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Skill. Integrity. Efficiency.

October 9, 2017

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PUBLIC SERVICE
COMMISSION

VIA FEDERAL EXPRESS

Gwen R. Pinson
Executive Director
Public Service Commission
211 Sower Boulevard, P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: *In the Matter of: An Examination of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 2016 through April 30, 2017,* Case No. 2017-00287

Dear Ms. Pinson:

Enclosed for filing in the above-referenced matter are an original and ten copies of Big Rivers Electric Corporation's rebuttal testimony. I certify that on this date, a copy of this letter and a copy of the rebuttal testimony were served on each of the persons listed on the attached service list by first-class mail and electronic mail.

Sincerely,

Tyson Kamuf
Counsel for Big Rivers Electric Corporation

TAK/abg

Enclosures

cc: Service List

Service List
PSC Case No. 2017-00287

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ORIGINAL

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF BIG RIVERS ELECTRIC CORPORATION FROM NOVEMBER 1, 2016 THROUGH APRIL 30, 2017	)	Case No. 2017-00287

REBUTTAL TESTIMONY OF LINDSAY N. DURBIN

ON BEHALF OF
BIG RIVERS ELECTRIC CORPORATION

October 10, 2017

Rebuttal Testimony of Lindsay N. Durbin

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Exhibits

Exhibit Durbin_1	Professional Summary
Exhibit Durbin_2	Comparison of Total Fuel Cost Allocated to Native Load Customers by Utilities in Kentucky During 6-Month Review Period

REBUTTAL TESTIMONY OF LINDSAY N. DURBIN

I. INTRODUCTION.

Q. Please state your name.

A. My name is Lindsay N. Durbin. I am employed by Big Rivers Electric Corporation ("Big Rivers"), 201 Third Street, Henderson, Kentucky 42420, as its Chief Financial Officer. A summary of my professional experience is provided as Exhibit Durbin_1, attached to this testimony.

Q. Have you previously testified before the Kentucky Public Service Commission ("Commission") or other regulatory bodies?

A. Yes. I have testified or participated in cases before the Commission several times on behalf of Big Rivers, most recently in Case Nos. 2014-00134, 2014-00230, 2014-00455, 2016-00306, 2017-00243 and 2017-00281.

Q. Please summarize the purpose of your testimony in these proceedings.

A. The purpose of my testimony is to rebut the testimony of Lane Kollen filed on behalf of intervenor Kentucky Industrial Utility Customers, Inc. ("KIUC"). Mr. Kollen takes issue with the methodology Big Rivers employs to allocate fuel costs between native load and off-system sales for purposes of calculating fuel adjustment clause ("FAC") charges. Although Big Rivers has used its system weighted average fuel costs to calculate FAC charges for a significant period of time, Mr. Kollen argues that the only acceptable methodology is an hourly "stacking" approach.

In this testimony, I first provide a brief overview of the procedural background and recent Commission cases relating to this issue. I then explain that there is no single correct allocation methodology, and that, in fact, even among the Commission-jurisdictional utilities that use the hourly stacking approach, there is not uniformity. I describe how Big Rivers' methodology is reasonable, given the length of time Big Rivers has used it, the Commission's prior acceptance of it, the fact that changing the methodology as part of a base rate case would have virtually no net impact on Big Rivers' revenues or rates to its members/customers, and the fact that changing the methodology outside of a base rate case would not necessarily result in lower FAC charges. I show that Big Rivers' FAC charges have been reasonable and compare favorably to the other utilities. I explain why it would be unreasonable to require Big Rivers to change methodologies outside of a base rate case, how forcing such a change outside of a base rate case could harm Big Rivers' members, and why the Commission should not order the disallowance and refund Mr. Kollen seeks. I describe how Mr. Kollen's calculations are flawed because they rely on a different methodology applied to Big Rivers than the methodology Mr. Kollen advocates or the methodologies of other utilities. I also address several of the erroneous statements and claims made by Mr. Kollen.

Q. What is your recommendation in this matter?

A. I recommend that the Commission approve Big Rivers' continued use of its current methodology until Big Rivers files its next rate case, and deny KIUC's requests that Big Rivers be forced to change methodologies outside of a base rate case and that Big Rivers be ordered to refund with interest amounts already collected.

II. PROCEDURAL BACKGROUND.

Q. Please describe the procedural background of the cases related to Big Rivers' FAC allocation methodology.

A. The Commission instituted Case No. 2014-00230, a six-month review of Big Rivers' FAC, on August 13, 2014. The Commission granted KIUC's motion to intervene, and a hearing was held in that case on November 12, 2014. The Commission delayed issuing a decision in that case at the request of the parties to allow the parties an opportunity to negotiate a potential settlement. On February 5, 2015, the Commission instituted Case No. 2014-00455, a two-year review of Big Rivers' FAC. The Commission consolidated Case Nos. 2014-00230 and 2014-00455 and made KIUC a party to Case No. 2014-00455 by order dated February 19, 2015. The Commission granted the Office of the Attorney General's ("AG") request to intervene in the consolidated proceedings on April 8, 2015. On May 21, 2015, the Commission granted the parties' request in the consolidated proceedings to suspend the remaining items on the procedural schedule while the parties attempted to finalize a settlement.

Q. Was a settlement finalized?

A. Yes. A settlement was reached and was incorporated into a Stipulation and Recommendation ("Stipulation") that was approved by order of the Commission on July 27, 2015, in the consolidated proceedings. In the Stipulation, Big Rivers agreed that, despite its continued belief that its allocation methodology was reasonable and that requiring it to change to a stacking methodology outside of a base rate case was unreasonable, it was nevertheless in a position that would allow it to allocate some margins it had earned to its three member-owners: three distribution cooperatives (the "Members") who provide retail electric service to approximately 116,000 consumers/member-owners across Western Kentucky. The margins were to be provided to the Members through up to 15 monthly FAC credits of $311,111.11 each, beginning with the August 2015 service month and ending with the October 2016 service month. Big Rivers also agreed to propose switching its allocation methodology to a stacking methodology in its next base rate proceeding, which was expected to be filed in the first quarter of 2016. In consideration, KIUC and the AG agreed to forgo any challenge to Big Rivers' FAC methodology through November 1, 2016.

Q. Was the Stipulation implemented as designed?

A. No. The Stipulation was subject to the approval of the Rural Utilities Service ("RUS"), an agency of the United States Department of Agriculture. RUS' review of the Stipulation took longer than anticipated, which caused the FAC credits to be delayed by three months. As a result, the parties entered into an amendment to the Stipulation (the "Amended Stipulation"),[1] which extended the FAC credits through the January 2017 service month and which extended KIUC's and the AG's agreement to forgo any challenge to Big Rivers' FAC methodology through February 1, 2017. The Amended Stipulation was approved by the Commission by order dated September 28, 2016, in Case No. 2016-00286, and was implemented according to its terms. KIUC is now again seeking to have the Commission force Big Rivers to change its allocation methodology outside of a base rate case.

III. BIG RIVERS' METHODOLOGY IS REASONABLE.

Q. Please describe Big Rivers' methodology for allocating fuel expense for FAC purposes.

A. As described in Big Rivers' response to Item 1 of KIUC's request for information in the instant case, Big Rivers uses an overall system weighted average generation fuel cost to allocate fuel costs between native load sales and off-system sales for purposes of calculating FAC charges.

Q. Please explain why Big Rivers' allocation methodology is reasonable.

[1] Big Rivers filed the Amended Stipulation on August 3, 2016, as Exhibit 1 to its application in Case No. 2016-00286.

A. Big Rivers' use of system average fuel costs is reasonable and proper. Big Rivers used system average fuel costs to allocate fuel costs as early as the 1980s, and the Commission has explicitly approved the use of system average fuel costs in previous Big Rivers FAC review cases. In Case No. 94-458-A, for example, the Commission explained that "Big Rivers uses system average fuel cost to allocate fuel costs among its native load customers and firm off-system customers. It uses incremental costs, however, to allocate fuel costs to non-firm off-system sales."[2] The Commission found this methodology reasonable.[3] Although Big Rivers generally used incremental costs to allocate fuel costs to non-firm off-system sales at that time, Big Rivers also used system average fuel costs to allocate fuel costs to non-firm off-system sales when Big Rivers' Energy Management System was not functioning properly, and the Commission also found that practice to be reasonable.[4] These Commission findings remain valid at this time.

Additionally, Big Rivers has used its current allocation methodology (which allocates system weighted average fuel costs to both firm and non-firm off-system sales) to establish base rates in each of the rate cases Big Rivers has filed since the closing of the "Unwind Transaction" in July 2009, whereby

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[2] Order dated June 19, 1996, in *In the Matter of: An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 1994 to April 30, 1995*, Case No. 94-458-A, at p. 2; *see also* Order dated March 5, 1996, in *In the Matter of: An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 1992 to October 31, 1994*, Case No. 94-458.

[3] *See* Order dated June 19, 1996, in *In the Matter of: An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 1994 to April 30, 1995*, Case No. 94-458-A, at pp. 2-5.

[4] *See id.* at p. 5.

Big Rivers terminated the lease of its generating units to affiliates of Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), took back control and operation of its generating units, and re-established its FAC. This includes Big Rivers' most recent base rate case, Case No. 2013-00199, in which its rates were established based on the assumption that fuel costs were allocated for FAC purposes using system weighted average costs, and the Commission found that the rates granted to Big Rivers were fair, just and reasonable.

Q. Did KIUC intervene in Big Rivers' base rate cases?

A. Yes. KIUC intervened in each of the three base rate cases that Big Rivers has filed since the Unwind.

Q. Did KIUC or any other intervenor challenge Big Rivers' FAC methodology in any of the base rate cases?

A. No. Neither KIUC nor any of the other intervenors challenged or otherwise raised an issue regarding Big Rivers' methodology for calculating its FAC using system weighted average fuel costs. The use of this methodology can be seen in the calculation of the off-system sales margins in the financial models used in those case, which Lane Kollen, witness for KIUC in the rate cases as well as this proceeding, acknowledged in Case No. 2013-00199.[5] Additionally, Big Rivers has had six-month and two-year reviews of

[5] *See* KIUC's response to Item 1 of the Commission Staff s Initial Request for Information in Case No. 2013-00199 ("Among the Company's coal-fired capacity, the Wilson and Coleman plants have the lowest fuel cost per kWh. When these plants either are shut down or operated as SSRs, the average fuel cost recoverable from customers through the FAC will increase").

its FAC since 2009, and KIUC did not raise the issue until the six-month review opened in 2014 in Case No. 2014-00230, which was consolidated with the two-year review opened in 2014 in Case No. 2014-00455.

Q. On page 9 of his testimony, Mr. Kollen complains that "Big Rivers is the only Kentucky electric utility that relies on system average fuel expense per kWh to allocate fuel expense [between] native load and off-system sales." Is Mr. Kollen correct?

A. I do not know. Mr. Kollen is correct that the five other Commission-jurisdictional electric utilities with generating resources, two of which are under common ownership, utilize some form of methodology that involves the stacking of resources and allocating the lowest cost resources to native load. However, with the exception of LG&E and KU, none of these other utilities utilize the same stacking methodology. More importantly, as I explain below, it is not clear that retail customers on the Big Rivers system would benefit if Big Rivers were to employ a stacking methodology. As far as the other electric utilities in Kentucky, I am unaware of the allocation methodologies they employ, if any.

Q. Do you agree with Mr. Kollen that an hourly stacking methodology is the only reasonable methodology?

A. No. There is no single correct allocation methodology. Presumably, Mr. Kollen believes the approach he utilized to calculate the $770,174 that he urges the Commission to disallow is reasonable. But that approach is based on a monthly stacking that differs from any methodology employed by the other Commission-jurisdictional utilities, including both East Kentucky Power Cooperative ("EKPC") and Duke Energy Kentucky ("Duke"). Further, despite Mr. Kollen's characterization of there being an EKPC/Duke methodology,[6] there is no such thing.[7] Thus, a lack of uniformity is an insufficient basis for determining whether or not the Big Rivers methodology is reasonable, and an hourly stacking methodology is not the only reasonable methodology.

Q. Mr. Kollen alleges that Big Rivers' methodology leads to "unreasonably high" FAC charges in order to "artificially inflate[]" off-system sales margins, which "severely disadvantage[s]" native load customers.[8] Do you agree?

A. Absolutely not, and Mr. Kollen's descriptions of the impact of Big Rivers' chosen methodology are, at best, extremely misleading. Big Rivers is a not-for-profit Member-owned cooperative. As such, when Big Rivers' base rates are established, Big Rivers' off-system sales margins are not shared with shareholders but rather directly offset the revenue requirement that must otherwise be recovered through its rates to its Members. Thus, the greater Big Rivers' off-system sales margins, the lower Big Rivers' rates to its Members and their rates to their retail customer/members.

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[6] *See* Direct Testimony of Lane Kollen at p. 5.
[7] *Compare, e.g.,* Duke Energy Kentucky's response to Item 1.b.2-3 of the Commission's Staff's Second Request for Information in Case No. 2014-00229 *with* the Rebuttal Testimony of Kelly D. Pearce in Case No. 2014-00225 at pp. 17-18.
[8] *See, e.g.,* Direct Testimony of Lane Kollen at pp. 3, 5, 11, 12, 13, and 18.

Further, changing the amount of fuel costs allocated to native load sales will change the amount of fuel costs allocated to off-system sales. If less fuel costs are allocated to native load sales, more fuel costs will be allocated to off-system sales, and vice versa. And all else being equal, assigning more fuel cost to off-system sales will reduce Big Rivers' off-system sale margins. Since Big Rivers has no shareholders to absorb such a loss, reducing Big Rivers' off-system margins increases the amount Big Rivers must recover through its rates to its Members. Thus, for Big Rivers, allocating less fuel costs to its FAC charges equates to higher base rates to those Members. In other words, if Mr. Kollen is correct that Big Rivers' FAC charges are unreasonably high as a result of its chosen allocation methodology, then Big Rivers' base rates are equally unreasonably low.

Q. **Do you agree with Mr. Kollen's assertion that Big Rivers' Members "are forced to subsidize the fuel expense incurred to make off-system sales"?**[9]

A. No. Any implication that Big Rivers' Members subsidize off-system sales is absurd. As I just explained, the margins Big Rivers earns on off-system sales offset costs that Big Rivers' Members would otherwise have to pay. Thus, Big Rivers' off-system sales subsidize and lower Big Rivers' rates to its Members.

Mr. Kollen similarly claims that Big Rivers' allocation methodology is improper based on his allegation that "[n]ative load customers are entitled to

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[9] *Id.* at p. 18.

the lowest fuel expense because they paid all allowed non-fuel costs of owning and operating the generating units, except for some environmental costs allocated to off-system sales through the environmental surcharge."[10] Later in his testimony, he reiterates this argument:

> Big Rivers['] native load customers are entitled to and should be allocated the lowest fuel costs and off-system sales should be allocated the highest fuel costs. This is true because the Company's native load customers are allocated 100% of the allowed fixed investment and non-fuel operating costs of all the Company's generating units, including the Coleman units that are shut does, except for certain amounts that are allocated to off-system sales in the environmental surcharge."[11]

Both of these claims ignore the fact that Big Rivers' off-system sales margins subsidize Big Rivers' rates to its Members. Mr. Kollen is simply wrong that Big Rivers' Members pay 100% of the non-fuel costs of owning and operating Big Rivers' generating units. Even if all of those costs were included in Big Rivers' revenue requirement in its last rate case, Big Rivers' margins on off-system sales offset those costs.

Additionally, however, not all of those costs are included in Big Rivers' base rates. In Big Rivers' latest rate case, Big Rivers' rates were established based on the assumption that Big Rivers' Wilson generating station would be idled. Since Big Rivers did not end up having to idle Wilson, there are approximately $26 million per year in operating costs that are not included in base rates, and are instead recovered entirely from Big Rivers' off-system

[10] *Id.* at p. 6.
[11] *Id.* at p. 12.

sales margins. Further, although Wilson's operating costs are not included in Big Rivers' base rates, operating Wilson benefits Big Rivers' Members both through the margins Big Rivers earns on off-system sales from Wilson and through a reduction in Big Rivers' system average fuel cost, which in turn, reduces Big Rivers' FAC charges to its Members. Big Rivers estimates that during the period under review, running Wilson reduced Big Rivers' FAC charges to its Members by approximately $650,000. Moreover, Big Rivers is currently not recovering any depreciation expense for its Wilson or Coleman generating stations through its rates to its Members. Thus, Mr. Kollen's statements that native load has paid all non-fuel costs of owning and operating Big Rivers' generating units are patently false.

Q. **Mr. Kollen claims that "[t]o make these off-system sales, the Company operated and dispatched its less efficient and more expensive generating units more frequently, which increased its system average fuel expense per kWh. In turn, this increased the fuel expense allocated to native load customers using the Company's allocation methodology."[12] He further argues, "Under the Company's allocation methodology, the greater the off-system sales, the greater the increase in the fuel expense allocated to native load customers**

[12] *Id.* at p. 10.

through the FAC and the greater the subsidization of the Company's off-system sales margins."[13] Do you agree with these statements?

A. Not at all. In fact, the opposite is true. The Big Rivers-owned generating units are dispatched economically by MISO based on the variable cost of each specific unit. Thus, for example, although Big Rivers' Wilson station is not needed to serve native load, Big Rivers runs Wilson for the purpose of making off-system sales. Big Rivers and its Members not only benefit from those off-system sales revenues, but running Wilson has substantially reduced Big Rivers' system average fuel cost and thus has substantially reduced its FAC charges to its Members. Mr. Kollen's statements to the contrary are without foundation.

Q. **Is it your opinion that forcing Big Rivers to switch to a stacking methodology would help or hurt its Members?**

A. As I explain in more detail below, so long as changing methodologies is done as part of a base rate case, any increase or decrease in revenues from FAC charges would be offset by a corresponding decrease or increase in Big Rivers' base rates. As such, a change in methodologies, if done as part of a base rate proceeding, would result in virtually the same revenues to Big Rivers, assuming allocating additional fuel costs to off-system sales does not result in lost sales.

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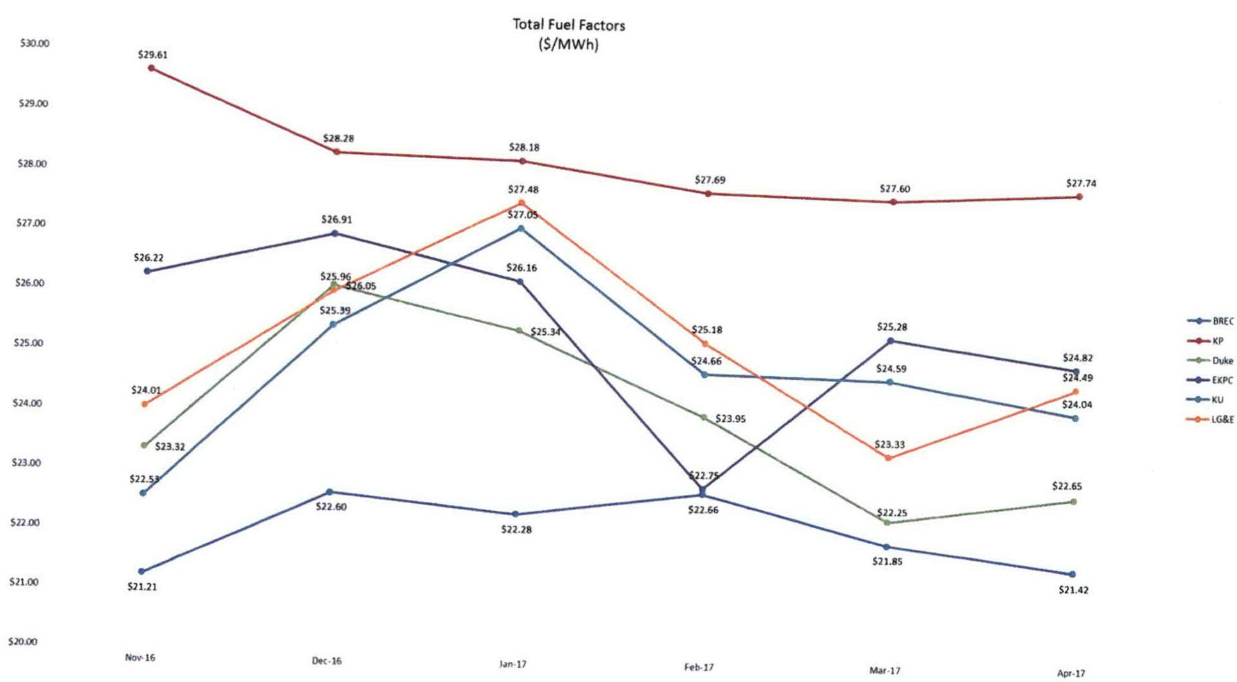
[13] *Id.* at p. 11.

Q. Do you agree with Mr. Kollen that Big Rivers' FAC charges to its Members are excessive and unreasonably high?

A. No. Big Rivers' FAC charges during the review period were not excessive or unreasonable. In fact, Big Rivers' fuel factors used to determine FAC rates compare extremely favorably to the fuel factors of the other Commission-jurisdictional utilities with generating resources. The chart below shows each of those utilities' average monthly fuel cost ($/MWh) allocated to native load customers each month of the current FAC review period. Big Rivers' fuel factor was the lowest in each month of the review period. Supporting details for this chart are provided in Exhibit Durbin_2, attached to this testimony.



Q. Will switching to a stacking methodology result in reduced FAC charges, as Mr. Kollen suggests?

A. Not necessarily. Several of the other jurisdictional utilities (including LG&E, KU, and Kentucky Power Company) that use a stacked cost approach only allocate incremental fuel costs to off-system sales.[14] The incremental cost approach used by these utilities would only allocate to off-system sales the fuel costs required to produce the additional MWhs of energy needed for the off-system sales and would therefore not include the fuel portion of start-up and no load costs required to bring a unit to minimum generating levels when any portion of that unit is used to serve native load.[15] Big Rivers' system average cost approach, on the other hand, allocates a portion of all fuel costs to off-system sales, including the fuel portion of start-up and no load costs. If Big Rivers only allocated incremental fuel costs, Big Rivers' Members could actually see higher FAC charges, even under a stacking methodology. In that case, changing Big Rivers' methodology outside of a base rate case would be detrimental to Big Rivers' Members and their retail customers.

Q. If Big Rivers' current methodology is reasonable, why did it agree in the Stipulation to change to a stacking methodology in its next base rate case?

A. As noted above, assuming that allocating additional fuel costs to off-system sales does not result in lost sales, and so long as the change in methodologies is made as part of a base rate case, Big Rivers' overall revenues should remain unchanged regardless of the methodology chosen.

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[14] *See, e.g.,* Testimony of Robert Conroy on behalf of Kentucky Utilities Company and Louisville Gas and Electric Company, Case Nos. 2014-00227 and 2014-00228, Nov. 12, 2014, Tr. 26'00"-32'29"; Kentucky Power Company's response to Item 29 of the Commission Staff's Initial Request for Information in Case No. 2014-00225.

[15] *See* Kentucky Power Company's response to Item 29.b of the Commission Staff's Initial Request for Information in Case No. 2014-00225.

IV. IT WOULD BE UNFAIR, UNJUST AND UNREASONABLE TO FORCE BIG RIVERS TO CHANGE METHODOLOGIES OUTSIDE OF A BASE RATE CASE PROCEEDING.

Q. Please explain why you believe it would be unfair, unjust and unreasonable to force Big Rivers to change methodologies outside of a base rate case proceeding?

A. A change in methodology outside of a base rate case would likely result in an impact to Big Rivers' FAC charges to its Members. If the change in methodology results in higher fuel costs being allocated to Big Rivers' FAC, and there is no offsetting change to base rates, then Big Rivers' Members and their retail customers would be harmed through higher FAC charges.

But the Members and their retail customers would also be harmed if the change in methodology results in lower fuel costs being allocated to Big Rivers' FAC and there is no offsetting change to base rates. Unlike the investor-owned utilities, Big Rivers does not have shareholders to absorb negative impacts to its revenues; it is a Member-owned cooperative. Although the Members and their retail customers would see a temporary benefit from lower FAC charges resulting from a change in allocation methodologies outside of a base rate case, such a change, especially if accompanied by a refund of amounts already collected, could force Big Rivers to file for emergency rate relief, and the costs of filing and prosecuting such a case could easily outweigh that temporary benefit.

Moreover, such a change outside of a base rate case would negatively impact Big Rivers' cash flow and credit worthiness. Big Rivers lacks funds to make refunds to its Members. And, Big Rivers' margins are currently less than what the credit rating agencies believe is appropriate. Big Rivers was downgraded to a non-investment grade credit when the two smelter contracts were terminated in 2013 and 2014, and currently is a non-investment grade credit. Since then, Big Rivers continues to take decisive steps toward being restored to an investment grade credit, as required by its 2009 RUS Agreement. In their credit reports on Big Rivers, the rating agencies (Moody's, S&P and Fitch) all indicate the need for Big Rivers to improve its margins, leverage, liquidity, etc. Unfairly impacting Big Rivers' credit worthiness by forcing Big Rivers to change methodologies outside of a base rate case would also negatively impact Big Rivers' efforts to regain its investment grade credit rating and its ability to borrow at favorable rates, which would ultimately increase Big Rivers' rates to its Members and their rates to their retail customers.

Q. Are there other reasons why requiring a change in methodology outside of a base rate case is unreasonable?

A. Yes. Requiring a change in the fuel cost allocation methodology without also making a corresponding change in Big Rivers' base rates would be unreasonable because it would violate the matching principle, which, as I understand it, is a long-standing ratemaking principle designed to ensure that a utility's rates are not increased or decreased by a change in a single cost or revenue component without consideration of that change's effect on other cost and revenue components.

The Commission's FAC regulation can operate as a stand-alone rate making procedure, allowing the Commission to make certain changes in a utility's FAC charges without impacting base rates, but in a way that is consistent with the matching principle. For example, because some of the fuel costs themselves are excluded from the calculation of base rates, the Commission can disallow unreasonable fuel costs without impacting the determination of base rates. Thus, disallowing unreasonable fuel costs would not create a mismatch between the revenues and costs used in the determination of base rates, thereby not violating the matching principle.

On the other hand, changing the methodology used in allocating costs for purposes of calculating FAC charges does not just impact FAC charges; it also impacts the base rate calculation. Changing the allocation methodology affects the amount of costs allocated to off-system sales and would change the off-system sales margins used in the determination of base rates. As such, changing the allocation methodology only for purposes of the FAC without making a corresponding change in base rates would violate the matching principle by creating a mismatch between the fuel costs used in determining the FAC and the fuel costs (and corresponding revenues) used in determining base rates.

Thus, because Big Rivers' fuel cost allocation methodology affects not only FAC charges but also the calculation of Big Rivers' base rates, the matching principle requires that any changes to that methodology be considered in the context of Big Rivers' overall financial circumstances in a base rate case, including whether Big Rivers' rates are still fair, just and reasonable with such a change.

Q. If a change in Big Rivers' allocation methodology is made during a base rate case, would the Members' effective rate change?

A. No. Because Big Rivers is a not-for-profit cooperative, the Members' net effective rate would be the same regardless of the methodology used as long as the methodology was changed during a base rate case, all else being equal. It would therefore be unfair, unjust and unreasonable to change the methodology for calculating the FAC outside of a base rate case.

Q. Why did Big Rivers decide not to file a base rate case in 2016 as indicated in the Stipulation in Case Nos. 2014-00230 and 2014-00455?

A. During 2014, Big Rivers made significant margins on off-system sales due to the Polar Vortex. At the time the Stipulation was written, Big Rivers anticipated filing a base rate case in 2016. Big Rivers anticipated that it would be able to request that Wilson depreciation expense be brought back into rates without having to raise Member rates due to expected favorable off-system sales margins. However, the off-system sales prices realized during the Polar Vortex of 2014 did not hold, and filing a base rate case in

2016 would have resulted in a rate increase. As such, Big Rivers decided to wait to file a base rate case.

V. IF THE COMMISSION REQUIRES A CHANGE IN ALLOCATION METHODOLOGY, IT SHOULD NOT ORDER A REFUND.

Q. On page 5 of his testimony, Mr. Kollen recommends the Commission disallow $770,174 in FAC charges and order Big Rivers to refund that amount, plus interest. Please explain why it would be inappropriate for the Commission to order a refund even if it forces Big Rivers to change its allocation methodology.

A. As noted above, the Commission has approved Big Rivers' use of the system average fuel costs allocation methodology in past FAC review proceedings. If the Commission requires a change in Big Rivers' fuel cost allocation methodology, it should do so only prospectively because ordering a refund would be unreasonable and arbitrary.

VI. MR. KOLLEN's CALCULATION OF FUEL EXPENSE IS FLAWED

Q. Why is Mr. Kollen's calculation of fuel expense flawed?

A. For one, Mr. Kollen claims that, "[t]o the extent possible, the Commission should require a consistent methodology for the allocation of fuel expense to native load customers among all Kentucky electric utilities."[16] Yet, when calculating fuel expense for Big Rivers, he utilizes a methodology

[16] Direct Testimony of Lane Kollen at p. 18.

employed by no other utility. According to Mr. Kollen, EKPC and Duke both utilize hourly stacking, but Mr. Kollen utilized a monthly stacking, even though he claimed to be using the "EKPC/Duke methodology."[17]

While the specifics of the other utilities' methodologies require a more detailed understanding of their processes than Big Rivers possesses, I am aware that at least some of the other utilities allocate only incremental fuel costs and that other utilities allocate firm purchases to native load before allocating any lower-cost generation. It appears that Mr. Kollen has not chosen these approaches, and has instead chose the method, which differs from both EKPC and Duke's methodologies, that causes the most harm to Big Rivers if done outside of a base rate case, as Mr. Kollen urges.

Q. Please explain any specific flaws in Mr. Kollen's fuel expense calculation.

A. Mr. Kollen incorrectly assigned his stacking order to the Big Rivers units, and he failed to consider the contract that Big Rivers has with the City of Henderson for the Henderson Municipal Power & Light Station Two ("Station Two") generating units. In designing a stacking methodology for Big Rivers, it would be reasonable to take into account which units Big Rivers requires to serve native load and which units are only operated for the purpose of off-system sales. Big Rivers has a contract with the City of Henderson for Big Rivers to operate and take power from Station Two. Big

[17] *Id.* at pp. 13, 15.

Rivers does not own the Station Two units and books the expenses related to these units as purchased power. While Big Rivers' rights and obligations with respect to Station Two are in dispute and subject to ongoing negotiations with Henderson, Big Rivers has a contractual obligation to operate these units, and Henderson demands that the units run regardless of the economics. The power Big Rivers has taken pursuant to those contracts should be allocated to the Members first. Mr. Kollen incorrectly assigned his stacking order to the Big Rivers units by not first allocating the Station Two purchases to the Members, and he failed to explain why uniformity is important only when it is to Big Rivers' detriment. Although Big Rivers is not-for-profit, it is still a private utility entitled to fair, just, and reasonable rates just as any investor-owned utility is.

Q. **If Big Rivers implemented Mr. Kollen's stacking methodology, but correctly allocated the costs of Station Two, how would Big Rivers' FAC charges change?**

A. For the six-month period under review, Big Rivers' FAC charges to its Members would have increased by $802,469 as shown in Big Rivers' response to Item 10 of KIUC's request for information in the instant case.

Q. **Are there other specific flaws in Mr. Kollen's calculation?**

A. Yes. Mr. Kollen's calculation and his recommended refund amount include the months of January 2017 through April 2017. However, in the Amended Stipulation, KIUC agreed, with certain exceptions, that it would not "contest, seek a change in, or oppose the manner in which Big Rivers allocates FAC costs between native load and off-system sales in any Commission proceeding initiated prior to February 1, 2017, or for any FAC review period prior to February 1, 2017."[18] Thus, KIUC is in violation of the Amended Stipulation by requesting a refund for January 2017, and KIUC's request for a refund for January 2017 should be stricken from the record and/or denied.

VII. MR. KOLLEN MISCHARACTERIZED THE $311,111 CREDIT PROVIDED TO THE MEMBERS FOR 15 MONTHS THROUGH THE FAC

Q. Please explain the $311,111 credit provided to the Members for a 15 month period through the FAC.

A. As part of the Stipulation, Big Rivers maintained that its current FAC methodology and practices were reasonable, but desired to allocate certain margins to its three Members. Mr. Kollen mischaracterized the credit in his direct testimony, stating that the credit "compensated customers for the monthly difference between the two allocation methods . . . ."[19] This characterization is completely inaccurate. As Big Rivers made clear in the Stipulation, "Big Rivers believes its current FAC methodology and practices are reasonable, but desires to allocate certain margins to its three

[18] Case No. 2016-00286, Amended Stipulation § 2.
[19] *See* Direct Testimony of Lane Kollen at p. 4.

distribution cooperative members."[20] I similarly stated in my direct testimony in Case Nos. 2014-00230 and 2014-00455 that was provided to support the Stipulation that "Big Rivers continues to believe that its current methodology is reasonable and that requiring Big Rivers to change to a stacking methodology outside of a base rate case is unreasonable. Nevertheless, Big Rivers is in a position to allocate, and desires to allocate, some margins to its Members."[21]

Q. Is it your position that the $311,111 credit was not provided to compensate the Members for the difference in methodologies as stated by Mr. Kollen?

A. Yes. The credit definitely was not provided to compensate the Members for the difference in methodologies. As I stated in my testimony during the hearing for consolidated Case Nos. 2014-00230 and 2014-00455 on June 2, 2015,[22] Big Rivers desired to return margins to its Members. Big Rivers negotiated with the parties to derive an amount that was acceptable. From Big Rivers' perspective, the decision for the amount and timing was driven by how much margins Big Rivers felt it could refund to its Members and over what timeframe in order to ensure continued viability. And the amount refunded was a negotiated amount; it was not a calculated amount.

VIII. CONCLUSION.

Q. Do you have any concluding remarks?

[20] *See* Case Nos. 2014-00230 and 2014-00455, Stipulation and Recommendation at p. 2
[21] See Case Nos. 2014-00230 and 2014-00455, Direct Testimony of Lindsay N. Barron at p. 4
[22] *See* Hearing Testimony, June 2, 2015, Case Nos. 2014-00230 and 2014-00455, Tr. 11:04'30".

A. Yes. The fact that other utilities in Kentucky use an hourly stacked cost approach to allocate fuel costs to off-system sales does not make Big Rivers' current allocation methodology unreasonable because Big Rivers' Members and their retail customers are not adversely affected by the use of the current methodology instead of a stacked cost methodology. But they could be adversely affected if Big Rivers is forced to adopt a stacked cost methodology outside of a base rate case. Therefore, the Commission should approve Big Rivers' continued use of its current methodology until Big Rivers files its next rate case, and deny KIUC's requests that Big Rivers be forced to change methodologies outside of a base rate case and that Big Rivers be ordered to refund with interest an amount Mr. Kollen calculated utilizing a different methodology.

Q. Does this conclude your testimony?

A. Yes.

BIG RIVERS ELECTRIC CORPORATION

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF BIG RIVERS ELECTRIC CORPORATION FROM NOVEMBER 1, 2016 THROUGH APRIL 30, 2017
CASE NO. 2017-00287

VERIFICATION

I, Lindsay N. Durbin, verify, state, and affirm that I prepared or supervised the preparation of the Rebuttal Testimony filed with this Verification, and that Rebuttal Testimony is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Lindsay N. Durbin

Lindsay N. Durbin

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Lindsay N. Durbin on this the 6th day of October, 2017.

Katherine Risley

Notary Public, Kentucky State at Large

My Commission Expires 10-31-2020

Professional Summary

Lindsay N. Durbin, CPA
Chief Financial Officer
Big Rivers Electric Corporation
201 3rd Street
Henderson, Kentucky 42420

Professional Experience

Big Rivers Electric Corporation, Henderson, KY 2010 to present, 1998 to 2005

- Chief Financial Officer
- Vice President Energy Services
- Managing Director Energy Services
- Director Risk Management and Strategic Planning
- Market Coordinator/Economic Analyst
- Cash Management and Fixed Asset Accountant
- Accounting Clerk/Purchasing Buyer

Vectren Corporation, Evansville, IN 2005 to 2010

- Manager Market Research and Analysis
- MISO Settlements Supervisor
- Market Analyst

Education

Master Certificate in Human Resource Management
Villanova University, Villanova, Pennsylvania, 2012
Master of Business Administration
University of Southern Indiana, Evansville, Indiana, 2003
Bachelor of Science in Accounting
University of Southern Indiana, Evansville, Indiana, 2001
Associate of Science in Management Information Systems
Henderson Community College, Henderson, KY, 1998

Certifications

Certified Public Accountant – CPA
Certified Management Accountant – CMA
Certified in Financial Management – CFM
Certified Business Resilience Manager – CBRM

Professional Organizations

Kentucky Society of Certified Public Accountants
Institute of Management Accountants
American Institute of Certified Public Accountants

Big Rivers Electric Corporation
FAC Review (Case No. 2017-00287)
Comparison of Total Fuel Cost Allocated to Native Load Customers by Utilities in KY During 6-Month Review Period

Expense Month	Big Rivers Electric Corporation			AEP-Kentucky Power Company		
	Base Fuel Factor ($/MWh)	FAC Factor (Excl. FAC Credit)[1] ($/MWh)	Total Fuel Factor ($/MWh)	Base Fuel Factor ($/MWh)	FAC Factor ($/MWh)	Total Fuel Factor ($/MWh)
Nov-16	$ 20.93	$ 0.28	**$ 21.21**	$ 27.25	$ 2.36	**$ 29.61**
Dec-16	$ 20.93	$ 1.67	**$ 22.60**	$ 27.25	$ 1.03	**$ 28.28**
Jan-17	$ 20.93	$ 1.35	**$ 22.28**	$ 27.25	$ 0.93	**$ 28.18**
Feb-17	$ 20.93	$ 1.73	**$ 22.66**	$ 27.25	$ 0.44	**$ 27.69**
Mar-17	$ 20.93	$ 0.91	**$ 21.85**	$ 27.25	$ 0.35	**$ 27.60**
Apr-17	$ 20.93	$ 0.49	**$ 21.42**	$ 27.25	$ 0.49	**$ 27.74**

[1] Excludes monthly credits of $311,111 included in Form A filings for the November and December 2016 expense months.
[2] Excludes monthly credits of $683,877.16 included in Form A Filings for the expense months of December 2016 through April 2017 for prior period refunds per Commission's Order in Case No. 2016-00234.
See calculations below.

	Duke Energy Kentucky			East Kentucky Power Cooperative		
Expense Month	Base Fuel Factor ($/MWh)	FAC Factor ($/MWh)[2]	Total Fuel Factor ($/MWh)	Base Fuel Factor ($/MWh)	FAC Factor ($/MWh)	Total Fuel Factor ($/MWh)
Nov-16	$ 29.12	$ (5.80)	**$ 23.32**	$ 30.14	$ (3.92)	**$ 26.22**
Dec-16	$ 29.12	$ (3.06)	**$ 26.05**	$ 30.14	$ (3.23)	**$ 26.91**
Jan-17	$ 29.12	$ (3.78)	**$ 25.34**	$ 30.14	$ (3.98)	**$ 26.16**
Feb-17	$ 29.12	$ (5.16)	**$ 23.95**	$ 30.14	$ (7.39)	**$ 22.75**
Mar-17	$ 29.12	$ (6.87)	**$ 22.25**	$ 30.14	$ (4.86)	**$ 25.28**
Apr-17	$ 29.12	$ (6.47)	**$ 22.65**	$ 30.14	$ (5.32)	**$ 24.82**

	Kentucky Utilities			Louisville Gas & Electric		
Expense Month	Base Fuel Factor ($/MWh)	FAC Factor ($/MWh)	Total Fuel Factor ($/MWh)	Base Fuel Factor ($/MWh)	FAC Factor ($/MWh)	Total Fuel Factor ($/MWh)
Nov-16	$ 28.92	$ (6.39)	**$ 22.53**	$ 27.25	$ (3.24)	**$ 24.01**
Dec-16	$ 28.92	$ (3.53)	**$ 25.39**	$ 27.25	$ (1.29)	**$ 25.96**
Jan-17	$ 28.92	$ (1.87)	**$ 27.05**	$ 27.25	$ 0.23	**$ 27.48**
Feb-17	$ 28.92	$ (4.26)	**$ 24.66**	$ 27.25	$ (2.07)	**$ 25.18**
Mar-17	$ 28.92	$ (4.33)	**$ 24.59**	$ 27.25	$ (3.92)	**$ 23.33**
Apr-17	$ 28.92	$ (4.88)	**$ 24.04**	$ 27.25	$ (2.76)	**$ 24.49**

Duke Energy

Expense Month	Total Fuel Cost w/ Prior Period Correction	Prior Period Correction	Total Fuel Cost Excluding Prior Period Correction	Total Sales (MWh)	Total Fuel Factor (Excl. Prior Period Adjustments) ($/MWH)	Base Fuel Factor ($/MWh)
Dec-16	$ 8,390,715.12	$ 683,877.16	$ 9,074,592.28	348,315.447	$ 26.053	$ 29.117
Jan-17	$ 7,944,047.33	$ 683,877.16	$ 8,627,924.49	340,461.039	$ 25.342	$ 29.117
Feb-17	$ 6,194,298.10	$ 683,877.16	$ 6,878,175.26	287,160.082	$ 23.952	$ 29.117
Mar-17	$ 6,373,648.86	$ 683,877.16	$ 7,057,526.02	317,252.437	$ 22.246	$ 29.117
Apr-17	$ 5,741,376.21	$ 683,877.16	$ 6,425,253.37	283,666.941	$ 22.651	$ 29.117

Big Rivers

Expense Month	Total Fuel Cost w/ Prior Period Correction	Prior Period Correction	Total Fuel Cost Excluding Prior Period Correction	Total Sales (MWh)	Total Fuel Factor (Excl. Prior Period Adjustments) ($/MWH)	Base Fuel Factor ($/MWh)
Nov-16	$ 4,707,021.00	$ 311,111.00	$ 5,018,132.00	236,599.577	$ 21.209	$ 20.932
Dec-16	$ 6,555,174.00	$ 311,111.00	$ 6,866,285.00	303,760.321	$ 22.604	$ 20.932

Duke Energy

Expense Month	FAC Factor (Excl. Prior Period Adjustments) $/MWh)
Dec-16	$ (3.064)
Jan-17	$ (3.775)
Feb-17	$ (5.165)
Mar-17	$ (6.871)
Apr-17	$ (6.466)

Big Rivers

Expense Month	FAC Factor (Excl. Prior Period Adjustments) $/MWh)
Nov-16	$ 0.277
Dec-16	$ 1.672