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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) Case No. 2012-00535
GENERAL ADJUSTMENT IN RATES)**

**Response to the Commission Staff's
Initial Rehearing Request for Information
dated January 15, 2014**

FILED: January 28, 2014

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January 27, 2014

Via Federal Express

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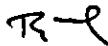
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COMMISSION

Re: *In the Matter of: The Application of*
Big Rivers Electric Corporation for a General
Adjustment in Rates, PSC Case No. 2012-00535

Dear Mr. Derouen:

Enclosed for filing are an original and ten copies of (i) Big Rivers Electric Corporation's responses to the first set of rehearing requests for information from Commission Staff, the Attorney General, Kentucky Industrial Utility Customers, Inc., and Sierra Club, (ii) a petition for confidential treatment, and (iii) a motion for deviation in the above referenced matter. I certify that on this date, a copy of this letter, a copy of the responses, a copy of the petition, and a copy of the motion for deviation were served on the persons listed on the attached service list by overnight courier service or first class mail, postage prepaid.

Sincerely,



Tyson Kamuf

TAK/ej
Enclosures

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BIG RIVERS ELECTRIC CORPORATION

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VERIFICATION

I, Robert W. (Bob) Berry, verify, state, and affirm that I prepared or supervised the preparation of the data responses filed with this Verification, and that those data responses are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

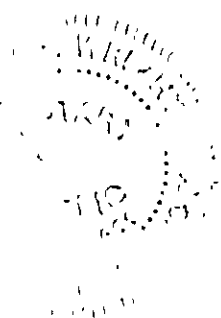

Robert W. (Bob) Berry

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Robert W. (Bob) Berry on
this the 24 day of January, 2014.


Notary Public, Ky. State at Large
My Commission Expires _____

Notary Public, Kentucky State-At-Large
My Commission Expires: July 3, 2014
ID 421951



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COMMONWEALTH OF KENTUCKY

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**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
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**Response to Commission Staff's
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1 **Item 1) Refer to Big Rivers' updated response to Item 3 of the Commission Staff's**
2 **Fourth Request for Information ("Staff's Fourth Request"), which was filed November**
3 **22, 2013, specifically, the Direct Testimony of Robert W. Berry ("Berry FERC**
4 **Testimony") filed with the Federal Energy Regulatory Commission ("FERC") on**
5 **November 1, 2013.**

6 **a) Page 5 of the Berry FERC Testimony at lines 9-11 indicates that the fixed costs of**
7 **operating the Coleman units during the one-year term of the System Support**
8 **Resource ("SSR") Agreement which starts September 1, 2013, are estimated to be**
9 **\$32,057,717. The amount reflected in the Commission's October 29, 2013 Order for**
10 **these costs, based on the estimate provided in this proceeding by Big Rivers for the**
11 **same one-year period, was \$28,660,568. Provide a side-by-side comparison of the**
12 **specific amounts of the cost items that make up these two amounts, along with an**
13 **explanation for why the SSR Agreement estimate was more than 10 percent greater**
14 **than the estimate provided to the Commission.**

15 **b) Page 5 of the Berry FERC Testimony at lines 14-16, indicates that the capital costs**
16 **during the one-year SSR Agreement term for the three Coleman units are estimated**
17 **to be \$8,200,658. Provide a list of the specific capital items, and their costs, that**
18 **make up this amount.**

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1

2 **Response)**

3 a) Please see the confidential attachment showing the side-by-side comparison and
4 explanations that make up the \$32,057,717 in the Coleman Station SSR and the
5 \$28,660,568 reflected in the Commission's October 29, 2013 Order. It should be
6 clarified that the \$32,057,717 is a 12-month budget for a specific time period
7 (September 1, 2013, through August 31, 2014) to operate the Coleman plant
8 under the SSR agreement. The SSR budget covers the incremental costs of
9 operating the Coleman Plant compared to the cost of idling the plant. The \$28.66
10 million is the two-year average of Fixed Departmental Expense ("FDE") savings
11 expected when the Coleman plant is idled. Big Rivers used a two-year average
12 because FDE expense at a power plant can vary significantly year to year based
13 on scheduled outage frequency and work scope as well as the frequency of
14 preventive maintenance schedules.

15 The difference between the \$32.06 million and the \$28.66 million has no
16 impact on the revenue requirement of this case. As explained in more detail in
17 Big Rivers' response to Staff Rehearing Item 2, under the SSR Agreement, Big
18 Rivers will only receive reimbursement for actual costs incurred, and with one

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Response to Commission Staff's Initial Rehearing Item 1(a-b)
Witness: Robert W. Berry
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1 exception (a portion of taxes and insurance expense for Coleman Station), the
2 costs reimbursed under the SSR Agreement are not included in Big Rivers'
3 revenue requirement. The G&A labor reflected in the SSR budget was not
4 included in the revenue requirement because Big Rivers will only incur this
5 expense during the SSR time period.

6 b) Please see the confidential attachment taken from the "Capital" worksheet of the
7 SSR budget that lists the specific capital items and their costs that make up the
8 \$8,200,658.

9

10 **Witness)** Robert W. Berry

**Attachments to Response for Commission Staff's Initial Rehearing
Item 1(a and b) have been omitted from the public filing. They have
been provided under a petition for confidential treatment.**

BIG RIVERS ELECTRIC CORPORATION

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1 **Item 2) Refer to page 25 of the Rebuttal Testimony of Robert W. Berry filed on**
2 **December 17, 2013, in Case No. 2013-00199 ("Berry 00199 Rebuttal Testimony").**
3 **Explain in detail why the revenue increase awarded in the Commission's October 29,**
4 **2013 Order ("Rate Order") should not be reduced by the difference between the \$40.97**
5 **million Big Rivers is to receive under the SSR agreement for fixed and capital cost**
6 **recovery related to operation of the Coleman station and the \$28.66 million used in**
7 **determining Big Rivers' revenue requirement in this case.**

8

9 **Response) The revenue increase awarded in the Rate Order should not be reduced by the**
10 **difference between \$40.97 million and \$28.66 million because the two numbers are not**
11 **related, as explained below.**

12 **The \$28.66 million is a two-year average of the Fixed Departmental Expense**
13 **("FDE") savings expected with Coleman Station idled compared to Coleman Station running.**
14 **Please note that the \$28.66 million was not used in determining Big Rivers' revenue**
15 **requirement in this case. Big Rivers' forecasted test period in this case was based on the**
16 **assumption that a generating station would be idled. Although Big Rivers originally assumed**
17 **that the Wilson Station would be idled, Big Rivers explained in its rebuttal testimony that**
18 **Coleman Station would instead be idled. In the Rate Order, the Commission made an**

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1 adjustment to the revenue requirement to reflect that Coleman would be idled instead of
2 Wilson. Thus, the test period revenue requirement includes only the costs associated with an
3 idled Coleman and does not include the costs of running Coleman. The \$28.66 million is
4 therefore not revenue Big Rivers included in its test period revenue requirement.

5 The \$40.97 million is a specific one-year budget (September 1, 2013, through August
6 31, 2014) that reflects the expected fixed and capital costs associated with operating the
7 Coleman units as SSR units, less the Coleman-related costs Big Rivers would have incurred
8 with Coleman Station idled.

9 The difference between the \$40.97 million and the \$28.66 million (\$12.313 million)
10 does not provide any meaningful information. The \$28.66 million is not revenue to Big
11 Rivers in the test period, and the \$12.313 million difference is not additional, unaccounted
12 for revenues that Big Rivers will receive in the test period.

13 The \$40.97 million is the amount budgeted to reimburse Big Rivers for the
14 incremental costs associated with running Coleman Station over and above the cost Big
15 Rivers would incur if Coleman were idled. But, as memorialized in Exhibit 2 of the SSR
16 Agreement, the SSR Agreement includes a true- up mechanism pursuant to which Big Rivers
17 will only be reimbursed for its actual operating costs. Because the test period revenue
18 requirement includes only the costs associated with an idled Coleman Station, none of the

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1 costs associated with running Coleman Station as an SSR are in the test period revenue
2 requirement. Thus, and with one exception, the revenues Big Rivers will receive under the
3 SSR Agreement (which are budgeted to be \$40.97 million for September 1, 2013, through
4 August 31, 2014) have no impact on the revenue requirement because those revenues will be
5 offset by the actual costs Big Rivers will incur to run Coleman Station, none of which were
6 included in the revenue requirement.

7 The only item that Big Rivers will be reimbursed for under the SSR Agreement that is
8 included in the revenue requirement is a portion of the taxes and insurance attributable to
9 Coleman Station. Taxes and insurance expense exists regardless of whether Coleman Station
10 is idled or whether it is running. Big Rivers originally had no basis for assuming the taxes
11 and insurance expense for Coleman Station would be lower with Coleman Station idled, but
12 now, the SSR Agreement provides that Big Rivers will be reimbursed for the difference of
13 the taxes and insurance expense with Coleman Station running versus idled. This difference
14 amounts to \$110,226 for the twelve month test period in this case. The incremental taxes
15 and insurance expenses were removed from the revenue requirement in Case Number 2013-
16 00199 in the rebuttal testimony of John Wolfram, page 33.

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1 Finally, Big Rivers would note that the \$40.97 million figure includes items not
2 included in the \$28.66 million figure. The \$12.313 million difference is made up of the
3 following:

- 4 • \$3.397 million fixed operating cost difference explained in Big Rivers'
5 response to Staff Rehearing Item 1(a);
- 6 • \$8.201 million in capital detailed in Big Rivers' response to Staff
7 Rehearing Item 1(b); and
- 8 • \$0.715 million included for Return on Net Base in SSR Budget, which
9 is intended to reimburse Big Rivers for the carrying cost of the Fuel
10 and Material and Supplies inventory Big Rivers needs to operate the
11 plant and that Big Rivers would not incur if Coleman Station were
12 idled.
13

14 Witness) Robert W. Berry

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1 **Item 3)** *Refer to page 25 of the Berry 00199 Rebuttal Testimony. Lines 13-17 on*
2 *page 25 indicate that revenues to be received under the SSR Agreement are for*
3 *reimbursement of costs to operate the Coleman units with no profits realized by Big*
4 *Rivers. Explain whether any of the estimated costs for which Big Rivers is to be*
5 *reimbursed under the SSR Agreement were included in the revenue requirement which*
6 *formed the basis for the rate increase awarded in the Rate Order.*

7

8 **Response)** With one exception, the costs for which Big Rivers is to be reimbursed under
9 the SSR Agreement are not included in the revenue requirement. The exception is for the
10 difference between the property taxes and insurance for Coleman Station Big Rivers will pay
11 with Coleman running, and the property taxes and insurance Big Rivers would pay if
12 Coleman Station was idled. Please see Big Rivers' response to Staff Rehearing Item 2 for a
13 further discussion of the property taxes and insurance.

14

15 **Witness)** Robert W. Berry

BIG RIVERS ELECTRIC CORPORATION

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January 28, 2014

1 Item 4) *Refer to Exhibit Berry Rebuttal-7 to the Berry 00199 Rebuttal Testimony,*
2 *which is a timeline of events that led up to the SSR Agreement.*

3 a) *The first line on the timeline exhibit indicates that on 9/16/2013 Big Rivers sent a*
4 *Coleman SSR budget for three units to the Midcontinent Independent System*
5 *Operator, Inc. ("MISO"), and the Independent Market Monitor ("IMM"). Provide*
6 *that budget, along with a narrative description of the items contained in the budget.*

7 b) *The second line on the timeline exhibit indicates that, pursuant to a 9/26/2013*
8 *conference call with MISO and IMM, Big Rivers was to make five revisions to the*
9 *budget submitted on 9/16/2013. Provide an updated version of the 9/16/2013 SSR*
10 *budget which includes those five revisions.*

11 c) *Provide the date Big Rivers became aware that the amount to be included in the*
12 *SSR agreement would be greater than the \$28.66 million it estimated in this case.*

13

14 Response)

15 a) Please see the confidential attachment of the Coleman Station SSR Budget that was
16 submitted to MISO on September 16, 2013. It should be noted, when this budget was
17 submitted on September 16, 2013, it had not been reviewed or approved by MISO or
18 IMM.

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- 1 b) Please see the confidential attachment of the Coleman Station SSR Budget that was
2 provided on October 29, 2013, which includes the revisions as directed by the
3 Independent Market Monitor (IMM).
- 4 c) Please note that the \$28.66 million was not an estimate of the amount of revenues Big
5 Rivers would receive under the SSR Agreement. The \$28.66 million was a two-year
6 average of the Fixed Departmental Expense ("FDE") savings associated with idling a
7 generating plant compared to operating the plant.

8 The budgeted amount in the SSR Agreement, on the other hand, is the total
9 cost to operate the Coleman Station, which includes the incremental fixed costs and
10 the variable costs of operating the plant, less the costs Big Rivers would incur if the
11 plant was idled. Please see Big Rivers' response to Staff Rehearing Item 2 for an
12 explanation for why comparing or taking the difference between the Coleman Station
13 two-year average expected fixed cost annual savings (\$28.66 million) and the
14 Coleman Station SSR budget amount is not an appropriate comparison. Big Rivers'
15 response to Staff Rehearing Item 2 also includes a description of the items included in
16 the SSR budget amount that are not included in the \$28.66 million estimated fixed
17 cost savings, such as capital costs. MISO and the IMM approved the Coleman
18 Station SSR budget on October 31, 2013.

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Witness: Robert W. Berry
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1

2 Witness) Robert W. Berry

**Attachments to Response for Commission Staff's Initial Rehearing
Item 4(a and b) have been omitted from the public filing. They have
been provided under a petition for confidential treatment.**