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Via Overnight Mail

October 30, 2013

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

Re: Case No. 2013-00199

Dear Mr. Derouen:

Please find enclosed the original and ten (10) copies of KIUC's MOTION TO AMEND PUBLIC VERSION OF THE DIRECT TESTIMONY AND EXHIBITS OF LANE KOLLEN and PHIL HAYET to be filed in the above-referenced docket.

I also enclose the original and (10) copies each of the below-referenced pages. These pages contain confidential information that should have been filed under seal pursuant to a September 3, 2013 Confidential Agreement. Please replace these pages in the October 28, 2013 filed PUBLIC VERSION of the Direct Testimony and Exhibits of Lane Kollen and Phil Hayet. I also enclose a copy of the CONFIDENTIAL pages to be filed under seal.

Lane Kollen – page 26

PHil Hayet – pages 4, 11, 32, 33, 35, 37 and 42

By copy of this letter, all parties listed on the Certificate of Service have been served. Please place these documents of file.

Very Truly Yours,

Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.
Jody Kyler Cohn, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment
cc: Certificate of Service
Quang Nyugen, Esq.
Richard Raff, Esq.
Jeff Cline (cover ltr only)

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by electronic mail (when available) and by Overnight Mail, unless other noted, this 30th day of October, 2013 to the following:

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
OCT 31 2013
PUBLIC SERVICE COMMISSION

In The Matter Of:
APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES) **Case No. 2013-00199**

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
MOTION TO AMEND PUBLIC VERSION OF DIRECT TESTIMONY AND EXHIBITS OF LANE KOLLEN and PHIL HAYET

On October 28, 2013 Kentucky Industrial Utility Customers, Inc. ("KIUC") filed the PUBLIC VERSION of the Direct Testimony and Exhibits of Lane Kollen and Phil Hayet. Pages 37 and 42 of the Phil Hayet's Direct Testimony and page 26 of Lane Kollen's Direct Testimony contained additional information that is subject to the Petition of Big Rivers for Confidential Protection that was filed with the Commission on September 3, 2013. KIUC should have filed pages 4, 11, 32, 33 and 35 of Phil Hayet's testimony under seal and redacted the public version of its filing.

KIUC moves to amend its October 28, 2013 filing in order to correct this oversight. Attached are the above-referenced redacted pages of the Direct Testimony of Lane Kollen and Phil Hayet. These redacted pages should replace the public pages currently on file. Also attached are the CONFIDENTIAL pages to be filed under seal.

Respectfully submitted,

K Boehm

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COUNSEL FOR KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

October 30, 2013

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
OCT 31 2013
PUBLIC SERVICE COMMISSION

In The Matter Of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT OF RATES	**) CASE NO. 2013-00199**

AMENDED PUBLIC VERSION

DIRECT TESTIMONY

AND EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

OCTOBER 28, 2013

A. The Company's claimed revenue requirement still includes [redacted] million in fixed costs for these plants, consisting of [redacted] million for the Wilson plant and [redacted] million for the Coleman plant. These annual costs could be avoided in whole or part if the Company sold or otherwise divested these power plants. The fixed costs include O&M expense, property insurance expense, property tax expense, depreciation expense, interest expense, and the TIER margin. These amounts were provided by the Company in its Confidential responses to AG 1-105 and AG 1-106, which I have replicated as my Confidential Exhibit___(LK-3) and Confidential Exhibit___(LK-4), respectively.

Q. Are the Company's attempts to sell the ownership or output of the Wilson and Coleman plants serious offers to divest these assets and reduce its excess capacity?

A. No. The Company has submitted bids in response to numerous requests for proposal issued by other utilities, according to its Confidential responses to PSC 2-15 and PSC 2-16. However, these bids are not serious offers to sell. Rather, they are a collective exercise in futility because they reflect the fact that the Company has decided that it will not sell the plants unless it can sell them at [redacted] Not surprisingly, the Company's bids

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. 2013-00199**

AMENDED PUBLIC VERSION

DIRECT TESTIMONY

AND EXHIBITS

OF

PHILIP HAYET

ON BEHALF OF THE

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

October 28, 2013

is successful. This testimony concerns my review of the assumptions incorporated in and the results from the Company's production cost modeling analyses, and in particular, I evaluate the economics of the Wilson and Coleman plants, the risk of CO_2 and other environmental costs, and the Company's replacement load assumptions.[1]

Q. Please summarize your conclusions and recommendations.

A. My conclusions and recommendations are:

1. The Company's Load Mitigation Plan is premised on unrealistic or clearly erroneous assumptions, including:
   A. The addition of 800 MW and 5,256,000 MWH of unsubstantiated replacement load over a six year period in addition to its native load and MISO market sales;
   B. The failure to consider CO_2 impacts stemming from regulatory requirements, which will increase coal generation costs and market sales revenues. The impact on coal generation costs will far exceed the benefit of increased market sales revenues;
   C. The failure to consider other costs, including environmental capital and operating costs, in its modeling decision of whether it is economic to restart either Wilson or Coleman; and,
   D. The failure to consider selling Coleman or Wilson for fair market value, and instead requiring that the units be sold at [redacted]. This decision has artificially constrained the sales process by refusing to recognize that fair market value for these units [redacted].
2. Big Rivers' Load Mitigation Plan is based on nothing more than unfounded hope and speculation. It needs to be fundamentally reevaluated to consider other business options in order to right-size the Company and to avoid a complete bailout by the customers, who can ill afford to pay higher and higher rates. The

[1] While the Company supplied numerous production cost results spreadsheets, no written report summarizing input data, output results, findings or conclusions was developed and produced.

that the high rates will be temporary and will ultimately decline when replacement load or market sales come through as the solution to all of the Company's problems.

IV. LOAD MITIGATION PLAN – UNREALISTIC AND ERRONEOUS ASSUMPTIONS

Q. What unrealistic or erroneous assumptions does the Company include in its Load Mitigation Plan?

A. They are as follows:

A. The addition of 800 MW and 5,256,000 MWH of unsubstantiated replacement load over a six year period in addition to its native load and MISO market sales;

B. The failure to consider CO_2 impacts stemming from regulatory requirements, which will increase coal generation costs and market sales revenues. The impact on coal generation costs will far exceed the benefit of increased market sales revenues;

C. The failure to consider other costs, including environmental capital and operating costs, in its modeling decision of whether it is economic to restart either Wilson or Coleman; and,

D. The failure to consider selling Coleman or Wilson for fair market value, and instead requiring that the units be sold at [redacted]. This decision has artificially constrained the sales process by refusing to recognize that fair market value for these units [redacted].

A. UNSUBSTANTIATED REPLACEMENT LOAD

Q. Please explain the assumptions the Company used in its modeling to study its Load Mitigation Plan.

A. In the Company's production cost analysis, it assumed that the Century and Alcan loads would be removed beginning September 1, 2013 and February 1, 2014,

Q. What results did you develop?

A. Based on the Company's production cost model analysis, I developed a production cost summary for the Company's base case, and for each sensitivity case, which appears below.

[redacted]

Sensitivity 1 demonstrates that with CO_2 costs, Big Rivers production costs increase on average about [redacted] million dollars per year, whereas market and replacement load revenues increase on average by only about [redacted] million per year. The net impact is an increase on average of about [redacted] million per year. Sensitivity 2 indicates that if less onerous CO_2 regulations are implemented, and utilities only have to pay for allowances based on a portion of the total CO_2 produced, then Big Rivers' production costs would increase on average about [redacted] million per year, whereas market and replacement load revenues would increase on average by only about [redacted] million per year. The net impact is an increase on average of about [redacted] million per year. The results show that the impact of CO_2 costs on the cost of operating Big Rivers' generating units is significantly greater than the added benefit derived from higher market priced revenues.

Q. How does the efficiency of a unit affect the CO_2 impact?

A. The amount of CO_2 emitted by a unit is influenced by the unit's efficiency (heat rate). The more efficient a unit is, the less CO_2 will be emitted for each MWH of generation. The Coleman units are smaller and less efficient than the Wilson unit, and therefore, the CO_2 allowance cost impact at Coleman will be greater than at Wilson. The chart below compares coal unit heat rates at a selection of coal units has greatly understated the costs that will be incurred once it re-starts the Coleman and Wilson units. In 2020, Sensitivity 1 indicates that total production costs will increase by [redacted] million with CO_2 impacts included. Of this [redacted] million increase, the Coleman and Wilson units are responsible for [redacted] million or about [redacted] of the total impact caused by inclusion of CO_2 costs. Given the magnitude of these impacts, CO_2 should have been considered in the Company's analysis.

C. OTHER EXCLUDED COSTS

Q. What is the third unrealistic or erroneous assumption that the Company included in its Load Mitigation Plan Analysis?

A. The Company's third erroneous assumption was that certain capital and operating costs would not be incorporated in the Load Mitigation Plan analysis of when to restart the idled Wilson or Coleman plants. Before either plant can be restarted major capital investments must be made, and after they are restarted ongoing capital investments and increased operating costs for environmental compliance and other reasons will be incurred. Assuming that Big Rivers will be able to find lenders willing to fund its merchant generation business (which is questionable given its inability to access the private debt markets), ignoring the return of and return on the increased capital investments in its financial modeling is erroneous.

Q. What was the basis for the Company's modeling decision to re-start Wilson and Coleman in 2018 and 2019, respectively?

Load Mitigation Plan modeling analyses. The following table contains variable cost gross margin results that were derived from the Company's production cost results.

[redacted]

According to the Company's explanation in KIUC 2-14 included above, the gross margin would have to exceed the fixed cost savings, which for each plant is approximately $[redacted] million. The Company's assumption that this would occur in 2018 for Wilson and 2019 for Coleman appears to be erroneous. The first year that the net margin exceeds $[redacted] million is not until 2021 for each unit. The Company's analysis does not justify the earlier restart dates. If there is an explanation, the Company should supplement its various discovery responses and address the issue when it files its next round of testimony.

Q. **You also indicated that the Company's analysis of when to re-start the units is flawed because it has excluded other costs that you believe should have been captured in the analysis. What are those costs?**

A. In addition to the variable production costs associated with operating the units, there are also other revenue requirements that are avoidable as long as the units are not re-started. Once the units re-start, then additional costs will have to be incurred at

D. ARTIFICIAL CONSTRAINTS ON THE SALES PROCESS

Q. What is the final unrealistic or erroneous assumption that the Company included in its Load Mitigation Plan?

A. The final unrealistic assumption is the Company's refusal to consider selling Coleman or Wilson for fair market value, and instead requiring that the units to be sold at [redacted]. This decision has artificially constrained the sales process by refusing to recognize that market value for these [redacted] This is an unrealistic assumption because an arm's length buyer would only be willing to pay market value, [redacted]

Q. Would customers be better off if the Company were able to sell at [redacted]

A. Certainly they would be, if there was a reasonable chance that the Company could sell the units above fair market value. But just as it would not be realistic to attempt to sell a house for more than fair market value, it would not be reasonable to insist on receiving more than fair market value for the idled plants. Furthermore, the longer the units sit idle, the less value they will likely have because as time goes by CO_2 and other environmental regulations will be imposed, and coal units will be hardest hit by the regulations. Furthermore, there is a cost to ratepayers just to keep the units off-line. As Mr. Kollen discusses, it will cost the Company and its customers more than $[redacted] million per year in fixed costs if the Company retains the Wilson and Coleman power plants rather than selling them or otherwise divesting them.