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November 12, 2013

Via FedEx Overnight Delivery

Mr. Jeff Derouen  
Executive Director  
Public Service Commission of Kentucky  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602-0615

RECEIVED

NOV 13 2013

PUBLIC SERVICE  
COMMISSION

*In the Matter of:*

*An Examination by the Public Service Commission of the Environmental  
Surcharge Mechanism of Big Rivers Electric Corporation for the Two-Year  
Billing Period Ending July 31, 2013 and the Pass Through Mechanism of its  
Three Member Distribution Cooperatives –  
Case No. 2013-00347*

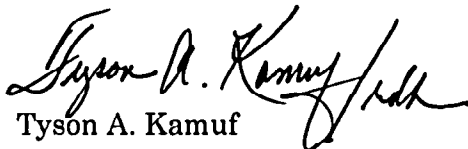
Dear Mr. Derouen:

Enclosed for filing in the above referenced matter are an original and seven (7) copies of Big Rivers Electric Corporation's responses to the Public Service Commission Staffs' First Request for Information and an original and seven (7) copies of the Direct Testimony of Nicholas R. Castlen in support of the reasonableness of the environmental surcharge mechanisms of Big Rivers Electric Corporation, Jackson Purchase Energy Corporation, Kenergy Corp., and Meade County Rural Electric Cooperative Corporation. I certify that on this date, copies of this letter, the testimony, and the responses were served on all parties of record by first class mail, postage prepaid.

Please confirm the Commission's receipt of this information by having the Commission's date stamp placed on the enclosed additional copy and returning to Big Rivers in the self-addressed, postage paid envelop provided.

Should you have any questions about this matter, please contact me.

Sincerely yours,

  
Tyson A. Kamuf

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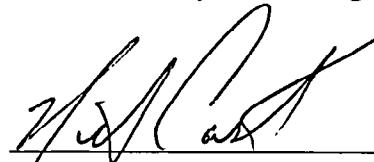
**BIG RIVERS ELECTRIC CORPORATION**

**AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE  
ENVIRONMENTAL SURCHARGE MECHANISM OF  
BIG RIVERS ELECTRIC CORPORATION  
FOR THE TWO-YEAR BILLING PERIOD ENDING JULY 31, 2013  
AND THE PASS THROUGH MECHANISM  
OF ITS THREE MEMBER DISTRIBUTION COOPERATIVES  
CASE NO. 2013-00347**

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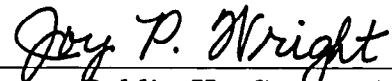
**VERIFICATION**

I, Nicholas R. (Nick) Castlen, verify, state, and affirm that the Direct Testimony and data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

  
\_\_\_\_\_  
Nicholas R. (Nick) Castlen

COMMONWEALTH OF KENTUCKY )  
COUNTY OF HENDERSON )

SUBSCRIBED AND SWORN TO before me by Nicholas R. (Nick) Castlen on this the 7 day of November, 2013.

  
\_\_\_\_\_  
Notary Public, Ky. State at Large  
My Commission Expires \_\_\_\_\_

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



**BIG RIVERS ELECTRIC CORPORATION**

**AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE  
ENVIRONMENTAL SURCHARGE MECHANISM OF  
BIG RIVERS ELECTRIC CORPORATION  
FOR THE TWO-YEAR BILLING PERIOD ENDING JULY 31, 2013  
AND THE PASS THROUGH MECHANISM  
OF ITS THREE MEMBER DISTRIBUTION COOPERATIVES  
CASE NO. 2013-00347**

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NOV 13 2013  
PUBLIC SERVICE  
COMMISSION

**VERIFICATION**

I, Lawrence V. (Larry) Baronowsky, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

*Lawrence V. Baronowsky*  
Lawrence V. (Larry) Baronowsky

COMMONWEALTH OF KENTUCKY )  
COUNTY OF HENDERSON )

SUBSCRIBED AND SWORN TO before me by Lawrence V. (Larry) Baronowsky on this the 7 day of November, 2013.

*Joy P. Wright*  
Notary Public, Ky. State at Large  
My Commission Expires \_\_\_\_\_



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

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

**RECEIVED**  
NOV 13 2013  
PUBLIC SERVICE  
COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC )  
SERVICE COMMISSION OF THE )  
ENVIRONMENTAL SURCHARGE )  
MECHANISM OF BIG RIVERS ELECTRIC )  
CORPORATION FOR THE TWO-YEAR )  
BILLING PERIOD ENDING JULY 31, 2013 )  
AND THE PASS THROUGH MECHANISM )  
OF ITS THREE MEMBER DISTRIBUTION )  
COOPERATIVES )

Case No.  
2013-00347

DIRECT TESTIMONY

OF

NICHOLAS R. CASTLEN

ON BEHALF OF

BIG RIVERS ELECTRIC CORPORATION,  
JACKSON PURCHASE ENERGY CORPORATION,  
KENERGY CORP., AND  
MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

FILED: November 13, 2013

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**DIRECT TESTIMONY  
OF  
NICHOLAS R. CASTLEN**

**Q. Please state your name, business address, and position.**

A. My name is Nicholas R. Castlen, and my business address is Big Rivers Electric Corporation ("Big Rivers"), 201 Third Street, Henderson, Kentucky, 42420. I am the Manager of Finance at Big Rivers.

**Q. Please summarize your education and professional experience.**

A. I received a Bachelor of Science in Accounting from the University of Kentucky in 2006 and a Master of Science in Accounting from the University of Kentucky in 2007. I became a Certified Public Accountant ("CPA") in the state of Kentucky in 2007.

Before assuming my current position as Manager of Finance in July 2013, I was a Staff Accountant at Big Rivers primarily responsible for accounting for the Company's long- and short-term debt obligations and various rate mechanisms. Prior to joining Big Rivers, I was a Revenue Accounting Analyst at LG&E and KU Energy LLC from December 2009 to April 2012, where I was responsible for various accounting, reporting, and analysis roles for retail and wholesale, electric and gas utility revenues. From January 2006 to December 2009, I was employed by PricewaterhouseCoopers LLP as an Audit and Assurance Associate.

**Q. Please summarize your duties at Big Rivers.**

1 A. As Manager of Finance my primary responsibilities involve providing  
2 direction and oversight to corporate accounting and finance activities  
3 related to regulatory requirements, debt administration, financial  
4 forecasting, taxes (income, property, and sales & use), and fixed assets.  
5 Additionally, I am responsible for preparing Big Rivers' Fuel Adjustment  
6 Clause ("FAC"), Environmental Surcharge ("ES"), Unwind Surcredit ("US"),  
7 and Non-FAC Purchased Power Adjustment ("NFPPA") filings with the  
8 Kentucky Public Service Commission ("Commission").

9 **Q. Have you previously testified before the Commission?**

10 A. Yes. I provided testimony and responses to data requests in Case Numbers  
11 2012-00534 and 2013-00139, and provided responses to data requests in  
12 Case Numbers 2012-00555 and 2013-00266.

13 **Q. On whose behalf are you filing this testimony?**

14 A. I am filing this testimony on behalf of Big Rivers and its three member  
15 distribution cooperatives, Jackson Purchase Energy Corporation ("JPEC"),  
16 Kenergy Corp. ("Kenergy"), and Meade County Rural Electric Cooperative  
17 Corporation ("Meade County") (collectively, "the Members").

18 **Q. What is the purpose of your testimony in this proceeding?**

19 A. The purpose of my testimony is to describe the application of Big Rivers'  
20 environmental surcharge mechanism as billed from August 1, 2011 through  
21 July 31, 2013 (which corresponds to the expense months of June 2011  
22 through May 2013). Additionally, I have coordinated with Big Rivers'

1 Members in the preparation of this testimony and prepared responses to the  
2 Commission Staff's First Request for Information ("Commission's Initial  
3 Requests") that accompany this testimony. I will also explain why Big  
4 Rivers is not proposing to roll any ES amounts into base rates.

5 This testimony also includes information the Members have provided  
6 me in support of their pass-through mechanisms that are also under review  
7 in this proceeding and that the Members use to pass through, to their retail  
8 members, the costs Big Rivers charges to them under Big Rivers'  
9 environmental surcharge mechanism. The review period for the Members'  
10 pass-through mechanisms that corresponds to the August 1, 2011 through  
11 July 31, 2013 billing period for Big Rivers' environmental surcharge  
12 mechanism are the billing months of September 2011 through August 2013  
13 for non-dedicated delivery point customers (*i.e.*, there is a one-month lag for  
14 non-dedicated delivery point customers), and August 2011 through July  
15 2013 for dedicated delivery point customers (*i.e.*, there is no billing lag for  
16 dedicated delivery point customers).

17 **Q. Please provide a brief overview of Big Rivers' environmental**  
18 **surcharge mechanism.**

19 **A. Big Rivers' environmental surcharge mechanism was approved by the**  
20 **Commission by Order dated June 25, 2008, in Case No. 2007-00460, which**  
21 **was part of the transaction that unwound Big Rivers' 1998 lease with E.ON**  
22 **U.S. LLC and its affiliates (the "Unwind Transaction") and that the**

1 Commission approved by its Order dated March 6, 2009, in Case No. 2007-  
2 00455. Big Rivers' environmental surcharge went into effect immediately  
3 following the July 16, 2009, closing of the Unwind Transaction for service  
4 commencing July 17, 2009.

5 Big Rivers' environmental compliance plan approved by the  
6 Commission in Case No. 2007-00460 (the "2007 Plan") consists of a program  
7 and the costs associated with controlling each of sulfur dioxide ("SO<sub>2</sub>"),  
8 nitrogen oxide ("NO<sub>x</sub>"), and sulfur trioxide ("SO<sub>3</sub>"). The environmental  
9 surcharge costs Big Rivers may recover under KRS 278.183, and its  
10 environmental compliance plan, include reagent costs, sludge and ash  
11 disposal costs, and emission allowance costs.

12 For the SO<sub>2</sub> program, Big Rivers recovers through its environmental  
13 surcharge mechanism the costs of reagents, the costs for the disposal of coal  
14 combustion byproducts (fly ash, bottom ash, and scrubber sludge), and the  
15 costs of purchasing SO<sub>2</sub> emission allowances. For the NO<sub>x</sub> program, Big  
16 Rivers recovers the costs of reagents and the costs of purchasing additional  
17 NO<sub>x</sub> emission allowances as needed. For the SO<sub>3</sub> program, Big Rivers  
18 recovers the costs of a reagent. Due to generating unit design and Big  
19 Rivers' compliance plan, no Big Rivers generating unit utilizes all the same  
20 reagents. Depending on the unit facilities, various reagents are used to  
21 treat the flue gas, thereby removing the three targeted emissions. The SO<sub>2</sub>  
22 reagents are comprised of emulsified sulfur, lime, fixation lime, limestone,



1 dibasic acid, and sodium bisulfite. The NO<sub>x</sub> reagents are comprised of  
2 anhydrous ammonia and emulsified sulfur. The SO<sub>3</sub> reagent is comprised  
3 of lime hydrate. Note that the 2007 Plan included only operating and  
4 maintenance (“O&M”) costs.

5 In its Order dated October 1, 2012, in Case No. 2012-00063, the  
6 Commission approved certain additions to the 2007 Plan relating to the  
7 Mercury and Air Toxics Standards (“MATS”) rule. The additions (the “2012  
8 Plan”) involve installing activated carbon injection and dry sorbent injection  
9 systems and emission control monitors at the Big Rivers Coleman, Wilson,  
10 and Green generating stations; and installing emission control monitors at  
11 Henderson Municipal Power & Light’s Station Two generation station. The  
12 2012 Plan includes both the capital and O&M costs associated with the  
13 projects, as well as recovery of Big Rivers’ actual costs incurred in Case No.  
14 2012-00063 (amortized over three years).

15 Please note that Big Rivers currently plans to idle both the Coleman  
16 and Wilson stations beginning in 2014. As such, Big Rivers does not plan to  
17 proceed with the MATS projects at those stations at this time. Big Rivers  
18 will, however, complete the MATS projects at Wilson and Coleman prior to  
19 those stations returning to service.

20 Big Rivers’ environmental surcharge mechanism allows Big Rivers to  
21 recover costs related to the 2007 Plan (which only includes O&M costs) and  
22 the 2012 Plan, less proceeds from by-product and emission allowance sales,

1 plus or minus an ongoing cumulative under- or over-recovery adjustment.

2 **Q. Please provide a brief overview of the Members' pass-through**  
3 **mechanisms.**

4 A. The Members' pass-through mechanisms allow each Member to bill its  
5 retail customers for the portion of Big Rivers' environmental surcharge that  
6 Big Rivers bills each Member. JPEC's pass-through mechanism was  
7 approved by the Commission in Case No. 2008-00010; Kenergy's  
8 mechanism was approved by the Commission in Case No. 2008-00009; and  
9 Meade County's was approved by the Commission in Case No. 2007-00470.

10 **Q. Have there been any changes to Big Rivers' environmental**  
11 **surcharge mechanism since the prior review?**

12 A. No.

13 **Q. Has Big Rivers sold any SO<sub>2</sub> or NO<sub>x</sub> allowances during the expense**  
14 **months corresponding to the billing periods under review in this**  
15 **case?**

16 A. No. Big Rivers has not sold any SO<sub>2</sub> or NO<sub>x</sub> allowances during the expense  
17 months corresponding to the billing periods under review in this case.

18 **Q. Has Big Rivers' environmental surcharge mechanism been**  
19 **accurately compiled, and is it operating as intended?**

20 A. Yes.

21 **Q. Have the Members' pass-through mechanisms been accurately**  
22 **compiled, and are they operating as intended?**

1 A. The Members believe their pass-through mechanisms have been accurately  
2 compiled and are operating as intended.

3 **Q. Are the amounts charged under Big Rivers' environmental**  
4 **surcharge mechanism during the review period just and**  
5 **reasonable?**

6 A. Yes.

7 **Q. Are the amounts charged under the Members' pass-through**  
8 **mechanisms during the review period just and reasonable?**

9 A. The Members believe the amounts charged under their pass-through  
10 mechanisms are just and reasonable.

11 **Q. Do Big Rivers and its Members have additional over- or under-**  
12 **recovery amounts they believe need to be recognized?**

13 A. No. Big Rivers and its Members are not requesting any additional over- or  
14 under-recovery amount. The normal over/under recovery carry-forward  
15 element of Big Rivers' environmental surcharge mechanism is operating as  
16 intended.

17 **Q. Did Big Rivers recover any capital costs through its environmental**  
18 **surcharge mechanism during the period under review?**

19 A. No.

20 **Q. What Base Environmental Surcharge Factor ("BESF") cost did Big**  
21 **Rivers use during the review period?**

22 A. Big Rivers had no environmental surcharge related costs in its base rates

1 during the review period.

2 **Q. Is Big Rivers proposing to change the BESF cost as part of this**  
3 **proceeding?**

4 A. No.

5 **Q. Is Big Rivers proposing to roll any ES amounts into base rates?**

6 A. No.

7 **Q. Why not?**

8 A. Big Rivers is in the midst of an ongoing rate case in Case No. 2013-00199 in  
9 which it filed proposed rates and tariffs that are pending before the  
10 Commission. Additionally, Big Rivers received a final order in an earlier  
11 rate case (Case No. 2012-00535) on October 29, 2013, and is in the process  
12 of preparing new tariffs to reflect the rates approved in that order and  
13 refunding certain amounts pursuant to that order. Big Rivers' rates and  
14 tariffs will likely change again as a result of Case No. 2013-00199 and could  
15 change if petitions for rehearing or appeals of the order in Case No. 2012-  
16 00535 are filed. Attempting to roll ES amounts into base rates at this time  
17 would further and unnecessarily complicate these two cases.

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

19 A. Yes, it does.