

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
Bryan R. Reynolds
Tyson A. Kamuf
Mark W. Starnes
C. Ellsworth Mountjoy
Susan Montalvo-Gesser

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MAR 20 2008

PUBLIC SERVICE
COMMISSION

March 19, 2008

Via Federal Express

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

Re: In the Matter of: An Investigation of the Energy and
Regulatory Issues in Section 50 of Kentucky's 2007
Energy Act, Administrative Case No. 2007-00477

Dear Ms. Stumbo:

Enclosed are an original and ten copies of the response of Big Rivers Electric Corporation to the Commission Staff's first data requests. I certify that a copy of the response has been served upon the persons shown on the attached service list.

Sincerely,



Tyson Kamuf

TAK/ej
Enclosures

cc: 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
ADMINISTRATIVE CASE NO. 2007-00477

Ronnie Thomas
East Kentucky Power Cooperative
4775 Lexington Road
P.O. Box 707
Winchester, KY 40232-0707

Charles A. Lile
Senior Corporate Counsel
4775 Lexington Road
P.O. Box 707
Winchester, Kentucky 40392-0707
Counsel for East Kentucky Power
Cooperative, Inc.

Lonnie E. Bellar
Vice President, State Regulation and Rates
E.ON U.S. Services, Inc.
220 West Main Street
Louisville, Kentucky 40202

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

Patty Walker
Duke Energy Kentucky, Inc.
139 East Fourth Street, EX 400
Cincinnati, OH 45202

John J. Finnigan
Senior Counsel
130 East Fourth Street, Room 25 at II
P.O. Box 960
Cincinnati, Ohio 45201-0960
Counsel for Duke Energy Kentucky, Inc.

Kendrick R. Riggs
Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202-2828

Allyson K. Sturgeon
Senior Corporate Attorney
E.ON U.S. LLC
220 West Main Street
Louisville, Kentucky 40202
Counsel for Kentucky Utilities Company
and Louisville Gas and Electric Company

Dennis Howard, II
Lawrence D. Cook
Paul D. Adams
Assistant Attorneys General
Utility & Rate Intervention Division
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202
Counsel for Kentucky Industrial
Utility Customers, Inc.

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

Lisa Kilkelly
Legal Aid Society, Inc.
416 West Muhammad Ali Blvd., Suite 300
Louisville, Kentucky 40202
Counsel for POWER and ACM

John M. Dosker
General Counsel
Stand Energy Corporation
1077 Celestial Street, Suite 110
Cincinnati, Ohio 45202-1629

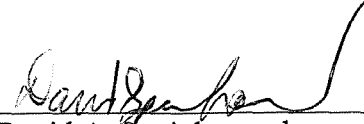
Joe F. Childers
Getty & Childers, PLLC
1900 Lexington Financial Center
250 West Main Street
Lexington, Kentucky 40507

Stephen A. Sanders, Esq.
Appalachian Citizens Law Center, Inc.
52 Broadway, Ste B
Whitesburg, KY 41858

Howard Lubow, President
Overland Consulting
10801 Mastin Building 84, Suite 420
Overland Park, Kansas 66210

VERIFICATION

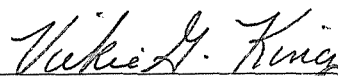
I verify, state, and affirm that the foregoing responses for which I am listed as a witness are true and correct to the best of my knowledge and belief formed after a reasonable inquiry.



David A. Spainhoward

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)


SUBSCRIBED AND SWORN TO before me by David A. Spainhoward on this the 18th day of March, 2008.



Notary Public, Ky. State at Large
My Commission Expires 03/03/2010


VERIFICATION

I verify, state, and affirm that the foregoing responses for which I am listed as a witness are true and correct to the best of my knowledge and belief formed after a reasonable inquiry.


C. William Blackburn

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by C. William Blackburn on this the 18th
day of March, 2008.


Notary Public, Ky. State at Large
My Commission Expires 03/03/2010

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Item 1) Refer to the Joint Testimony of Lonnie E. Bellar (“Bellar Testimony”), page 5, which discusses the potential for renewable resource power purchases to result in a net reduction in the amount of new generation utilities propose to build. There are a number of bills pending in the U.S. Congress that may impact the construction of new generation facilities in the future, primarily those bills that would result in federal regulation of the amount of Carbon Dioxide (“CO₂”) produced by utilities in the generation of electricity.

a. Explain whether each of the Generating Utilities anticipates some form of federal CO₂ regulation to be enacted in the near future. Identify which of the pending bills each of the Generating Utilities favor and which of the pending bills, if any, each believes will become law.

b. Explain whether each of the Generating Utilities is currently incorporating the uncertainty and/or potential for CO₂ regulation into its respective Integrated Resource Plan demand-side and supply-side planning processes and how this may be affecting the timeline for future construction of new generation.

c. Using the Generating Utilities’ own estimates of the cost of CO₂ removal, describe the potential changes in the type of new or expanded demand-side management (“DSM”) programs that each believes may become cost effective in Kentucky and the potential energy and demand savings each program is estimated to produce.

d. Using each of the Generating Utilities’ own estimates of the cost of CO₂ removal, identify the potential changes in the relative cost effectiveness of renewable generation, distributed generation and cogeneration in Kentucky.

e. Explain whether each of the Generating Utilities is aware of anything that presently would prevent each of them from developing additional generation capacity from renewable sources, distributed generation sources or cogeneration sources in Kentucky either as sole owner or with an equity stake in these types of projects.

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Response) a. It is widely anticipated that the federal government will begin to regulate CO₂ and other greenhouse gases in the next several years. It is possible that reductions could be required under regulations developed by the EPA or legislation passed by Congress.

In terms of potential legislation, rural electric cooperatives have not at this point endorsed any specific legislation, but have laid out a series of principles against which all legislation will be judged. Additionally, as the U.S. Senate prepares to consider the "Lieberman-Warner bill" (S. 2191), cooperatives have expressed significant concerns about many of the elements of that legislation. A two page summary of electric cooperatives' concerns is attached.

The electric cooperative principles are as follows:

- Any plan should cover emissions from all sectors of the economy, not simply electricity generation, and should include provisions to ensure that other nations, including both developed and developing, are enacting policies to address this issue within their own borders. Such provisions should ensure a level playing field with respect to carbon costs or taxes for international trade and not result in disadvantages for US manufacturers or businesses.
- Any plan should recognize the need to construct new generation to preserve electric reliability, replace aging generation plants and to meet increasing demand. Cooperatives are committed to take steps to implement cost-effective energy efficiency and to look at reasonable alternatives. Even so, new generation will be needed to meet load growth reliably.
- Any climate change proposal should maintain fuel diversity, allowing a variety of fuel sources to meet the energy and economic needs of the country. Provisions to encourage new nuclear generation should eliminate any barriers to cooperatives participating in new projects with non-cooperative partners and should grant cooperatives a right to participate in new nuclear projects.
- Any proposal should include provisions, such as an economic safety-valve, to protect the US economy from significant negative impacts. Additionally,

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4 Congress should work to protect both urban and rural consumers from any
5 significant negative economic impacts from climate change legislation.

- 6 • Any plan should recognize that in the short term, terrestrial sequestration,
7 conservation, and energy efficiency appear to be among the most cost-effective
8 methods of mitigating greenhouse gas emissions at this time. Additionally, it
9 should be recognized that sequestration can provide benefits to rural areas and
10 agricultural- and forestry-based economies.
- 11 • Any plan should recognize that in the long term, new technologies including the
12 capture and sequestration of carbon dioxide from power plants will be critical to
13 addressing this issue, but cost-effective, commercially-available technologies are
14 still in development and are years or decades away from large-scale commercial
15 applications. Every effort must be made, and appropriate funding provided, to
16 accelerate the research, development, demonstration, and commercialization of
17 these technologies.
- 18 • Any plan should encourage cost-effective reductions and should provide
19 incentives available to all segments of the utility industry including cooperatives
20 to develop and deploy advanced electric generation, transmission, and distribution
21 technologies.
- 22 • Any plan should recognize that climate change policy and energy policy are
23 inextricably linked, and that climate change policies can have a significant impact
24 on our nation's economic and energy security.
- 25 • Any plan should remove regulatory and other impediments to increasing the
26 efficiency of existing generating units.

27 At this point, it is too early to predict which legislation may become law. In the U.S.
28 Senate, legislation has been reported to the full Senate from the Environment and Public
29 Works Committee, but passing that legislation will require 60 votes to overcome an
30 expected filibuster and it is unclear whether the bill's supporters can muster those 60
31 votes. Additionally, the Chairman of the Committee, Sen. Barbara Boxer (D-CA) has
32 indicated that if any amendments are adopted that would "weaken" the bill she would
33 pull the bill from consideration and wait until 2009 to seek passage of similar legislation.

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3 In the House of Representatives, the leadership of the committee of jurisdiction (the
4 Energy and Commerce Committee) has not yet drafted legislation for the committee's
5 consideration before bringing any bill to the full House for its consideration.

6
7 Finally, President Bush has continued to indicate he would veto any mandatory cap-and-
8 trade legislation. Therefore, it appears that legislation will not be enacted in 2008, but
9 will more likely be seriously considered in 2009 after the new President and a new
10 Congress are sworn in to office.

11 b. Big Rivers is monitoring potential CO₂ legislation. Its Integrated
12 Resource Plan is being held in abeyance pending the outcome of its case before the
13 Public Service Commission seeking approval of its "Unwind Transaction". Big Rivers is
14 not planning construction of new generation at this time.

15 c. Please see Big Rivers' response to Item 1.a. above. It is unclear
16 when CO₂ legislation will become law or which direction (tax or cap and trade) such
17 legislation might take. Big Rivers has not yet begun determining what DSM programs,
18 renewable projects, distributed generation, or co-generation might be cost effective with
19 CO₂ regulation in the mix.

20 d. See response 1.c. above.

21 e. Big Rivers is not aware of anything that would generally prevent it
22 from developing generation capacity from renewable sources, distributed generation
23 sources or cogeneration sources in Kentucky with an equity stake or as a wholesale
24 provider for backup power. Big Rivers' system does not require additional capacity in
25 the near term.

26
27 **Witness)** C. William Blackburn
28 David A. Spainhoward
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Electric Co-ops Recommend Significant Changes to S. 2191 “America’s Climate Security Act of 2007”

Background

The debate over climate change has taken center-stage recently, with countless congressional hearings, state legislative activities, and major court decisions. On December 5, 2007, the Senate Committee on Environment and Public Works reported S. 2191, the “America’s Climate Security Act” to the full Senate. S. 2191 would establish a national cap-and-trade program to reduce greenhouse gas emissions in the U.S. While a cap-and-trade system can be effective if it is structured in a way that maximizes efficiency and minimizes the cost to consumers, S. 2191 does not meet those tests.

America’s 930 rural electric cooperatives have 2 major responsibilities as consumer-owned, not-for-profit utilities: Keeping the lights on and the rates affordable for our consumer-owners while complying with all of the nation’s energy and environmental laws. Co-ops are committed to meeting those challenges by putting the interests of our consumer-owners first.

Unfortunately, S. 2191 will make it harder for electric cooperatives to meet our obligations to our consumer-owners. Electric cooperatives will help Congress enact responsible climate change legislation, but legislation must be realistic, efficient, fair, and not overly burdensome on rural electric consumers. *Therefore, electric cooperatives urge that significant changes be made to S. 2191 to address the economic and technological realities facing cooperatives and the American consumer.*

Review of Legislation

S. 2191 includes a number of provisions that must be changed to ensure the program results in carbon emissions reductions without significant negative impacts to co-op consumers. Below are some of the major components of the bill that must be improved:

- **Timeline for Reductions** – The reduction requirements in S. 2191 are simply too much too fast, given the lack of affordable, commercially-available technologies to achieve reductions in the electric power sector. The Electric Power Research Institute (the world-class research organization focusing solely on how to improve the generation and distribution of electricity) has estimated that the soonest the electric power sector will have the technologies to return to 1990 emissions levels is approximately 2030, while S. 2191 sets a date of 2020 for achieving that level of reductions. The aggressive timelines in the bill will have a significant cost impact on consumers. Many estimate the legislation will cost the average household between \$1,000 and \$1,500 in 2015. The stringency of the cap is the most important determinant of the cost to consumers; therefore more realistic timelines are required to make S. 2191 a viable proposal.
- **Economic Safety Valve** – S. 2191 fails to include an effective economic safety valve to contain costs. NRECA strongly supports inclusion of an economic safety valve in

legislation that would establish a cap on allowance prices to protect consumers and investors against dramatic increases in costs and price volatility. Unfortunately the bill as drafted has a weak provision that is a cost-containment mechanism in name only. We urge the Senate to include an effective economic safety valve in the legislation.

- Allocations vs. Auctions – Under several analyses of S. 2191 and other cap-and-trade bills, the electric power sector is projected to account for a significant portion of emission reductions. Therefore, it is appropriate that electricity generators, including cooperatives, should receive an appropriate allocation of allowances to avoid rate shock to consumers. Some argue that utilities will reap so-called “windfall profits” if they receive free allowances. However, cooperatives, as not-for-profit consumer-owned entities, cannot reap “windfall profits” by definition because their rates to consumers are cost-based. Auctioning allowances to the highest bidder results in higher prices for cooperative consumers, while allocating allowances to co-ops avoids those higher costs to consumers because all benefits are passed directly to our consumer-owners. Sufficient allowances should be allocated to cooperatives to minimize cost increases to our member-consumers.
- Technology Development and Deployment – S. 2191 does not put enough emphasis on research and development of advanced technologies that will result in more cost-effective emissions reductions while effectively producing the electricity needed for the U.S. economy. EPRI identified 7 areas (energy efficiency, renewable energy, nuclear power, advanced clean coal, carbon capture and storage, plug-in hybrid electric vehicles, and distributed energy resources) where technological improvements can have a meaningful impact on future greenhouse gas emissions from the electricity sector, and cooperatives believe that provisions must be included in legislation to accelerate each of these areas. Importantly, funding for R&D is needed now, in 2008, and should not wait until new auction revenue is realized under S. 2191 or other legislation.
- Incentives – While the bill includes certain provisions to incentivize new technology and other activities to reduce greenhouse gas emissions, incentives should also be included to accelerate the adoption of low-carbon technologies such as a long-term extension of the highly successful Clean Renewable Energy Bond (CREB) provisions from the 2005 Energy Policy Act that provided co-ops with incentives to develop renewable energy supplies. Legislation needs to include a significant additional program providing incentives for low-carbon electricity technology deployment.

There are a number of other detailed issues that will need to be addressed during consideration of climate change legislation as bills move through the Congressional process. **NRECA looks forward to working with Members of Congress to craft climate change legislation that helps us keep the lights on, maintain affordable electricity and achieve significant greenhouse gas emission reductions.**

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Item 4) Refer to the Bellar Testimony, page 2, line 17 to page 4, line 7.

a. Mr. Bellar states that the Generating Utilities have an impressive array of successful energy efficiency and DSM strategies. Are there any programs that have not been implemented by every Generating Utility? If yes, describe each such program, identify the generating utility that has not adopted the program, and explain the reason why that utility has not adopted that program.

b. If not addressed in 4(a) above, identify the Generating Utilities with residential or commercial load control programs (for example, air-conditioners, water heaters, pool pumps). Explain why the Generating Utilities without such load control programs do not offer such direct load control.

Response) a. Big Rivers has provided a list of each of its energy efficiency related programs in this case. It is not completely aware of each and every program offered by the other Generating Utilities. However, it is aware for instance that the Investor Owned Utilities do not offer the Touchstone Energy Home program as Big Rivers' members do.

b. Big Rivers has no residential or commercial customers. Any such load control programs would have to be implemented by one or more of Big Rivers' members.

Witness) C. William Blackburn
David A. Spainhoward

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Item 5) Refer to the discussion of “full-cost accounting” included on pages 6 and 7 of the Bellar Testimony. Identify the specific externalities that the Generating Utilities incorporate in their planning processes.

Response) Big Rivers takes into account emissions of SO₂, NO_x, and CO₂. As shown in its last Integrated Resource Plan, Big Rivers and its members lower emissions of SO₂, NO_x, and CO₂ through the various energy efficiency programs in the residential, commercial, and industrial load class of customers served by the members.

Witness) C. William Blackburn

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Item 6) Although the Generating Utilities see no need to modify rate structures for achieving energy efficiency, what is the Generating Utilities' position regarding "revenue decoupling?"

Response) Big Rivers does not support revenue decoupling as a rate structure to achieve energy efficiency. In general, revenue decoupling distracts from its core business function of providing electricity to its members. Big Rivers believes that education is a much better way to promote energy efficiency.

Witness) C. William Blackburn

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Item 7) Refer to the Bellar Testimony on page 7, lines 15-17. Explain whether additional opportunities exist to encourage the future development of energy efficiency and DSM programs through rate structures and cost recovery. Include in the explanation a discussion of the position of the Generating Utilities on the use of inclining block rates as well as other rate design techniques to discourage usage.

Response) Big Rivers' DSM programs are designed around encouraging energy efficiency rather than discouraging use through rate design. Pursuing DSM/energy efficiency through rates is inherently more difficult and as such has less chance for ultimate success than other methods. Big Rivers has found many efficiency measures, such as educational programs, are cost effective. Big Rivers actively works with its members to assist them in taking advantage of the benefits of energy efficiency.

Witness) C. William Blackburn

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Item 8) Refer to the discussion on page 2, line 9, through page 3, line 16, of the Bellar Testimony filed on behalf of Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”). Mr. Bellar essentially supports annual reviews of utilities financial results to ensure that utility revenues remain consistent. What is the position of the Generating Utilities regarding such reviews?

Response) It is difficult for Big Rivers to determine from the testimony of Mr. Bellar the extent of work that would be necessary to determine the reasons for a change in its revenues. As examples, revenue variances for the rural customers of Big Rivers’ system can be weather related as well as the change in residential members on each distribution system. Industrial expansion or reduction directly impacts revenues.

Determining the revenue impacts resulting from energy efficiency measures may be extremely difficult. Before Big Rivers would encourage such a review by the Public Service Commission, it would need some assurance the expenses incurred are recoverable.

Witness) C. William Blackburn

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Item 9) Refer to the incentives set forth for energy efficiency on page 4, lines 4-19, of the Bellar Testimony filed on behalf of KU and LG&E. What is the position of the Generating Utilities regarding these incentives?

Response) The Generating Utilities' joint testimony referenced their position regarding energy efficiency incentives. See joint testimony, page 2, lines 8 thru 14.

Witness) David A. Spainhoward

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Item 10) Refer to the discussion of the proposed treatment of purchased power on page 5, lines 1-10, of the Bellar Testimony filed on behalf of KU and LG&E. What is the position of each of the Generating Utilities regarding the treatment proposed by Mr. Bellar?

Response) Big Rivers concurs with the testimony of Mr. Bellar.

Witness) C. William Blackburn

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Item 11) Refer to the Bellar Testimony on behalf of KU and LG&E. Mr. Bellar discusses the demand-side management statute, KRS 278.285 and notes the “plethora of cost-effective” programs; however, the majority of these programs have been developed for residential and small commercial customers. KRS 278.285(3) states, “The Commission shall allow individual industrial customers with energy intensive processes to implement cost-effective energy efficiency measures in lieu of measures approved as part of the utility’s demand-side management programs if the alternative measures are not subsidized by other customer classes.”

- a. Describe in detail the actions taken by each of the Generating Utilities to ensure that its industrial customers are in compliance with this condition.
- b. Have the Generating Utilities utilized any benchmark in terms of dollars spent or in terms of savings, dollars saved or energy saved, in order for industrial customers to qualify for the “opt-out” provision? Explain your response.

Response) a. Big Rivers is a generation and transmission cooperative (“G&T”), and it supplies wholesale electric power and energy to its three distribution member cooperatives. As a G&T, Big Rivers does not provide electric service to retail customers, and it has no industrial customers. Moreover, Big Rivers does not currently utilize the mechanism set forth in KRS 278.285(2) to recover the costs of demand-side management programs or to recover revenues lost by implementing those programs. As such, there are no costs for industrial customers to “opt out” of under KRS 278.285(3).

- b. See response 11.a. above.

Witness) David A. Spainhoward