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October 30, 2013

**Via Personal Delivery**

Mr. Jeff Derouen, Executive Director
Case No. 2013-00199
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Case No. 2013-00199 Corrections to Public Version of Direct Testimony of Frank Ackerman on Behalf of Sierra Club

Dear Mr. Derouen,

On October 29, 2013, Sierra Club inadvertently filed a public version of Frank Ackerman's Direct Testimony that contained information that is subject to a petition for confidential treatment filed by James Miller and Tyson Kamuf, Counsel for Big Rivers Electric Corporation. Enclosed, please find one original and ten (10) copies of the corrected version of pages 5 and 28 of the public version of the Direct Testimony of Frank Ackerman on Behalf of Sierra Club. Please replace these pages from the public record with these updated, redacted versions.

Sincerely,

Kristin A. Henry

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is the minimum that BREC needs to reach soon for financial stability once in the next 15 years. If their expert is to be believed, then BREC will need additional increases in rates – particularly since, as I have shown in earlier sections, its current planning greatly overstates its prospective revenue.

Finally, in Section 8, I explore the obvious remedy for BREC's financial woes: either selling at greatly reduced prices or closing the Coleman and Wilson plants. To date, BREC has only offered to sell these plants at unrealistically high prices. Selling or shutting down these plants would save money via the avoided costs of planned environmental upgrades, and the avoided fixed costs of plant ownership such as insurance and property taxes. Idling but keeping the plants, as BREC proposes, is more expensive; it imposes the fixed costs of ownership of unused capacity on ratepayers, and it will require the substantial expenses of environmental upgrades before the plants can be brought back into service. In the worst case, if BREC cannot sell the plants, the Company could reduce revenue requirements by closing them rather than idling them.

**Q. Please summarize your recommendation.**

A. I recommend that the Commission grant BREC only short-term rate increases, sufficient to allow the Company to recalculate the costs and benefits of selling or closing Wilson and Coleman, and to modify its plans accordingly. The full, permanent rate increase requested by the Company should not be granted; it would impose substantial burdens on BREC's remaining customers, yet it would be far from enough to solve the underlying problem that BREC has approximately three times as much capacity as it needs.

As I will explain, BREC's analysis and forecasts appear deficient in several respects, perhaps strained by the attempt to prove the impossible case for keeping Wilson and Coleman. The Commission should direct them to develop revised and improved analyses, as a basis for more careful resource planning.

BREC can reduce revenue requirements and the burden on its customers can be eased by selling or closing the Coleman and Wilson plants. The Commission should direct BREC to immediately drop the asking prices, [redacted] and its consultants are right to imagine that MISO capacity prices will go through the roof in 2016, followed by energy prices in 2021-2023; if the load forecast is correct in showing that BREC will somehow acquire massive new load, on the same scale as the smelters, around 2019-2021; if BREC's requested more than doubling of rates has only a minor impact on rural demand and no impact on industrial demand; if no new regulations make coal plants even more expensive to operate in the future; if other utilities retire their coal plants, but stop building gas plants in order to continue serving their existing load – then keeping Wilson and Coleman available to restart in the future could turn out to be a bargain.

This is the future BREC is gambling on, when it refers to sales of Wilson and Coleman [redacted] as tantamount to throwing away a valuable asset (responses to SC 2-25, 2-26). They could, of course, win the gamble someday. But experience has shown, over and over, that they are far more likely to continue to lose. They have presented no persuasive evidence or arguments that their luck is about to turn.

**Q. How would you summarize the costs of the two scenarios?**

A. The Status Quo scenario includes several million dollars of annual fixed costs to keep the plants on standby, and likely more than $200 million of environmental upgrades before they can be restarted, in order to gamble on a very unlikely future. The Right-Sized scenario incurs only modest transaction costs and perhaps plant shutdown costs, and loses nothing except the opportunity to gamble on a future in which every one of BREC's hopes and forecasts comes true. Meanwhile, it leaves BREC and its ratepayers with an appropriately sized utility, without the risks of carrying the additional capacity that once served two enormous smelters.

**Q. What is your recommendation to the Commission?**

A. I recommend that the Commission grant BREC only very short-term rate increases, sufficient to keep the Company afloat while it recalculates the costs and benefits of selling or closing Wilson and Coleman, and adjusts its plans accordingly. The recalculation should include more sober estimates of future capacity and energy prices, more realistic load forecasts for a regional economy