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March 22, 2012

**Federal Express**

Jeff DeRouen  
Executive Director  
Public Service Commission  
211 Sower Boulevard, P.O. Box 615  
Frankfort, Kentucky 40602-0615

RECEIVED

MAR 22 2012

PUBLIC SERVICE  
COMMISSION

Re: *In the Matter of: Application of Big Rivers  
Electric Corporation for a General Adjustment in Rates,  
PSC Case No. 2011-00036*

Dear Mr. DeRouen:

Enclosed for filing on behalf of Big Rivers Electric Corporation ("Big Rivers") are an original and ten copies of Big Rivers' responses to (i) the Commission Staff's First Request for Information on Big Rivers Electric Corporation's Rehearing Request, and (ii) Kentucky Industrial Utility Customers, Inc.'s First Set of Data Requests on Rehearing to Big Rivers Electric Corporation ("KIUC Rehearing Data Requests"). The attachments to Big Rivers' responses to Items 1 and 8 of the KIUC Rehearing Data Requests are on a CD filed with the responses. Also enclosed is a motion for deviation from the requirement that Big Rivers file an original and ten copies of those attachments, along with two hard copies of each attachment. A copy of this letter, a copy of Big Rivers' responses to the Commission Staff's First Request for Information and the KIUC Rehearing Data Requests, and a copy of the motion for a deviation have been served on the attached service list.

Sincerely,



Tyson Kamuf

TAK/ej  
Enclosures

cc: Mark A. Hite  
Albert Yockey  
John Wolfram

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SERVICE LIST  
BIG RIVERS ELECTRIC CORPORATION  
PSC CASE NO. 2011-00036

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**ORIGINAL**



Your Touchstone Energy® Cooperative 

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

**In the Matter of:**

**APPLICATION OF BIG RIVERS            )  
ELECTRIC CORPORATION FOR        )  
A GENERAL ADJUSTMENT IN        )     Case No. 2011-00036  
RATES                                    )**

**Response to Commission Staff's  
Initial Rehearing Request for Information  
dated  
March 12, 2012**

**FILED:     March 22, 2012**

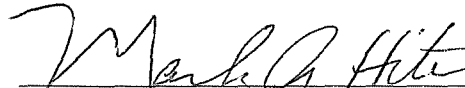
**ORIGINAL**

**BIG RIVERS ELECTRIC CORPORATION**

**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION  
FOR A GENERAL ADJUSTMENT IN RATES  
CASE NO. 2011-00036**

**VERIFICATION**

I, Mark A. Hite, verify, state, and affirm that I prepared or supervised the preparation of my rehearing data responses filed with this Verification, and that those rehearing data responses are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

  
Mark A. Hite

COMMONWEALTH OF KENTUCKY     )  
COUNTY OF HENDERSON         )

SUBSCRIBED AND SWORN TO before me by Mark A. Hite on this the 16 day of March, 2012.

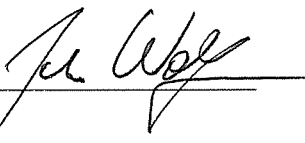
  
Notary Public, Ky. State at Large  
My Commission Expires 1-12-13

**BIG RIVERS ELECTRIC CORPORATION**

**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION  
FOR A GENERAL ADJUSTMENT IN RATES  
CASE NO. 2011-00036**


**VERIFICATION**

I, John Wolfram, verify, state, and affirm that I prepared or supervised the preparation of my rehearing data responses filed with this Verification, and that those rehearing data responses are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

  
\_\_\_\_\_  
John Wolfram

COMMONWEALTH OF KENTUCKY     )  
COUNTY OF OLDHAM             )

SUBSCRIBED AND SWORN TO before me by John Wolfram on this the 16 day of March, 2012.

  
Notary Public, Ky. State at Large  
My Commission Expires 4-25-2013

**CHRISTIE K. McCORMICK  
NOTARY PUBLIC  
STATE AT LARGE  
KENTUCKY  
MY COMMISSION EXPIRES APRIL 25, 2013**



**BIG RIVERS ELECTRIC CORPORATION**

**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION  
FOR A GENERAL ADJUSTMENT IN RATES  
CASE NO. 2011-00036**

**Response to Commission Staff's Initial  
Rehearing Request for Information  
dated March 12, 2012**

**March 22, 2012**

1 **Item 1)** *Refer to pages 5-6 of the Direct Testimony on Rehearing of*  
2 *Mark A. Hite (“Hite Rehearing Testimony”), wherein Mr. Hite addresses*  
3 *the issue of Big Rivers’ rate case expense. Refer also to Appendix B to the*  
4 *November 17, 2011 Order (“Rate Order”) in this proceeding and Big*  
5 *Rivers’ December 6, 2011 Petition for Rehearing (“Rehearing Petition”),*  
6 *page 3, line 11, through page 4, line 2.*

7 *a. The Hite Rehearing Testimony and the Rehearing Petition*  
8 *indicate that the Commission did not include rate case*  
9 *expense in the revenue increase granted Big Rivers in the*  
10 *Commission’s rate Order. Explain whether Big Rivers*  
11 *determined that recovery of its rate case expense was not*  
12 *allowed by: (1) the omission of rate case expense from the*  
13 *table of accepted adjustments in Appendix B to the*  
14 *Commission’s Rate Order; (2) the absence of discussion of*  
15 *rate case expense in the “Revenues and Expenses” section*  
16 *of the rate order; or (3) by some other means.*

17 *b. Explain whether Big Rivers has performed a*  
18 *reconciliation of the revised adjustments, the accepted*  
19 *adjustments, and the Commission’s calculation of the*  
20 *revenue increase Big Rivers was awarded in the Rate*  
21 *Order as a “check” of whether the Commission’s*  
22 *calculations were accurate.*

23  
24  
25

**BIG RIVERS ELECTRIC CORPORATION**

**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION  
FOR A GENERAL ADJUSTMENT IN RATES  
CASE NO. 2011-00036**

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1 **Response)**

- 2 a. Big Rivers determined that recovery of its rate case expense was  
3 not allowed: (1) by the omission of rate case expense from the  
4 table of accepted adjustments in Appendix B to the  
5 Commission's Rate Order; (2) by the absence of discussion of  
6 rate case expense in the "Revenues and Expenses" section of the  
7 Rate Order; and (3) by attempting to reconcile the revised  
8 adjustments and the accepted adjustments to the revenue  
9 increase Big Rivers was awarded.
- 10 b. Yes. After the Rate Order was issued, Big Rivers attempted to  
11 reconcile the revised adjustments and the accepted adjustments  
12 to the revenue increase Big Rivers was awarded. A copy of that  
13 reconciliation is attached hereto. As shown, Big Rivers was able  
14 to reconcile the revised adjustments and the accepted  
15 adjustments to within \$2,227 of the revenue increase it was  
16 awarded. This reconciliation effort did not include any term or  
17 value for the rate case expenses, and thus serves as a "check"  
18 that the Commission's calculation also did not include any  
19 adjustment for rate case expenses.

20  
21 **Witness)** Mark A. Hite

22



**Big Rivers Electric Corporation**  
**Rate Case Revenue Increase Reconciliation**  
**Case No. 2011-00036**

<b>Summary Reconciliation of Revenue Requirement Deficiency</b>		
Historical Period Margins	9,688,013	Increase Rev Req
Schedule 2.01 - New Industrial Customer	(92,165)	Decrease Rev Req
Schedule 2.02 - FAC	(2,225,346)	Decrease Rev Req
Schedule 2.03 - ES	(633,559)	Decrease Rev Req
Schedule 2.04 - Temperature Normalization	126,317	Increase Rev Req
Schedule 2.05 - NFPPA	427,156	Increase Rev Req
Schedule 2.06 - Depreciation Expenses	3,489,340	Increase Rev Req
Schedule 2.07 - Labor/Labor Overheads	450,215	Increase Rev Req
Schedule 2.08 - Interest Chgd to Const	0	Increase Rev Req
Schedule 2.09 - RRI Domtar Cogen Backup	(971,257)	Decrease Rev Req
Schedule 2.10 - Prod Non-Planned Outage N/L Fixed O&M	4,263,292	Increase Rev Req
Schedule 2.11 - Prod Planned Outage N/L Fixed O&M	2,726,966	Increase Rev Req
Schedule 2.12 - IT Support Services	292,194	Increase Rev Req
Schedule 2.13 - Rate Case Expenses	0	Increase Rev Req
Schedule 2.14 - MISO (Member) Cost	5,353,444	Increase Rev Req
Schedule 2.15 - Int Exp on LT Debt	70,408	Increase Rev Req
Schedule 2.16 - Leased Property - Soaper Bldg Rent	(128,368)	Decrease Rev Req
Schedule 2.17 - LEM Dispatch Fees	(936,815)	Decrease Rev Req
Schedule 2.18 - APM Fees	205,090	Increase Rev Req
Schedule 2.19 - WKEC Unwind True-Up - Lease Income	149,673	Increase Rev Req
Schedule 2.19 - WKEC Unwind True-Up - Non-Operating Items	2,357,097	Increase Rev Req
Schedule 2.19 - WKEC Unwind True-Up - Post-Retirement Medical	(7,476,584)	Decrease Rev Req
Schedule 2.20 - SEFPC Membership	(180,775)	Decrease Rev Req
Schedule 2.21 - MISO Case Expenses	(1,305,377)	Decrease Rev Req
Schedule 2.22 - TIER Adjustment Charge	0	Increase Rev Req
Schedule 2.23 - Promo/Insti Adv, Lobbying, Donations, and ED	(531,388)	Decrease Rev Req
Schedule 2.24 - Income Taxes	183,084	Increase Rev Req
Schedule 2.26 - DSM/EE	1,000,000	Increase Rev Req
Schedule 2.25 - Outside/Prof Svcs	(1,000,000)	Decrease Rev Req
Total Proforma Adjustments	<u>5,612,642</u>	
Deficiency prior to 1.24 Contract TIER	15,300,655	
Margins to Achieve 1.24 Contract TIER	<u>11,446,348</u>	Increase Rev Req
<b>Revenue Requirements Deficiency</b>	<b>26,747,003</b>	
<b>Commission Order of 11-17-11</b>	<b><u>26,744,776</u></b>	
<b>Unreconciled Difference</b>	<b>2,227</b>	

Case No. 2011-00036

Witness: Mark A. Hite

Attachment for Response to Staff Rehearing Item 1.b

Page 1 of 1



**BIG RIVERS ELECTRIC CORPORATION**

**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION  
FOR A GENERAL ADJUSTMENT IN RATES  
CASE NO. 2011-00036**

**Response to Commission Staff's Initial  
Rehearing Request for Information  
dated March 12, 2012**

**March 22, 2012**

1 **Item 2)** *Refer to pages 7-8 of the Hite Rehearing Testimony regarding*  
2 *the issue of depreciation expense on Construction Work in Progress*  
3 *("CWIP"). The question and answer beginning on page 7, line 19, and*  
4 *continuing to page 8, line 3, indicate, among other things, that this issue*  
5 *was not raised by the Commission or any other party during the course of*  
6 *this case.*

7 *a. Referring to Big Rivers' proposal to recover depreciation*  
8 *expense on its test year-end CWIP balance and to the*  
9 *recommendation of Mr. Lane Kollen, witness for Kentucky*  
10 *Industrial Utility Customers, Inc. ("KIUC"), Commission*  
11 *Staffs Initial Information Request to KIUC, Item 16.a.,*  
12 *states, "Given the nature of Big Rivers' proposal, explain*  
13 *why Mr. Kollen chose to link depreciation on retirements*  
14 *with depreciation on CWIP rather than recommend that*  
15 *the proposal to include depreciation on CWIP be rejected."*  
16 *Explain why Big Rivers does not consider this specific*  
17 *request to have raised the issue of recovering depreciation*  
18 *on CWIP.*

19 *b. Page 8, lines 11-14, refers to the amount of the test year-*  
20 *end CWIP balance that was in service at the end of the test*  
21 *year and states that the "depreciation thereon is \$359,678,*  
22 *net of the City of Henderson's ("City's") share of Station*  
23 *Two and estimated retirements." Clarify whether this*  
24 *statement means that \$359,678 is the Big Rivers share of*

**BIG RIVERS ELECTRIC CORPORATION**

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1                    *the expense after allocating the appropriate amount to*  
2                    *the City.*

3  
4  
5    **Response)**

- 6                    a.    The information request referenced in this item is from the  
7                    Commission Staff to KIUC and relates to the testimony of a  
8                    KIUC witness. Big Rivers read that information request as  
9                    seeking information about the motivation of the KIUC witness  
10                   regarding the position he took in his testimony. Further, Big  
11                   Rivers understood the referenced pages of the Lane Kollen  
12                   testimony to address the need to reduce depreciation on CWIP  
13                   by the depreciation on the associated retirements. To that end,  
14                   the amount of additional depreciation expense Big Rivers'  
15                   rehearing petition seeks addresses that concern. Additionally,  
16                   Big Rivers concluded Mr. Kollen's statements on pages 18-19 of  
17                   his direct testimony regarding the "matching principle" were  
18                   addressed by the fact that none of the relevant CWIP projects  
19                   generated additional revenue.
- 20                   b.    The \$18,654,607 CWIP balance shown on page 5 of 8 of Exhibit  
21                   Hite Rehearing-3 is net of the City's cost-share. Accordingly, the  
22                   \$359,678 of depreciation expense shown on that CWIP balance  
23                   is Big Rivers' share only.

24  
25    **Witness)**    Mark A. Hite



**BIG RIVERS ELECTRIC CORPORATION**

**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION  
FOR A GENERAL ADJUSTMENT IN RATES  
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1 **Item 3)** *Refer to pages 15-16 of the Hite Rehearing Testimony and*  
2 *Exhibit Hite Rehearing-4. Confirm that the testimony and the exhibit both*  
3 *indicate that the financial model relied upon by Big Rivers in conjunction*  
4 *with the Unwind Transaction did not include "Smelter TIER Adjustment*  
5 *Revenues" in 2009 and 2010, the two calendar years reflected in the test*  
6 *year upon which Big Rivers based its requested rate increase.*

7

8

9 **Response)** Yes, the October 2008 Unwind Financial Model did not include  
10 smelter TIER Adjustment revenues in either 2009 or 2010, but it does show  
11 smelter TIER Adjustment revenues in the years 2011 through 2023. Big Rivers'  
12 concern is that the November 17 Order states that the model did not include *any*  
13 smelter TIER Adjustment revenues.

14

15

16 **Witness)** Mark A. Hite

17



BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION  
FOR A GENERAL ADJUSTMENT IN RATES  
CASE NO. 2011-00036

Response to Commission Staff's Initial  
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dated March 12, 2012

March 22, 2012

1 Item 4) *Refer to pages 11-16 of the Direct Testimony on Rehearing*  
2 *of John Wolfram ("Wolfram Rehearing Testimony"), which addresses*  
3 *the issue of rate recovery of depreciation on CWIP. Therein, several*  
4 *previous Commission cases are discussed which, according to the*  
5 *testimony, support Big Rivers' position that depreciation on its test*  
6 *year-end CWIP balance should be included for rate recovery.*

7 a. *The first case discussed is Case No. 90-158,<sup>1</sup> in which,*  
8 *as the testimony reflects, the Commission's order*  
9 *stated, "first year depreciation expense based on the*  
10 *CWIP as of April 30, 1990 is allowed . . . ." The order*  
11 *also stated, at page 6, that "Trimble County*  
12 *represents a significant addition to LG&E's utility*  
13 *plant in service" and "the Commission must consider*  
14 *the commercialization of a major plant addition . . .*  
15 *." It went on to state, also on page 6, "[w]e believe it*  
16 *fair and reasonable in this instance to include in*  
17 *LG&E net original cost rate base the year-end*  
18 *Trimble County CWIP. This amount, net of the 25*  
19 *percent disallowance, is \$507,878,016." Emphasis*  
20 *added. Based on the rate base schedule on page 11 of*  
21 *the Order, the test year-end Trimble County CWIP*  
22 *balance of \$507,878,016 increased the Total Utility*  
23 *Plant balance of Louisville Gas and Electric*

---

<sup>1</sup> Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company  
(Ky. PSC, Dec. 21, 1990)



**BIG RIVERS ELECTRIC CORPORATION**

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- 1                    *Company (“LG&E”) by roughly 35 percent. Explain*  
2                    *whether Big Rivers believes its situation is in any*  
3                    *way comparable in magnitude to the situation*  
4                    *created by the addition of Trimble County Unit 1 to*  
5                    *LG&E’s utility plant.*
- 6                    *b. The second case discussed is Case No. 2010-00116,<sup>2</sup> a*  
7                    *rate case of Delta Natural Gas Company, Inc.*  
8                    *(“Delta”), which references the Commission’s Final*  
9                    *Order and Volume 1, Tab 27, Schedule 4, of Delta’s*  
10                   *application. That schedule reflects that Delta*  
11                   *proposed an adjustment to increase its depreciation*  
12                   *expense by more than \$1.3 million and that*  
13                   *depreciation on its test year-end CWIP balance was*  
14                   *\$2,809. Explain whether Big Rivers has determined*  
15                   *that including an amount of this magnitude in*  
16                   *Delta’s revenue requirement had an impact on the*  
17                   *actual rates it was awarded.*
- 18                   *c. The third and fourth cases discussed are the 2009*  
19                   *rate cases of LG&E and Kentucky Utilities Company*  
20                   *(“KU”),<sup>3</sup> in which the Commission approved a*  
21                   *Stipulation and Recommendation (“Stipulation”), in*

---

<sup>2</sup> Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates (Ky. PSC Oct. 21, 2010).

<sup>3</sup> Case No. 2009-00549, Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Base Rates (KY. PSC July 30, 2010); and Case No. 2009-00548, Application of Kentucky Utilities Company for an Adjustment of Base Rates (Ky. PSC July 30, 2010).

**BIG RIVERS ELECTRIC CORPORATION**  
**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION**  
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1                   *which all parties to the case, except for the Office of*  
2                   *the Attorney General of the Commonwealth of*  
3                   *Kentucky ("AG") agreed on the amount of additional*  
4                   *revenue to be awarded to LG&E and KU.*

5                   1) *Explain whether Big Rivers is aware that the*  
6                   *Commission's analyses of revenue requirement*  
7                   *issues in these rate cases was specific to the*  
8                   *issues raised by the AG and that those issues did*  
9                   *not include depreciation on CWIP.*

10                  2) *Explain whether Big Rivers is aware that*  
11                  *Section 6.12 of the Stipulation approved in*  
12                  *LG&E's and KU's 2009 rate cases stated that the*  
13                  *Stipulation have no precedential value in this*  
14                  *(Kentucky) or any other jurisdiction.*

15  
16

17   **Response)**

18                  a.   Big Rivers acknowledges that the magnitude of the CWIP  
19                  balance relative to the Total Utility Plant balance for  
20                  LG&E in Case No. 90-158 is larger than the magnitude of  
21                  the CWIP balance relative to the Total Utility Plant  
22                  balance for Big Rivers in the instant proceeding. However,  
23                  the order does not explicitly cite that magnitude as the  
24                  reason for the Commission's approval of the inclusion of  
25                  the CWIP balance in depreciation expense.

**BIG RIVERS ELECTRIC CORPORATION**  
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**March 22, 2012**

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The Commission's order also states the following on pages 4-5:

The Commission has a well-established, rate-making policy on the inclusion of post test-year plant additions. All utilities under the Commission's jurisdiction were given notice that, if a historic test period is used, adjustments for post test-period plant additions should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as the plant additions.

In this proceeding, Big Rivers complies with this standard. Big Rivers proposes to recover depreciation expense on the test year-end CWIP balance for the projects noted in this rehearing request because doing so properly reflects the known and measurable costs associated with those projects. The projects were placed into service before the proposed rates went into effect. This is especially true for the Oracle R12 project, which comprises 68.48% of the depreciation expense that Big Rivers seeks in this rehearing (\$1,125,840.38 divided by \$1,644,154.07), and which was placed into service in December 2010, two months after the October 31, 2010, test year end, and prior to the September 1, 2011, effective date of the new rates. In this way, the ratemaking treatment sought by Big

**BIG RIVERS ELECTRIC CORPORATION**

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1 Rivers is comparable to that sought by LG&E and  
2 approved by the Commission in Case No. 90-158.  
3 Moreover, as explained in the Direct Testimony on  
4 Rehearing of Mark A. Hite, the magnitude of the  
5 depreciation on the test year-end CWIP balance, especially  
6 on the Oracle 12 project, is material to Big Rivers.

7 b. Big Rivers did not determine whether or not the inclusion  
8 of the CWIP balance in Delta's revenue requirement in  
9 Case No. 2010-00116 had an impact on the actual rates it  
10 was awarded. From the values cited in this information  
11 request, it appears that the rate impact for Delta would  
12 likely be negligible. However, as in Case No. 90-158 for  
13 LG&E noted above, the order does not cite the magnitude  
14 of rate impact as a reason for Commission's approval.

15 When considering the Commission orders for Delta  
16 and LG&E together, Big Rivers concluded that rate impact  
17 was not the determining factor for the Commission on the  
18 issue of including depreciation expense on the CWIP  
19 balance for projects that were placed in service before rates  
20 went into effect. Because the Commission authorized such  
21 inclusion in both cases, and given that the magnitude of  
22 the rate impact is not the same in both cases (*i.e.*, in the  
23 LG&E case the rate impact seems to be very large, and in  
24 the Delta case the rate impact seems to be very small), Big

**BIG RIVERS ELECTRIC CORPORATION**

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1 Rivers concluded that rate impact was not the determining  
2 factor on this issue.

3 c. 1) Big Rivers was aware that the Commission's analysis  
4 of revenue requirement issues in these cases *focused on*  
5 the issues raised by the AG, but was not of the opinion  
6 that the Commission's analysis was *limited to* those issues.

7 In the cited cases, Big Rivers understood that all  
8 parties to each case except the AG agreed on the amounts  
9 of additional revenue to be awarded to LG&E and KU.  
10 However, the order in the LG&E case states the following  
11 on page 14:

12  
13 Since all parties have not reached a unanimous  
14 settlement on the level of revenues, the Commission  
15 must consider the evidentiary record on this  
16 issue and render a decision based on a  
17 determination of LG&E's capital, rate base,  
18 operating revenues, and operating expenses *as*  
19 *would be done in any litigated rate case. (emphasis*  
20 *added)*

21  
22 The order in the KU case makes a similar statement on  
23 page 14.

24 The Commission noted in its Orders in both cases,  
25 on page 18 of the Order in the KU case and on page 19 of  
26 the Order in the LG&E case, that the Applicants proposed  
27 a series of pro forma adjustments to revenues and

**BIG RIVERS ELECTRIC CORPORATION**

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1 expenses. The Commission further noted that the  
2 adjustments proposed by the Applicants and accepted by  
3 the AG were reasonable and should be accepted by the  
4 Commission. In both cases, this included the pro forma  
5 adjustment for depreciation expense, which included the  
6 CWIP balance as of the end of the test year. Thus, it was  
7 Big Rivers' understanding that the Commission accepted  
8 the proposed pro forma adjustments to depreciation  
9 expense *not* because it was addressed in the Stipulation,  
10 but because it was proposed by the Applicant, was not  
11 opposed by the AG, and was found by the Commission to  
12 be reasonable on its own merits, pursuant to the  
13 Commission's review of the evidentiary records on revenue  
14 requirement in the two cases.

15 For these reasons, Big Rivers understood the  
16 Commission's review of the revenue requirements in these  
17 cases to be comprehensive, as it would be in any other  
18 litigated rate case, and not limited to the specific issues  
19 raised by the AG.

20 2) Big Rivers is aware that Section 6.12 of the  
21 Stipulation states that the Stipulation has no precedential  
22 value. However, Big Rivers did not consider this section  
23 applicable to the determination of the revenue  
24 requirement for the reasons explained in the response to  
25 part 4c (1), above.

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3 **Witness)** John Wolfram

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