Procedures

- We obtained the 1991 Kentucky Severance tax returns for Webster County Coal and schedules detailing Retiki's portion.
- We recalculated Retiki's portion of the severance tax.
- We compared the tax paid by MAPCO to the amount passed through to Big Rivers.
- We reviewed out-of-period adjustments for reasonableness.

Findings

No exceptions were noted in this area based on the procedures performed.

Royalties

MAPCO pays various royalties on certain lease agreements with land owners. The leases are based on tonnage produced at Retiki and are paid monthly.

Procedures

- We obtained the monthly royalty calculation worksheets for each lease and recalculated the lease payment.
- We agreed terms per the calculation worksheet to terms per the actual lease agreement.

BIG RIVERS ELECTRIC CORPORATION -
MAPCO COAL, INC.

- We agreed the monthly lease royalties to canceled checks on a test basis.
- We compared the amounts per the lease calculation worksheets to the amounts passed through to Big Rivers per the general ledger.

Findings

No exceptions were noted based on the procedures performed.

Remaining Mine Expenses

The remaining mine expenses represent general mine expenses, depreciation, maintenance, general and administrative expenses and reclamation.

Procedures

- The remaining mine expenses were summarized and agreed to the general ledger.
- A random sample of 65 disbursements was selected from throughout the year. Each disbursement was agreed to the original invoice or journal entry, noting it was properly approved and the expense was for a reasonable mining activity.
- We analyzed expenses for reasonableness including comparison of amounts to prior year balances. We verified travel expenses per the general ledger did not exceed the \$10,000 limit stated in Section 2.10 of the Agreement.

Findings

During our review of general mine expenses, we noted a significant increase in the amount of legal expenses incurred in 1991. Based on our discussions with MAPCO personnel, MAPCO is being sued by a former land owner over certain royalty payments from the mid-1970's. The lease agreement between the lease owner and MAPCO provided for a royalty based on a percentage of the sales price of the coal. MAPCO was paying the royalty based on the sales price less severance taxes, as is MAPCO's standard practice. As the lease was written prior to enactment of legislation requiring payment of severance taxes, the lease had no mention of their deduction from the sales price.

MAPCO is fighting the claim vigorously, as many of their older leases have this same arrangement. The legal fees associated with defending against this claim have exceeded \$100,000. Per MAPCO, this exceeds the amount of liability MAPCO would have if the lease holder is successful. These costs have been billed to Big Rivers.

BIG RIVERS ELECTRIC CORPORATION -
MAPCO COAL, INC.

Depreciation

Assets at the Retiki Mine are depreciated for book and contract purposes using the straight-line method over the estimated useful lives of the assets or the units of production method.

Procedures

- We obtained the Retiki Mine depreciation report for 1991 and tested its mathematical accuracy.
- A random sample of 40 assets was selected. For each asset selected, we recalculated the depreciation for 1991 and reviewed the asset life for reasonableness.
- Total depreciation expense per the report was agreed to the general ledger.

Findings

Depreciation expense for 1991 increased approximately \$109,000 over 1990. The majority of this increase results from an adjustment to depreciation of property considered to be "mine-life". Mine-life property is that property which is to be depreciated over the life of the mine. In 1991, MAPCO adjusted the life of the mine to end on January 15, 1996, the date the contract with Big Rivers expires. This adjustment caused an increase to depreciation expense for 1991 of \$318,720. MAPCO states the reason for this adjustment is that the equipment at Retiki will have little or no value as the conventional mining method employed at the mine is outdated and a buyer for the equipment is unlikely. If this approach is used until the end of the contract, it will result in additional billings to Big Rivers over the remaining life of the contract of approximately \$387,000 per year.

This increase was offset by a decrease of \$200,000 due to fewer tons being mined from the P&M reserves, thus reducing the amortization of these reserves.

Units of Production (UOP) depreciation was also increased based upon a reduction in the reserve base and the inclusion of approximately \$40,000 of depreciation for land. The remaining \$125,000 for land will be depreciated over the next four years. UOP depreciation, for those assets depreciated under this method, was miscalculated by MAPCO. The error was a result of an incorrect amount used in the calculation of the UOP rate and results in an overpayment by Big Rivers of \$8,475.

BIG RIVERS ELECTRIC CORPORATION -
MAPCO COAL, INC.

Management Fee

Per Section 2.09 of the Agreement, there are two parts to the management fee - a fixed portion and a variable portion. The fixed portion covers a 10% return on capital. The variable portion is calculated based on tons produced per unit shift and adjusted annually based on the Industrial Commodities Index.

Procedures

- We obtained a rollforward of capital for the Retiki Mine. The rollforward shows total capital as of January 1, 1990 plus any additions less retirements and fully depreciated assets for the year and the balance as of January 1, 1991. The January 1, 1990 balance was traced to prior year workpapers. We tested the mathematical accuracy of the rollforward.
- A sample of 9 additions, representing 90% of the total value, was traced to supporting documentation. The schedule of additions was tested for mathematical accuracy and agreed to the rollforward.
- All retirements of capital assets were traced to supporting documentation. The schedule of retirements was tested for mathematical accuracy and agreed to the rollforward.
- All fully depreciated assets listed on the 12-31-90 property listing were recalculated to determine propriety.
- Each quarter, the fixed portion of the management fee is adjusted to equal a 10% return on capital. We verified the mathematical accuracy of the quarterly adjustments.
- We obtained the December 1990 Industrial Commodities Index and recalculated the variable portion of the management fee as computed by MAPCO without exception.
- We tested the management fee rate table by checking that the proper variable and fixed portions were summed together.
- We tested the base amounts for the fixed and variable portions of the management fee by agreeing them to Exhibit F of the Agreement.
- Each month's management fee was recomputed by multiplying tons produced to the proper management fee rate.

Findings

No exceptions were noted based on the procedures performed.

BIG RIVERS ELECTRIC CORPORATION -
MAPCO COAL, INC.

Insurance

As stated in Section 2.15, MAPCO is to obtain and maintain Workmen's Compensation Insurance, Employer's Liability Insurance, Comprehensive General Liability and Comprehensive Automobile Liability Insurance.

Procedures

- We obtained proof of insurance certificates from MAPCO's insurance agency.
- We reviewed the certificates of insurance for coverage limits which met or exceeded the stated requirements of the Agreement.

Findings

No exceptions were noted in this area based on the procedures performed.

Scale Certifications

Section 2.13 of the Agreement requires the load out scales to be certified at regular intervals. The scales must be correct within 2% or an adjustment is necessary.

Procedures

- We obtained nine scales certifications from 1991 and reviewed the accuracy of the scales. We noted that the scales were certified to be accurate within the tolerable precision limit.

Findings

No exceptions were noted in this area based on the procedures performed.

Third Party Sales

If MAPCO sells coal to a third party as Big Rivers agent, at a price per ton in excess of the price defined by Section 2.09 of the Agreement, MAPCO shall receive a 25% commission on the price differential in accordance with Section 2.18 of the Agreement.

Procedures

- We reviewed billings, production records and the general ledger for third party sales.

Findings

No third party sales were noted in 1991.

BIG RIVERS ELECTRIC CORPORATION -
MAPCO COAL, INC.

Pollution Claims

Section 2.10 of the Agreement states that Big Rivers is liable for one-half of any valid pollution claims relating to subsidence and water pollution not to exceed one cent per ton of coal mined.

Procedures

- We reviewed the billings for any costs relating to pollution claims.

Findings

No billings were noted in 1991.

* * * * *

Because the above procedures do not constitute an audit made in accordance with generally accepted auditing standards, we express no opinion on any of the specified accounts or items referred to above. Had we performed additional procedures or had we performed an audit of the financial statements of MAPCO Coal, Inc. in accordance with generally accepted auditing standards, matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above and does not extend to any financial statements of MAPCO Coal, Inc. taken as a whole.

September 30, 1992

KPM G Peat Marwick

KENNEDY AND ASSOCIATES, INC.

PRINCIPALS
STEPHEN J. BARON
RANDALL J. FALKENBERG
LANE KOLLEN

SUITE 475
35 GLENLAKE PARKWAY
ATLANTA, GEORGIA 30328
(404) 395-1288
TELECOPIER: (404) 396-0151

October 7, 1993

Mr. Don Mills
Executive Director
Commonwealth of Kentucky
Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

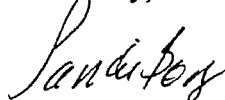
Re: *In the Matter of: An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 1991 to April 30, 1992 Case Nos. 92-490, 92-490-A, and 90-360-C*

Dear Mr. Mills:

Enclosed is the original and ten (10) copies of the direct testimony of Randall Falkenberg, Lane Kollen, and Russell Klepper in the above-referenced case revised pursuant to Commission Order dated October 1, 1993.

Copies have been served to all parties on the attached service list.

Sincerely,



Sandi Borg
Office Administrator

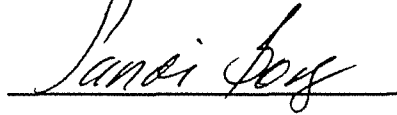
/sb

cc: Service List
Michael Kurtz, Esquire

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION
CASE NOS. 92-490, 92-490-A, and 90-360-C

SERVICE LIST

I certify that copies were served upon the parties listed upon the official service list in accordance with the rules of the Commission.



Via Federal Express

C. Kent Hatfield, Esquire
Middleton & Reutlinger
2500 Brown & Williamson Tower
Louisville, Kentucky 40202

Ridley M. Sandidge, Jr.
Holbrook, Wible, Sullivan
& Mountjoy, P.S.C.
100 St. Ann Street
Owensboro, Kentucky 42302

Mr. Howard E. Lubrow
Overland Consulting, Inc.
400 West 47th Street
Suite 810
Kansas City, Missouri 64112

Paul E. Reilender, Jr., Esquire
Assistant Attorney General
Utility and Rate Intervention Division
209 St. Clair Street
Frankfort, Kentucky 40601

Mr. P.A. Schmitz
Big Rivers Electric Corporation
201 3rd Street
Henderson, Kentucky 42420

Via First Class Mail

Gene Buchheit, Esquire
Kentucky Association of
Electric Coop
P.O. Box 32170
Louisville, Kentucky 40232