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PUBLIC SERVICE
COMMISSION

Via Courier

June 28th, 2013

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Docket CASE NO. 2012-00535

Dear Mr. Derouen:

Enclosed for the filing are an original and ten copies of the *PUBLIC VERSION OF THE SUPPLEMENTAL TESTIMONY OF FRANK ACKERMAN* and a certificate of service in docket 2012-00535 before the Kentucky Public Service Commission. This filing contains confidential information that has been redacted for public viewing.

Sincerely,

Ruben Mojica
Sierra Club Environmental Law Program
85 2nd Street, 2nd Floor
San Francisco CA, 94105
(415)977-5737

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

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JUN 28 2013

**PUBLIC SERVICE
COMMISSION**

In the Matter of:

**Application of Big Rivers Electric Corporation
For an Adjustment of Rates**

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CASE NO. 2012-00535

**Supplemental Testimony of
Frank Ackerman**

**On Behalf of
The Sierra Club**

PUBLIC VERSION

June 28, 2013

1 **SUPPLEMENTAL TESTIMONY OF FRANK ACKERMAN**2 **Q. What is the purpose of your supplemental testimony?**3 A. A PSC ruling on June 19 directed Big Rivers to provide some documentation of its long-
4 run production cost modeling and financial modeling on June 21. My supplemental
5 testimony examines the implications of the newly released material for this proceeding.6 **Q. Please describe the materials provided by Big Rivers on June 21.**7 A. In response to several discovery requests from the Sierra Club, Big Rivers provided brief
8 verbal answers, largely identifying the places where requested information could be
9 found in nine attached spreadsheets: one for financial modeling from 2012 through 2025,
10 six providing a base case and sensitivity analyses for production cost modeling from
11 2013 through 2027, and two single-sheet workbooks presenting answers to specific
12 questions, one on price assumptions and one on individual power plant performance data.13 **Q. Why did the Sierra Club request information on Big Rivers' long-run financial
14 modeling and production cost modeling?**15 A. Big Rivers is requesting a substantial rate increase to cover its costs, following the
16 departure of the Century Hawesville smelter from its system in August 2013. This
17 represents the loss of 31% of Big Rivers' peak load, with a second large loss, due to the
18 departure of the former Alcan Sebree smelter, coming just a few months later. Despite
19 this loss, Big Rivers has proposed to keep – and keep investing in – all of its existing
20 generation capacity; the only proposed capacity reduction is a temporary one, idling the
21 Wilson or Coleman plant for six years before bringing it back on line in 2019.22 As I argued in my initial testimony, this will leave Big Rivers with far more capacity than
23 is needed to serve its post-smelter load. The costs of maintaining excess capacity,
24 including investments in routine maintenance and in environmental compliance, drive up
25 the rates that must be charged to the much-reduced, remaining customer base. This
26 problem will be intensified by the expected request for an additional rate increase to take
27 effect when the second smelter leaves in January 2014.28 I conclude that the requested rate increase is not fair, just, and reasonable, since it forces
29 customers to pay for maintaining unprofitable excess capacity. Big Rivers responds that
30 maintaining its existing capacity, including the planned reactivation of the to-be-idled
31 Wilson or Coleman plant in 2019, is in ratepayers' best interests. The resolution of this
32 disagreement clearly depends on long-run projections, extending well beyond the short
33 time horizons of Big Rivers' initial filing, as the PSC's June 19 ruling recognized.34 **Q. Does the newly released material make a compelling case for maintaining Big
35 Rivers' existing capacity and reactivating Wilson in 2019?**

1 A. No, it does not. It presents [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]

17 The spreadsheets are almost entirely undocumented, with cryptic abbreviations labeling
18 some data entries; it is difficult to be certain about the sources of the underlying
19 assumptions. It appears likely, however, that Big Rivers has relied on unrealistic
20 assumptions throughout its long-run projections.

21 **Q. Have criticisms of Big Rivers’ long-run modeling been raised in the past?**

22 A. Yes. In the 2012 CPCN case, my colleague Rachel Wilson examined Big Rivers’ long-
23 run modeling in detail. She identified multiple errors and biases that led Big Rivers to an
24 inaccurate evaluation of its power plants. Correcting for several of these errors and
25 biases, she found that every one of Big Rivers’ coal plants was uneconomic (i.e.,
26 increased the net present value of revenue requirements) compared to replacement with
27 natural gas.¹

28 Based on the limited information on long-run modeling available in this case, I believe
29 that at least two of the problems identified by Ms. Wilson may still be present in Big
30 Rivers’ calculations, leading to the same kind of inaccuracies that she analyzed. The two
31 problems are the inappropriate treatment of future carbon prices and the failure to include
32 the full costs of compliance with current and anticipated environmental regulations. In
33 addition, the newly released material adds support to one of the arguments in my initial
34 testimony, regarding Big Rivers’ overly optimistic assessment of the potential for off-
35 system sales.

¹ Note that all references here and throughout this testimony are to the public, not the confidential, version of Ms. Wilson’s 2012 testimony.

1 **Q. Please describe the first problem. How did Big Rivers address carbon prices in the**
2 **2012 CPCN case?**

3 A. As Ms. Wilson explained (see her public testimony, pp.23-24, which has been filed in
4 this proceeding as Exhibit Ackerman-4), Big Rivers assumed in its production cost
5 modeling for the CPCN case that a CO₂ emissions price would go into effect in 2018 that
6 would raise the market price of electricity throughout MISO, but Big Rivers failed to
7 assume in its modeling an equivalent cost increase for its own generation units. Thus in
8 Big Rivers' modeling the market price of electricity jumped up in 2018 when the carbon
9 price went into effect, but the assumed cost of operating Big Rivers' plants did not. It
10 should be clear that this is an error: if everyone has to pay a price for carbon emissions
11 from fossil fuel plants, Big Rivers will have to pay as well.

12 **Q. Why do you believe that the same problem may be present in Big Rivers' modeling**
13 **for the current proceeding?**

14 A. I have compared the Big Rivers forecast for the MISO Indiana hub price to two other
15 forecasts. One is the annual average of a forecast through 2022 of the same price, the
16 MISO Indiana Locational Marginal Price (LMP), developed by Indianapolis Power &
17 Light (IPL) based on forecasts from the consulting firm Ventyx, as provided in a public,
18 non-confidential data response in a recent case before the Indiana Utility Regulatory
19 Commission.² (I have attached the data, in the form it was provided by IPL, as Exhibit
20 Ackerman-8.) The other is the average electricity price to all end users from the *Annual*
21 *Energy Outlook 2013*, for AEO's East North Central region, which includes Indiana and
22 other eastern parts of MISO.³ All are in nominal dollars per MWH.

23 The results are shown in Figure 1. The IPL/Ventyx forecast matches Big Rivers closely
24 through 2018, but then continues modest growth with no sign of a surge. AEO's
25 projections, which are slightly lower than Big Rivers and IPL/Ventyx from the start, also
26 grow smoothly at similar rates before and after 2019. From 2013 to 2027, AEO projects
27 average annual growth of 0.5% in the real (constant-dollar) price of electricity for the
28 East North Central region, plus inflation averaging 2.2% per year.

29 Figure 1 shows that Big Rivers imagines that something enormous will happen to
30 electricity prices around 2019 – something that is not visible to IPL/Ventyx or the AEO.
31 Any existing generator will of course be vastly more profitable if the Big Rivers, rather
32 than the IPL/Ventyx or AEO, price projection comes true (without any corresponding
33 increase in the generator's operating costs). To use that price projection for ratemaking

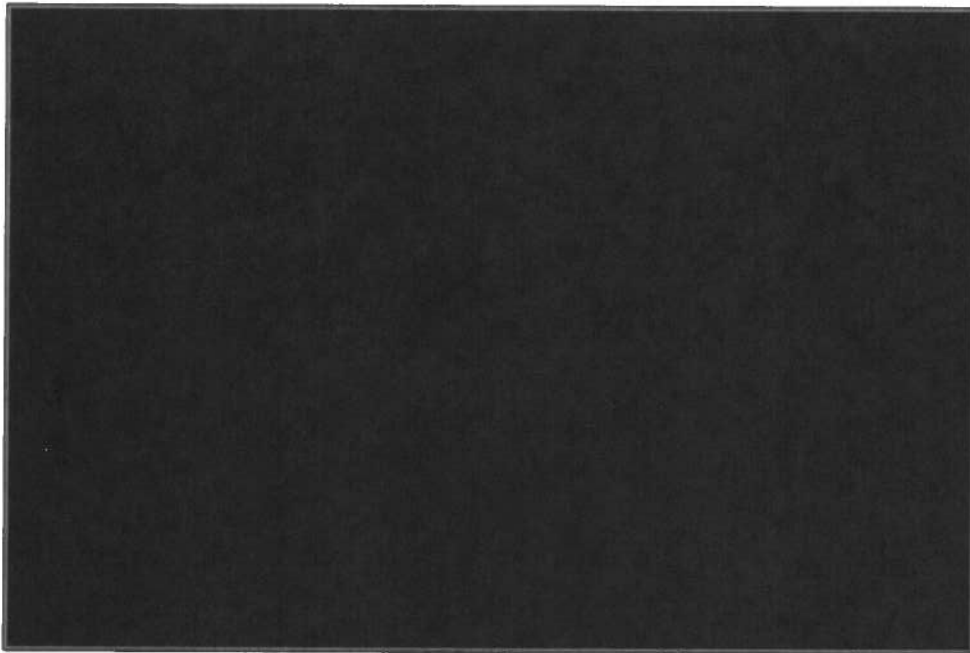
² Indiana Utility Regulatory Commission, Cause No. 44242, Indiana Power & Light response to CAC-SC DR3-3, Attachment 1.

³ AEO prices: AEO 2013, Tables 3.3 (East North Central) and 3.6 (East South Central), spreadsheet line 122. Big Rivers price: from the spreadsheet "Big Rivers 2013-2027 Budget Exhibits – Base Case", sheet Annual Prices, line "DI_IndianaHub_All Hours", in \$/MWH.

1 and utility planning, however, it is necessary to provide a compelling explanation of the
2 anticipated 2019 price surge, and how the utility's own costs will purportedly remain
3 unaffected by the surge. Big Rivers has not provided such an explanation.

4 The carbon price forecasting error identified by Ms. Wilson occurred at the same point in
5 time, and could explain this jump in the graph. If the error she identified has been fixed,
6 then another assumption has apparently been added to Big Rivers' production cost model
7 that has a similar effect at the same point in time.

8



9

10 Figure 1. Projected electricity prices (nominal \$/MWH)

11

12 **Q. What effect could the price jump shown in Figure 1 have on Big Rivers' analysis in**
13 **this case?**

14 A. The Big Rivers electricity price forecast shown in Figure 1 could explain why the
15 Company believes it will be profitable to bring the Wilson or Coleman plant back on line
16 in 2019. At that point, the market price of electricity is assumed to rise rapidly, relative to
17 the price of coal, making all of Big Rivers' coal units abruptly more profitable in the
18 model. (Of course, the exact basis for Big Rivers' reported assumption that the idled plant
19 would become profitable to operate again in 2019 is unclear given that, as noted above,
20 Big Rivers has not provided any production cost model run actually showing a plant idled
21 until 2019 and then reactivated.)

1 **Q. Is the projected jump in MISO electricity prices reflected in Big Rivers' projected**
2 **revenue from off-system sales?**

3 A. Yes. Big Rivers' projected revenue per MWH from off-system sales⁴ follows the
4 Company's projection of the MISO Indiana hub all-hours price quite closely. [REDACTED]

5 [REDACTED]
6 [REDACTED]

7 **Q. Is there a jump in Big Rivers' generation costs around 2019?**

8 A. No. Big Rivers projects that the operating costs for its plants will rise gradually over
9 time; since they are reported in nominal terms, the costs rise with inflation. There is no
10 unusual jump in these costs around 2019. The operating costs for all Big Rivers plants
11 rise in parallel from 2013 through 2027; to simplify the presentation, Figure 2 compares
12 the prices of electricity and coal to Coleman operating costs. There is little change in the
13 ratio of coal prices to operating costs over this period. On the other hand, the market price
14 of electricity jumps upward around 2019, relative to operating costs.⁵ Just as in Figure 1,
15 it appears that Big Rivers is assuming that something unrelated to its own costs will
16 suddenly cause a surge in the market price of electricity.

⁴ Revenue per MWH of off-system sales is shown on the "Base Case" spreadsheet, sheet "Monthly Net Market Positions", column "Sales \$/MWH". Projected MISO price is the Big Rivers forecast used in Figure 1.

⁵ Operating costs are the "Total operating cost/MWH" lines from the "Base Case" spreadsheet, sheet Annual Resource Report. "Coleman cost" in Figure 2 is the unweighted average of these data for Coleman 1, 2, and 3. Electricity and coal prices are defined as in Figure 1. The coal price is "Coal West KYILB 4.5", in \$/MMBTU, from the "Base Case" spreadsheet, sheet Annual Prices. To simplify the presentation, both data series in Figure 2 are converted to index numbers, with (by definition) the values in 2013 = 1.0.

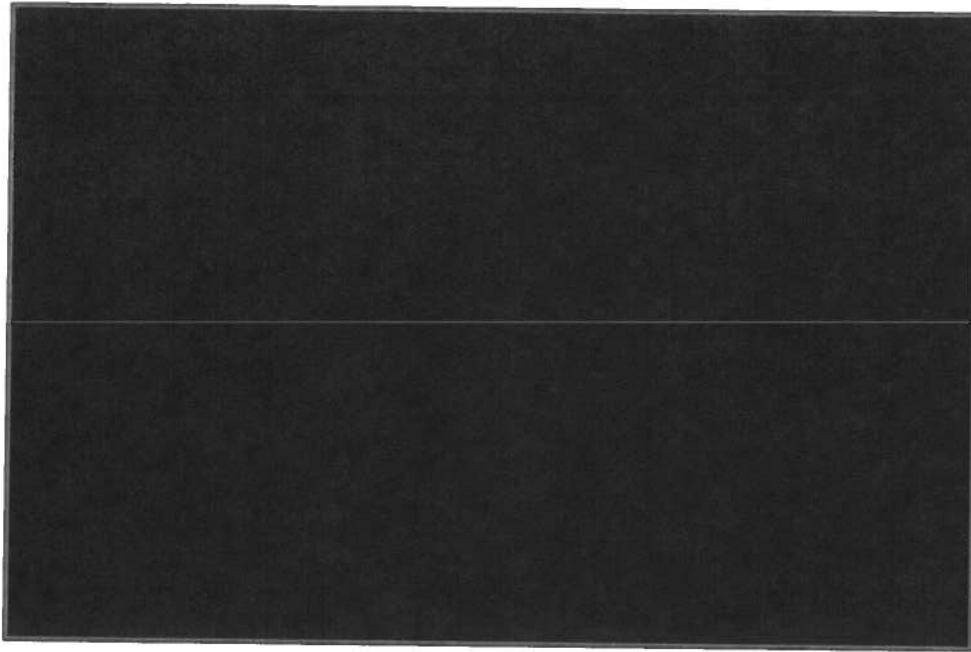


Figure 2. Electricity and coal prices compared to Coleman total operating cost/MWH

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Q. Are you aware of any explanation for this price surge, other than Ms. Wilson’s description of Big Rivers’ error in modeling carbon prices in the CPCN proceeding?

A. No.

Q. Please turn to the second problem you have identified. Why are Big Rivers’ assumptions about future costs of environmental compliance relevant to this case?

A. To continue to operate its existing plants, Big Rivers will have to pay the costs of compliance with environmental regulations that affect these plants. The rate increase requested in this case is based, in part, on a projected need to spend roughly \$60 million on compliance with the MATS (mercury and air toxics) rule. As I argued in my initial testimony, the likely costs for Big Rivers of compliance with current and anticipated regulations could be much greater than that. Sargent & Lundy’s 2012 report to Big Rivers, attached as Exhibit Ackerman-3 to my initial testimony, suggested that the costs of compliance on the existing plants could exceed \$500 million. Some of the major expenditures recommended by Sargent & Lundy were for SO₂ and NO_x reduction required under the Cross-State Air Pollution Rule (CSAPR), and for coal combustion residuals management, as required under the less stringent of two alternatives under consideration at EPA. Although CSAPR was thrown out by an appeals court in 2012, the Supreme Court agreed to review that appeals court decision on June 24 of this year, suggesting that CSAPR compliance costs might again become relevant.

1 Big Rivers has argued that despite the loss of the Hawesville smelter load, it is cost-
2 effective to own and operate all of its existing plants, with the Wilson or Coleman plant
3 idled for six years. This argument depends, among other factors, on how much it will cost
4 to comply with environmental regulations.

5 A greater cost of compliance makes the existing plants less valuable in economic terms;
6 keeping the plants in service and investing in the needed pollution controls can increase
7 the present value of revenue requirements, relative to alternative sources of energy. If Big
8 Rivers has underestimated future compliance costs, it becomes more likely that it will
9 have to request additional rate increases in the future to cover those costs.

10 **Q. Did the Sierra Club request information on projected environmental compliance**
11 **expenditures beyond 2016?**

12 A. Yes. Data request SC 2-3, a multi-part request, asked for several categories of
13 information, by generating unit, on an annual basis through 2030, if the Company
14 maintains any such records or information for modeling, forecasting, or planning
15 purposes. Capital expenditures on pollution control was one of these categories.

16 **Q. Did Big Rivers provide the requested information?**

17 A. No, not completely. The June 21 response provided annual information through 2027 for
18 only 7 of the 10 requested categories. For the remaining three categories of information,
19 the response merely cited an earlier response (the confidential response to SC 1-25),
20 providing information through 2016. Those three categories were non-environmental
21 capital expenditures, capital expenditures for pollution controls, and fixed operating
22 costs.

23 According to a follow-up email from Big Rivers' counsel, Big Rivers did not produce
24 this information in response to Sierra Club's data request because it does not exist. A
25 copy of this email is attached as Exhibit Ackerman-9. According to the email,

26 [REDACTED]
27 [REDACTED]
28 [REDACTED]
29 [REDACTED]
30 [REDACTED]
31 [REDACTED]
32 [REDACTED]

33 **Q. That e-mail (Exhibit Ackerman-9) asserts that one of the production cost model**
34 **runs provided by Big Rivers on June 21, [REDACTED]**
35 **“displays Wilson being idled in September 2013 and restarting in 2019.” You have**

1 **stated that Big Rivers did not model any scenarios showing Wilson or Coleman**
2 **idled until 2019 and then restarting. Can you explain this difference of views?**

3 A. [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]

7 **Q. What capital expenditures for environmental compliance are projected in the**
8 **materials provided by Big Rivers on June 21?**

9 A. In the financial model spreadsheet, produced in response to SC 2-2, the sheet “Capex &
10 Depr” includes a line for environmental capital expenditures. [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED] [REDACTED]
14 [REDACTED]
15 [REDACTED]

16 **Q. Finally, please explain why the newly released material supports your argument**
17 **that Big Rivers has relied on overly optimistic projections of off-system sales.**

18 A. The financial model spreadsheet, on the “Rates” sheet, provides projections of energy
19 sales by customer class from 2013 to 2025. I have graphed these projections in Figure 3.
20 This is a picture of wishful thinking, in several respects. [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]

25 [REDACTED]
26 [REDACTED] Note that Figure 3 presents sales in energy terms, not
27 dollars. That is, projected sales volume, in TWH, jumps upward at the same point in time
28 when, as we have seen, the forecast of market prices also takes a dramatic leap upward.

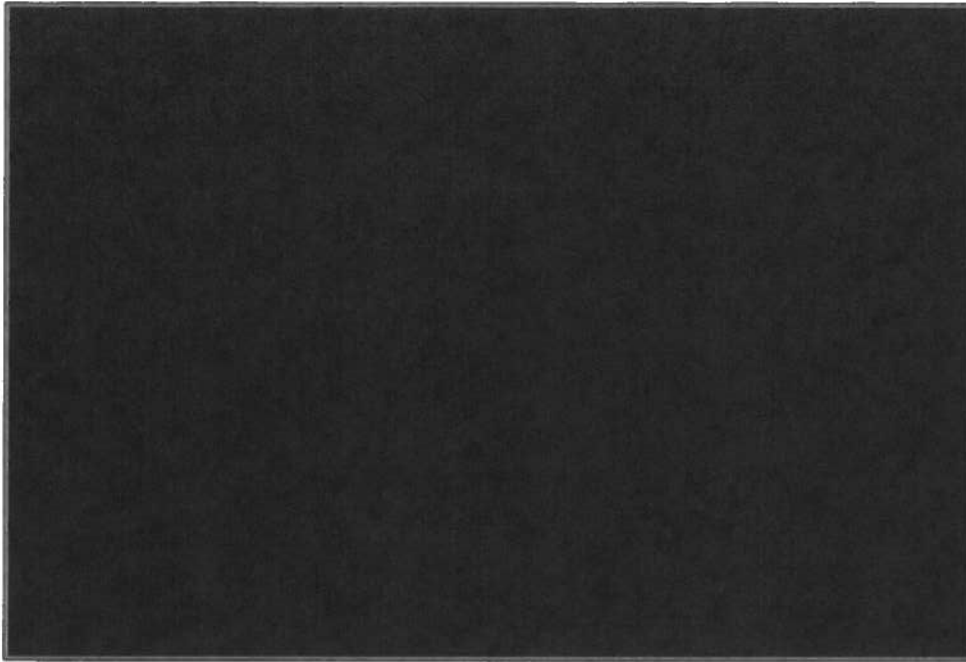


Figure 3. Big Rivers projected energy sales by customer class (TWH), 2013 – 2025

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Q. Has Big Rivers provided an explanation of the projected surge in off-system sales in 2019?

A. No.

Q. Would the projected surge in off-system sales, if it occurred, be big enough to justify maintaining and operating all of Big Rivers' existing power plants?

A. No. The projections in Figure 3 still assume ongoing sales [REDACTED] to the Sebree smelter. To compensate for the loss of this smelter, Big Rivers would need a second surge in off-system sales, of about the same size as the one shown in Figure 3.

Q. Please summarize the conclusions of your supplemental testimony.

A. In the limited time available, I have examined the additional documents provided by Big Rivers on June 21. These documents provide some insights into Big Rivers' long-run planning. They do not, however, demonstrate that, following the loss of the Hawesville smelter load, the Company can afford to maintain all of its existing capacity, with one plant idled for six years. Attempting to maintain all of that capacity imposes an unfair and unreasonable burden on the remaining ratepayers, a problem that will only be intensified with the departure of the Sebree smelter in January 2014.

1 In fact, the modeling runs provided on June 21 suggest that Big Rivers is making at least
2 three errors, all of which tend to exaggerate the value of its existing plants to ratepayers.
3 First, it is assuming a dramatic increase in the price of electricity around 2019, with no
4 corresponding increase in generation costs. The Company has not explained this price
5 jump in its modeling, which is not present in electricity price forecasts from IPL/Ventyx
6 or the Energy Information Administration's *Annual Energy Outlook*. However, if Big
7 Rivers' error in carbon price modeling identified in the 2012 CPCN case by Sierra Club
8 witness Rachel Wilson – wherein Big Rivers effectively assumed that every utility in the
9 country would have to pay a price for its CO₂ emissions except for Big Rivers – has not
10 yet been corrected, then the result would be an erroneous jump in electricity prices after
11 2018, much like the forecasts found in the Company's production cost model runs.

12 Second, Big Rivers has confirmed that it assumed no additional costs of environmental
13 compliance in its long-run modeling, beyond MATS compliance in 2013-2014.
14 Significant future costs are likely to occur: the Company's own consultants, Sargent &
15 Lundy, estimated in 2012 that there could be needs for hundreds of millions of dollars of
16 additional pollution control costs at Big Rivers' plants for compliance with CSAPR, coal
17 combustion residuals regulations, and other rules.

18 Third, Big Rivers has forecast a huge, unexplained jump in the volume of off-system
19 sales in 2019, occurring at the same time as the jump in prices. With such big increases in
20 both volume and price, Big Rivers' power plants are projected to become immensely
21 profitable. All that is missing is an explanation of the jump in volume and prices.

22 All of these factors lead to exaggerating the viability of the existing plants, with
23 ratepayers picking up the tab for this costly mistake. If electricity prices do not soar in
24 2019, if additional pollution control investments are required, and if huge increases in
25 off-system sales do not materialize, then ratepayers will face one rate hike after another
26 to maintain Big Rivers' expensive excess capacity.

27 It is the Commission's responsibility to set fair, just, and reasonable rates for Big Rivers'
28 ratepayers. Those rates should include the actual cost of service received by the
29 ratepayers – but not additional costs for maintaining more capacity than is needed to
30 serve the Company's customers.

31 **Q. Does this conclude your testimony?**

32 **A.** Yes, it does.

EXHIBIT 8

1	2024 October	Market 3P	33.32	33.48	33.61	33.75	33.88	33.98	34.02	34.05	34.07	34.09	34.10	34.11	34.12	34.13	34.14	34.15	34.16	34.17	34.18	34.19	34.20	34.21	34.22	34.23	34.24	34.25	34.26	34.27	34.28	34.29	34.30	34.31	34.32	34.33	34.34	34.35	34.36	34.37	34.38	34.39	34.40	34.41	34.42	34.43	34.44	34.45	34.46	34.47	34.48	34.49	34.50	34.51	34.52	34.53	34.54	34.55	34.56	34.57	34.58	34.59	34.60	34.61	34.62	34.63	34.64	34.65	34.66	34.67	34.68	34.69	34.70	34.71	34.72	34.73	34.74	34.75	34.76	34.77	34.78	34.79	34.80	34.81	34.82	34.83	34.84	34.85	34.86	34.87	34.88	34.89	34.90	34.91	34.92	34.93	34.94	34.95	34.96	34.97	34.98	34.99	35.00
2	2024 October	Market 3P	33.32	33.48	33.61	33.75	33.88	33.98	34.02	34.05	34.07	34.09	34.10	34.11	34.12	34.13	34.14	34.15	34.16	34.17	34.18	34.19	34.20	34.21	34.22	34.23	34.24	34.25	34.26	34.27	34.28	34.29	34.30	34.31	34.32	34.33	34.34	34.35	34.36	34.37	34.38	34.39	34.40	34.41	34.42	34.43	34.44	34.45	34.46	34.47	34.48	34.49	34.50	34.51	34.52	34.53	34.54	34.55	34.56	34.57	34.58	34.59	34.60	34.61	34.62	34.63	34.64	34.65	34.66	34.67	34.68	34.69	34.70	34.71	34.72	34.73	34.74	34.75	34.76	34.77	34.78	34.79	34.80	34.81	34.82	34.83	34.84	34.85	34.86	34.87	34.88	34.89	34.90	34.91	34.92	34.93	34.94	34.95	34.96	34.97	34.98	34.99	35.00
3	2024 October	Market 3P	33.32	33.48	33.61	33.75	33.88	33.98	34.02	34.05	34.07	34.09	34.10	34.11	34.12	34.13	34.14	34.15	34.16	34.17	34.18	34.19	34.20	34.21	34.22	34.23	34.24	34.25	34.26	34.27	34.28	34.29	34.30	34.31	34.32	34.33	34.34	34.35	34.36	34.37	34.38	34.39	34.40	34.41	34.42	34.43	34.44	34.45	34.46	34.47	34.48	34.49	34.50	34.51	34.52	34.53	34.54	34.55	34.56	34.57	34.58	34.59	34.60	34.61	34.62	34.63	34.64	34.65	34.66	34.67	34.68	34.69	34.70	34.71	34.72	34.73	34.74	34.75	34.76	34.77	34.78	34.79	34.80	34.81	34.82	34.83	34.84	34.85	34.86	34.87	34.88	34.89	34.90	34.91	34.92	34.93	34.94	34.95	34.96	34.97	34.98	34.99	35.00

Table with columns: Date, Market, and numerical values. The table is organized in a grid with rows representing dates from January to September and columns representing different market indices. Data values are provided for each date-market intersection.

Table with columns for date, market, and various numerical values (e.g., 39.91, 41.91, 42.82, etc.). The table represents a large dataset of market data points across time and categories.

Table with columns for date, market, and various numerical data points. The table lists market data from February 2022 to August 2022, categorized by market type (e.g., Market No. 1, Market No. 2, etc.) and including a wide range of numerical values for each entry.

EXHIBIT 9

Thomas Cmar

From: Tyson Kamuf <tkamuf@smsmlaw.com>
Sent: Tuesday, June 25, 2013 5:24 PM
To: Shannon Fisk; Michael Kurtz; Hans, Jennifer (KYOAG); Jim Miller; Chris Hopgood; myates@dklaw.com; tbrite@bbtel.com; Cook, Larry (KYOAG); Howard, Dennis (KYOAG); Kurt Boehm; childerslaw81@gmail.com; Billie.Richert@bigrivers.com; tip.depp@dinsmore.com; Richard.Raff@ky.gov; Mark Bailey; Nguyen, Quang D (PSC); Burns Mercer; Kelly Nuckols; gstarheim@kenergycorp.com; robb.kapla@sierraclub.org; joe@jchilderslaw.com; Thomas Cmar; deanna.speed@bigrivers.com
Subject: RE: Big Rivers' revised responses to SC Supplemental Requests, Case No 2012-00535

Shannon,

Please note that certain information contained in this email is confidential and has been filed under petitions for confidential treatment. In response to the statements in your letter from yesterday regarding SC 2-3, [REDACTED] Big Rivers has provided all the detail that is available in the PCM and financial model runs on the confidential CD submitted in its second response to SC 2-3. For the capital and FDE costs used in Big Rivers financial model provided on the confidential CD in its second response to SC 2-3, Big Rivers [REDACTED]. The adjustments for the Wilson restart in 2019 can be found in the financial model file on the tab labeled "Bud. Adj." in cells [REDACTED]. Big Rivers FDE forecast for years [REDACTED] that were used in the financial model can be found on the tab labeled "O&M". Big Rivers capital forecast for years [REDACTED] that were used in the financial model can be found on the tab labeled "Capex & Depr". [REDACTED]

In response to the statements in your letter regarding SC 2-2(d), Big Rivers stated in PSC 2-21(c), "Wilson Station will be idled until such time the off-system power market price increases above the all-in cost (fixed and variable) of operating the plant less the costs of lay-up, or until such time Big Rivers is successful in acquiring a new load to replace the available capacity as a result of Century's exit." As stated in SC 2-2(d), Big Rivers evaluated production cost model runs Sens. 3 – Wilson idled and Sens. 4 – All Running in the financial model. Utilizing these two production cost model runs in the financial model, Big Rivers evaluated whether Wilson would recover the all-in cost in the power market.

In response to SC 1-22(d), Big Rivers provided the FDE cost savings by idling Wilson Station. It can be seen in that table that in 2016 the O&M fixed cost savings for idling Wilson is [REDACTED]. Therefore, Wilson must have margins in the power market above this amount to cover its all-in cost and determine if it is beneficial to run in 2016. On the PCM run Sens. 4 – All Running on the Annual ISO Style Costs tab, Row 55, the Wilson net margins are calculated. In 2016, the net margins are [REDACTED] which is less than the FDE savings therefore it is beneficial for Wilson to be idled. In 2019, the net margins for Wilson are [REDACTED] and it is beneficial for Wilson to be restarted.

The files on the CD in Big Rivers' second response to SC 2-2 include the hybrid production cost model run of Sens. 3 – Wilson Idled and Sens. 4 – All Running and the financial model results of this hybrid run. The hybrid run displays Wilson being idled in September, 2013 and restarting in 2019.

Finally, your letter asks for additional information:

- Your letter states, "In the six production cost modeling runs that Big Rivers produced...." Note that there were five production cost modeling runs performed. On the CD provided in the response, there are six production cost modeling files (one file is a hybrid of Sens. 3 – Wilson Idled and Sens. 4 – All Running where Wilson is restarted in 2019) and the financial model for the hybrid run (Wilson idled in September, 2013 and restarted in 2019).
- Your letter asks us to identify the difference between the "DI_BREC BREC" prices and the "DI_BREC Gen" prices. In the MISO market, Big Rivers receives an LMP (locational marginal price) for each generator and an

LMP for load. For the most part there are four LMP prices for the generators (1) all three Coleman units, (2) the two Green units and two HMP&L units, (3) the two Reid units, and (4) the Wilson unit. In the production cost models, the DI_BREC BREC prices are the forecasted LMP for Big Rivers load and the DI_BRECGen prices are the forecasted LMP for Big Rivers' generators excluding Coleman generators. Also, there is a DI_Coleman representing the forecasted LMP for the Coleman generators.

- Your letter asks, "Define the suffixes OFF, ON, and ATC. If OFF and ON refer to off-peak and onpeak, what hours are considered on-peak? Is ATC synonymous with 'All Hours'?" OFF and ON do refer to off peak and on peak respectively. OFF (off peak) represents the times from 10 PM to 6 AM and weekends. ON (on peak) represents the times from 6 AM to 10 PM on weekdays only. ATC (around the clock) is synonymous with "All Hours."
- Your letter asks us to define the prefixes DI and Pwr. DI represents derived index. When the production cost model calculates a value internally in the program (price is not inputted directly), DI is used as a prefix. For example, in the case of power prices (LMP's), a forward price curve is directly inputted into the production cost model. Based on various indices, the production cost model program will use that same forward price curve and derive prices for the load (DI_BREC.BREC), the generators excluding Coleman (DI_BRECGen) and the Coleman generators (DI_Coleman). Pwr is an abbreviation for Power.
- Your letter asks us to identify the rate of inflation from 2013 to 2027 assumed in the modeling. From 2017 through 2027 [REDACTED] was used in the financial model. In the production cost models, the US Zero Coupon Inflation rate [REDACTED] was used to inflate the non-fuel VOM costs for the generators (file is attached). The fuel pricing was inflated by [REDACTED] [REDACTED] file is attached).
- Your letter asks, Explain the differences between the coal prices provided in the response to SC 2-5 and the coal prices found on the 'Annual Prices' tab of the production cost modeling runs." The coal prices found on the "Annual Prices" tab are from [REDACTED]
[REDACTED]
[REDACTED] These coal prices are not being used in the production cost model calculations. The coal prices provided in SC 2-5 are the forecasted delivered coal prices utilizing Big Rivers existing long term contracts, spot fuel purchases and forecasted delivery costs. The coal prices provided in SC 2-5 are being used in the production cost models.

Tyson Kamuf
Sullivan, Mountjoy, Stainback & Miller, P.S.C.
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(270) 926-4000
(270) 683-6694 fax

From: Shannon Fisk [mailto:sfisk@earthjustice.org]

Sent: Mon 6/24/2013 5:25 PM

To: Tyson Kamuf; Michael Kurtz; Hans, Jennifer (KYOAG); Jim Miller; Chris Hopgood; myates@dclaw.com; tbrite@bbtel.com; Cook, Larry (KYOAG); Howard, Dennis (KYOAG); Kurt Boehm; childerslaw81@gmail.com; Billie.Richert@bigrivers.com; tip.depp@dinsmore.com; Richard.Raff@ky.gov; Mark Bailey; Nguyen, Quang D (PSC); Burns Mercer; Kelly Nuckols; gstarheim@kenergycorp.com; robb.kapla@sierraclub.org; joe@jchilderslaw.com; Thomas Cmar
Subject: RE: Big Rivers' revised responses to SC Supplemental Requests, Case No 2012-00535

Mr. Miller and Mr. Kamuf,

Please find attached a letter regarding Big Rivers' revised response to Sierra Club's Supplemental Requests for Information in this proceeding.

Thanks,

Shannon

From: Tyson Kamuf [mailto:tkamuf@smsmlaw.com]

Sent: Friday, June 21, 2013 12:21 PM

To: Michael Kurtz; Shannon Fisk; Hans, Jennifer (KYOAG); Jim Miller; Chris Hopgood; myates@dclaw.com; tbrite@bbtel.com; Cook, Larry (KYOAG); Howard, Dennis (KYOAG); Kurt Boehm; childerslaw81@gmail.com; Billie.Richert@bigrivers.com; tip.depp@dinsmore.com; Richard.Raff@ky.gov; Mark Bailey; Nguyen, Quang D (PSC); Burns Mercer; Kelly Nuckols; gstarheim@kenergycorp.com; robb.kapla@sierraclub.org; joe@jchilderslaw.com; Thomas Cmar
Subject: Big Rivers' revised responses to SC Supplemental Requests, Case No 2012-00535

Counsel:

Pursuant to the Public Service Commission's June 19 order in this matter, please find attached Big Rivers' revised responses to Items 2, 3, 4, 5, and 8 of Ben Taylor and Sierra Club's Supplemental Requests for Information, absent the attachments. The attachments consist of 9 Excel files. Due to the size of those files, I will attempt to send them in 2 separate emails. If anyone does not receive those 2 emails from me shortly, please let me know.

Tyson Kamuf

Sullivan, Mountjoy, Stainback & Miller, P.S.C.

100 St. Ann Street, P.O. Box 727

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(270) 926-4000

(270) 683-6694 fax


COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Application of Big Rivers Electric Corporation)
For a General Adjustment in Rates) CASE NO. 2012-00535
)

VERIFICATION

I, Frank Ackerman, verify, state, and affirm that I prepared or supervised the preparation of the testimony filed with this Verification, and that my testimony is true and accurate to the best of my knowledge, information, and belief formed after reasonable inquiry.

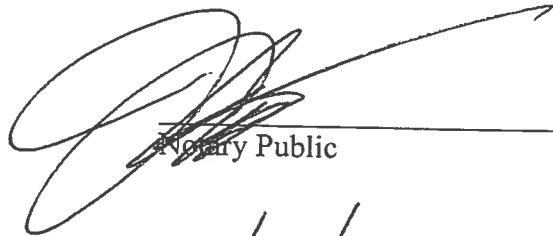

Frank Ackerman

STATE OF MASSACHUSETTS)
COUNTY OF MIDDLESEX)

Subscribed and sworn to before me, a Notary Public, in and before said County and State,
by Frank Ackerman, this ____ day of June, 2013.



JANICE CONYERS
Notary Public
Commonwealth of Massachusetts
My Commission Expires
July 27, 2018


Notary Public

My Commission expires: 7/27/18

CERTIFICATE OF SERVICE

I certify that I had filed with the Kentucky Public Service Commission and served a copy of this public version of SUPPLEMENTAL TESTIMONY OF FRANK ACKERMAN via U.S. Mail and email on June 28, 2013 to the following:

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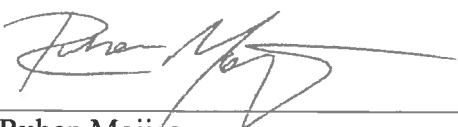
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Ruben Mojica