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PUBLIC SERVICE COMMISSION

November 22, 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 Ben Taylor and Sierra Club's Responses to Commission Staff's Requests for Information (Public Version)

Dear Mr. Derouen,

Enclosed please find one original and ten (10) copies of Ben Taylor and Sierra Club's Responses to Commission Staff's Requests for Information, filed today in the above-referenced matter via personal delivery. One (1) copy of the confidential version of Ben Taylor and Sierra Club's Responses will be filed today by local counsel Joe F. Childers via personal delivery. Response No. 1 (pg. 2) includes information that is subject to a petition for confidential treatment filed by James Miller and Tyson Kamuf, Counsel for Big Rivers Electric Corp. By copy of this letter, all parties listed on the Certificate of Service have been served via USPS and e-mail. Please place this document of file.

Sincerely,

Kristin A. Henry

Kristin A. Henry
Senior Attorney
Sierra Club
85 Second Street
San Francisco, CA 94105
Phone: (415) 977-5716
kristin.henry@sierraclub.org

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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:	)	
	)	**CASE NO. 2013-00199**
Application of Big Rivers Electric Corporation for	)	
A General Adjustment in Rates	)	

BEN TAYLOR AND SIERRA CLUB'S RESPONSES STAFF'S
REQUESTS FOR INFORMATION
(PUBLIC VERSION)

Intervenors Ben Taylor and Sierra Club (collectively "Sierra Club") hereby submit their responses Staff's Requests for Information.

Request No. 1: Refer to the Direct Testimony of Frank Ackerman ("Ackerman Testimony") at page 5, lines 17-19, and page 28, lines 26-29. These portions of the testimony refer to granting Big Rivers "short-term rate increases" sufficient to allow it to recalculate the costs and benefits of selling or closing the Wilson and Coleman generating stations.

a. Provide a specific definition of what Mr. Ackerman means by "short term rate increases."

b. Identify the amount of the increase, with all necessary supporting calculations, Mr. Ackerman recommends as being sufficient to allow Big Rivers Electric Corporation ("Big Rivers") to recalculate the costs and benefits of selling or closing the Wilson and Coleman plants.

Response No. 1:

a. Big Rivers has argued that it is dangerously close to the margin of financial survival. Since my recommendations call for them to make significant changes in their operations – namely, to sell or retire Coleman and Wilson – I believe it is reasonable to allow a six-month interval before making the full reduction that I recommend in their revenue requirement. Thus I propose one level of revenue requirements to take effect immediately (February 1, 2014), and a lower level to take effect six months later (August 1, 2014).

b. As explained in response to BREC 1-1, I recommend two phases of adjustments to the Company's requested $70.4 million increase in revenue requirements. Effective immediately, I recommend disallowance of the requested depreciation on Coleman and Wilson, totaling $26.6 million in the test year (see revised response to KIUC 1-21). These units represent significant amounts of excess capacity that is not needed to serve Big Rivers' customers; in fact, the Company proposes to idle both units. This would imply an immediate reduction of the revenue requirement to a no more than $43.8 million increase (at an annual rate).

After the six-month period, which allows Big Rivers a chance to adjust to the new realities of post-smelter, post-Coleman and Wilson operations, two additional reductions should be made to the revenue requirements. First, the transmission revenues that BREC will receive from the smelters should be deducted from revenue requirements. In round numbers, this represents a reduction of $5.7 million for transmission revenues from the Sebree smelter, and another $7.5 million for revenues from the Hawesville smelter if and when Coleman exits from SSR status (as explained in the response to Staff 1-2 below, Big Rivers apparently expects this to happen in less than six months).

Second, the fixed costs of the Wilson and Coleman units, other than depreciation and interest payments, should also be removed from revenue requirements. As shown in the revised response to KIUC 1-21, this is an additional reduction of about [redacted] million. The Commission should allow the Company to include interest payments on existing debts in its revenue requirements in order to remain in good standing with its lenders and avoid bankruptcy.

The combined result of these adjustments, after August 1, 2014, is a reduction of the requested $70.4 million increase to an annual rate of no more than [redacted] million, if Coleman continues to operate under SSR status, and [redacted] million, after Coleman leaves SSR status.

Other parties, such as KIUC witness Lane Kollen, have recommended several other reductions in the Company's revenue requirements. I have not evaluated these recommended reductions, and I am not expressing an opinion, pro or con, on them. If some of these recommendations are adopted, in addition to my recommendations, then the final revenue requirements will be even lower than the amounts I have proposed.

Request No. 2: Refer to page 21 of the Ackerman Testimony.

a. Explain whether this discussion is intended as a recommendation to recognize the transmission revenues cited therein as an adjustment for ratemaking purposes or intended solely to emphasize the contribution these revenues will make to Big Rivers' financial stability, as stated on lines 23-24.

b. At lines 20-21, Mr. Ackerman states, "Once the SSR issue is resolved, BREC will receive approximately $13.2 million per year in transmission revenues, assuming both smelters continue to operate at full capacity." Explain what is meant by "the SSR issue" and describe Mr. Ackerman's understanding of when it is expected to be resolved.

Response No. 2:

a. This is intended as a recommendation to recognize the transmission revenues as an adjustment (reduction) of revenue requirements for ratemaking purposes. As explained in the response to Staff question 1-1 above, I recommend that the Commission reduce the Company's requested revenue requirement by $5.7 million for the transmission revenues from the Sebree smelter. After the Coleman station is no longer designated as an SSR unit by MISO, the Commission should reduce BREC's revenue requirement by an additional $7.5 million to reflect the transmission revenues from the Hawesville smelter.

b. BREC proposed idling Coleman, but MISO has designated Coleman as a SSR (System Support Resource) unit, which must continue to operate in order to maintain the reliability of the MISO transmission system. As a result, MISO and BREC have negotiated an agreement under which MISO pays the fixed and variable costs of operating Coleman. Any other Coleman-related revenues received by BREC are subtracted from MISO's SSR payments, in order to avoid double recovery of costs. For this reason, as Mr. Berry stated in response to KIUC 1-35, "It was assumed that Century Kentucky [Hawesville] transmission revenues would be offset against SSR costs."

As Mr. Berry stated in response to KIUC 1-51, "MISO has confirmed Coleman as an SSR unit until Century installs capacitors and a special protective system (relays), and agrees to curtail load when a transmission constraint occurs." That is, Century could take actions that would eliminate Coleman's SSR status. This would appear to be profitable for Century, since according to the attachment to the response to AG 1-209(a), p.8, "Century has agreed to pay all of the operating cost of Coleman that is allocated to Big Rivers by MISO." The same source described the SSR agreement as extending until the installation of the capacitors and relays (eliminating the need for Coleman as a SSR unit), or June 1, 2014, whichever comes first. The response to AG 1-224 likewise says "Big Rivers has plans to idle the Coleman Station at the end of May 2014 or sooner," depending on when Century has the necessary equipment installed.

Thus it seems plausible to conclude that Big Rivers anticipates that Coleman's SSR status will end by June 1, 2014, or earlier.

Request No. 3: Refer to page 25, lines 3-8, and page 29, lines 5-8, of the Ackerman Testimony.

a. Confirm that on page 25, Mr. Ackerman is indicating that Sierra Club is agreeable to allowing Big Rivers to recover the cost of debt associated with the Wilson and Coleman plants if such debt remains on Big Rivers' books as an obligation after the sale or closure of those plants.

b. Confirm that by stating that the Commission "should make clear its willingness to allow rates that cover scheduled debt payments after the departure of Wilson and Coleman" on page 29, that Mr. Ackerman is recommending that the Commission do this when it grants the short-term rate increase he refers to on pages 5 and 28 of his testimony.

Response No. 3:

a. Confirmed.

b. Confirmed.

CERTIFICATE OF SERVICE

I certify that I mailed a copy of Ben Taylor and Sierra Club's Responses to Staff's Request for Information by e-mail and/or U.S. First Class mail on November 22, 2013 to the following:

Tyson Kamuf
Billie Richert
Edward T. Depp
Sullivan, Mountjoy, Stainback & Miller, PSC
100 Saint Ann Street
P.O. Box 727
Owensboro, KY 42302-0727

Jennifer B. Hans
Lawrence W. Cook
Assistant Attorneys General
1024 Capital Center Dr. Suite 200
Frankfort, KY 40601

Mr. David Brevitz
3623 SW Woodvalley Terrace
Topeka, KS 66614

Mr. Bion C. Ostrander
1121 S.W. Chetopa Trail
Topeka, KS 66615

Mr. Larry Holloway
830 Romine Ridge
Osage City, KS 66523

Michael L. Kurtz
Kurt J. Boehm
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202

G. Kelly Nuckols
President and CEO
Jackson Purchase Energy Corporation
2900 Irvin Cobb Drive
P.O. Box 4030
Paducah, KY 42002-4030

Melissa D. Yates
Denton & Keuler, LLP
555 Jefferson Street Suite 301
Paducah, KY 42001

Burns Mercer
Meade County RECC
1351 Hwy. 79
P.O. Box 489
Brandenburg, Kentucky 40108

Thomas C. Brite, Esq.
Brite & Hopkins, PLLC
83 Ballpark Road
Hardinsburg, KY 40143

Gregory Starheim
President & CEO
Kenergy Corp.
3111 Fairview Drive
P.O. Box 1389
Owensboro, KY 42302-1389

J. Christopher Hopgood, Esq
318 Second Street
Henderson, Kentucky 42420

Violet Lehrer