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Your Touchstone Energy® Cooperative 

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JUL 06 2018

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

NOTICE OF TERMINATION OF CONTRACTS)
AND APPLICATION OF BIG RIVERS)
ELECTRIC CORPORATION FOR A)
DECLARATORY ORDER AND FOR)
AUTHORITY TO ESTABLISH A REGULATORY)
ASSET)

Case No.
2018-00146

**Response to the Commission Staff's
First Request for Information
dated June 25, 2018**

FILED: July 6, 2018

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201 Third Street
P.O. Box 24
Henderson, KY 42419-0024
270-827-2561
www.bigrivers.com

July 5, 2018

VIA OVERNIGHT DELIVERY

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

Re: *In the Matter of: Notice of Termination of Contracts and Application of Big Rivers Electric Corporation for a Declaratory Order and for Authority to Establish a Regulatory Asset—Case No. 2018-00146*

Dear Ms. Pinson:

Enclosed for filing in the above-referenced matter are an original and ten (10) copies of: (i) the public version of Big Rivers Electric Corporation's responses to the Initial Requests for Information of Public Service Commission Staff, the Attorney General, and Kentucky Industrial Utility Customers, Inc.; (ii) a petition for confidential treatment of the confidential information contained in the responses; and (iii) a motion for deviation. Also enclosed is one (1) sealed copy of the confidential information being filed pursuant to the petition for confidential treatment.

I certify that, on this date, copies of this letter and all public attachments were served on each of the persons listed on the attached service list by overnight delivery.

Please confirm the Commission's receipt of this information by placing the Commission's date stamp on the enclosed additional copy and returning it to Big Rivers in the self-addressed, postage paid envelope provided; and please feel free to contact me with any questions you may have about this filing.

Sincerely,

A handwritten signature in blue ink, appearing to read "TK", is written over a horizontal line.

Tyson Kamuf
Corporate Attorney,
Big Rivers Electric Corporation

BIG RIVERS ELECTRIC CORPORATION

**NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG
RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND
FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET**

CASE NO. 2018-00146

Service List

Hon. Kent A. Chandler
Hon. Rebecca W. Goodman
Assistant Attorneys General
700 CAPITAL AVE., SUITE 20
FRANKFORT KY 40601-8204
Kent.Chandler@ky.gov
Rebecca.Goodman@ky.gov

Hon. Allyson Steele Beridon
Branstetter, Stranch & Jennings, PLLC
3142 Losantiville Avenue, Suite A
Cincinnati, OH 45213-1393
alysonb@bsjfirm.com

Hon. Michael L. Kurtz
Hon. Kurt J. Boehm
Hon. Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 E. Seventh St., Suite 1510
Cincinnati, OH 45202-4454
MKurtz@BKLawfirm.com
KBoehm@BKLawfirm.com
JKylerCohn@BKLawfirm.com

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Your Touchstone Energy® Cooperative 

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

**NOTICE OF TERMINATION OF CONTRACTS)
AND APPLICATION OF BIG RIVERS)
ELECTRIC CORPORATION FOR A)
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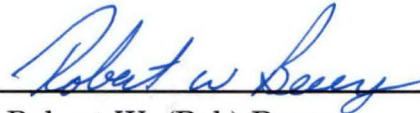
ORIGINAL

BIG RIVERS ELECTRIC CORPORATION

**NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146**

VERIFICATION

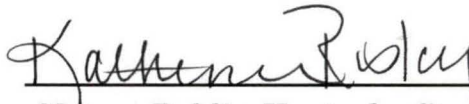
I, Robert W. (Bob) Berry, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.



Robert W. (Bob) Berry

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Robert W. (Bob) Berry on this
the 5th day of July, 2018.



Notary Public, Kentucky State at Large

My Commission Expires 10-31-2020



BIG RIVERS ELECTRIC CORPORATION

**NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS
ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR
AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146**

VERIFICATION

I, Metin Celebi, verify, state, and affirm that I prepared or supervised the preparation of my responses to data requests filed with this Verification, and that those responses are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Metin Celebi

Metin Celebi

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF SUFFOLK)

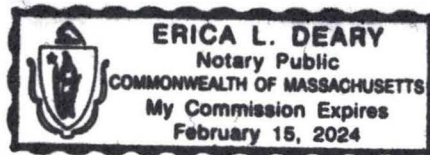
SUBSCRIBED AND SWORN TO before me by Metin Celebi on this the 4th day of June, 2018.

Erica L. Deary

Notary Public, Massachusetts

My Commission Expires

February 15, 2024

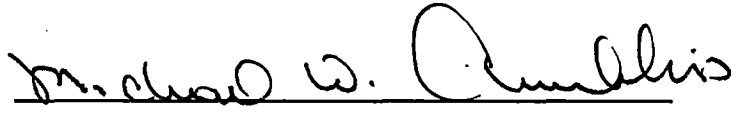


BIG RIVERS ELECTRIC CORPORATION

**NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146**

VERIFICATION

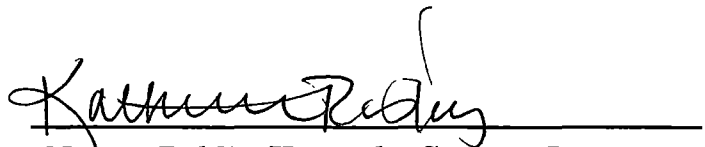
I, Michael W. (Mike) Chambliss, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.



Michael W. (Mike) Chambliss

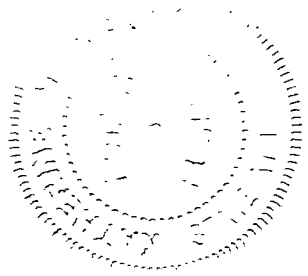
COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Michael W. (Mike) Chambliss on this the 5th day of July, 2018.



Notary Public, Kentucky State at Large

My Commission Expires 10-31-2020



BIG RIVERS ELECTRIC CORPORATION

**NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146**

VERIFICATION

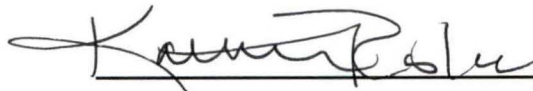
I, Mark J. Eacret, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.



Mark J. Eacret

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

5th SUBSCRIBED AND SWORN TO before me by Mark J. Eacret on this the
day of July, 2018.



Notary Public, Kentucky State at Large
My Commission Expires 10-31-2020

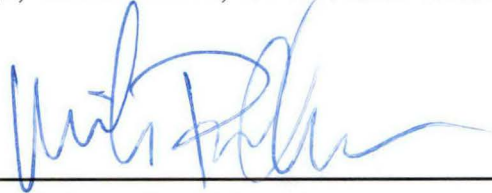


BIG RIVERS ELECTRIC CORPORATION

**NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146**

VERIFICATION

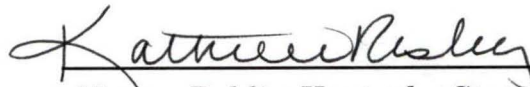
I, Michael T. (Mike) Pullen, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.



Michael T. (Mike) Pullen

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Michael T. (Mike) Pullen on this the 5th day of July, 2018.



Notary Public, Kentucky State at Large

My Commission Expires 10-31-2020



BIG RIVERS ELECTRIC CORPORATION

**NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146**

VERIFICATION

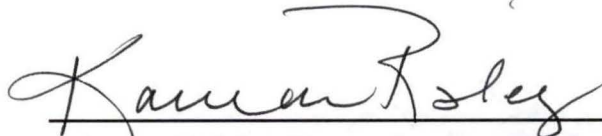
I, Paul G. Smith, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.



Paul G. Smith

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

5th SUBSCRIBED AND SWORN TO before me by Paul G. Smith on this the
____ day of July, 2018.



Notary Public, Kentucky State at Large

My Commission Expires 10-31-2020



BIG RIVERS ELECTRIC CORPORATION

NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146

VERIFICATION


I, John Wolfram, 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.



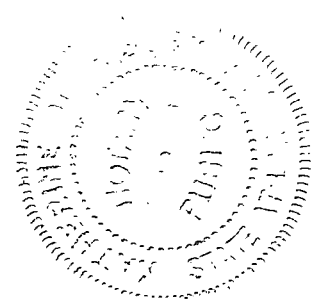
John Wolfram

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

5th SUBSCRIBED AND SWORN TO before me by John Wolfram on this the
day of July, 2018.



Notary Public, Kentucky State at Large
My Commission Expires 10-31-2020



BIG RIVERS ELECTRIC CORPORATION

**NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS
ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR
AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146**

**Response to Commission Staff's Initial Request for Information
dated June 25, 2018**

July 6, 2018

1 Item 1) *Refer to the application, page 2, paragraph 3, regarding the city*
2 *of Henderson's and the city of Henderson Utility Commission's (jointly*
3 *"Henderson") indication that they will dispute any attempt by Big Rivers to*
4 *cease performance under the relevant contracts. Provide any information*
5 *Henderson has provided to Big Rivers concerning this issue.*

6
7 **Response)** In initial discussions with HMP&L General Manager Chris
8 Heimgartner regarding Big Rivers' desire to exit the HMP&L contracts, Mr.
9 Heimgartner verbally stated that HMP&L will push back on Big Rivers' attempt to
10 terminate the Station Two contracts. Subsequent to that meeting, Mr. Heimgartner
11 sent an email (see attached) to Bob Berry, CEO - Big Rivers, dated February 27, 2018,
12 in which Henderson tells Big Rivers that negotiating an exit strategy for Big Rivers
13 from the Power Sales Contract is not in the best interest of Henderson's citizens.
14 During a June 2018 phone conversation between Mr. Berry and Mr. Heimgartner,
15 Mr. Heimgartner stated that it was HMP&L's position that the Station Two contracts
16 have not terminated and currently remain in full force.

17

18

19

20 **Witness)** Robert W. Berry

21

From: Chris Heimgartner [<mailto:cheimgartner@hmpl.net>]
Sent: Tuesday, February 27, 2018 10:56 AM
To: Berry, Bob <Bob.Berry@bigrivers.com>
Subject: Station 2 Operations

Dear Bob,

I want to thank you and your team for taking time to meet with us on February 12. I think we had a lively and open discussion of some of the issues between us.

During our discussion on how to operate the plant in an economic dispatch mode, we had proposed a mechanism for both parties to share both the costs to operate the units, and the revenue from the units. You had indicated a willingness to talk about that if we included a definite path for Big Rivers to exit the Power Sales Contract.

After much internal deliberation, I have concluded that we should continue to work together to craft an agreement on how to allocate the costs and revenues in an economic dispatch operation. I do not, however, think that negotiating an exit strategy for Big Rivers from the Power Sales Contract is in our citizens' best interest.

I remain hopeful and available to discuss economic dispatch operations at Station 2 with you. We do need to come to an arrangement on cost allocation.

In another matter, I will be responding to your February 16 letter under separate cover.

Thanks,

Chris Heimgartner

BIG RIVERS ELECTRIC CORPORATION

**NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS
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CASE NO. 2018-00146**

**Response to Commission Staff's Initial Request for Information
dated June 25, 2018**

July 6, 2018

1 **Item 2)** *Refer to the application, page 3, paragraph 5, regarding Big*
2 *Rivers' request for authorization to continue operating the Station Two units*
3 *under the terms of the contracts for up to 13 months to allow Henderson to*
4 *make alternative arrangements for the operation of Station Two and*
5 *Henderson's power supply needs. Explain how the 13-month period for the*
6 *transition was determined.*

7

8 **Response)** Because Henderson has not given Big Rivers clear direction with respect
9 to its future plans concerning the ongoing operation of Station Two, Big Rivers
10 selected 13 months because Big Rivers believes that 13 months is the maximum
11 amount of time that Henderson should reasonably need to make alternative
12 arrangements for either the ongoing operation of Station Two or securing an
13 alternative source of power for its constituents. For example, if Henderson elects to
14 continue operating Station Two following the termination of the Station Two
15 contracts, Henderson will need sufficient time to secure environmental permits
16 necessary to operate Station Two in accordance with applicable environmental
17 regulations. Currently, the environmental permits are held by Big Rivers as the
18 operator of Station Two.

19 Additionally, Henderson would need sufficient time to either hire employees or
20 to contract with a third party contractor to provide the required labor associated with
21 running a generating station. Currently, all Station Two employees are Big Rivers'
22 employees. Alternatively, in the event Henderson decides to discontinue operations
23 at Station Two, Big Rivers will need to eliminate various positions within its

BIG RIVERS ELECTRIC CORPORATION

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CASE NO. 2018-00146**

**Response to Commission Staff's Initial Request for Information
dated June 25, 2018**

July 6, 2018

1 workforce which could trigger the obligation for Big Rivers to issue a WARN notice
2 at least 60 days prior to the end of the transition period.

3 In addition to the above, Henderson is not currently a member of MISO, and
4 therefore, Henderson will most likely need sufficient time to make the appropriate
5 arrangements to participate in the MISO marketplace (or some other power market)
6 either in its own name or through a third party acting as its market participant. In
7 addition, the 13 months also lines up with MISO's capacity planning year as well as
8 Henderson's fiscal year which runs from June 1 through May 31.

9 Currently, Henderson is part of Big Rivers' Balancing Authority. Because this
10 responsibility will cease upon Big Rivers' exit from the agreements, Big Rivers needs
11 sufficient time to install the appropriate tie-line metering necessary to appropriately
12 account for Henderson's load within the MISO marketplace.

13

14

15 **Witness)** Robert W. Berry

16

BIG RIVERS ELECTRIC CORPORATION

**NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS
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CASE NO. 2018-00146**

**Response to Commission Staff's Initial Request for Information
dated June 25, 2018**

July 6, 2018

1 **Item 3) Refer to the application, pages 6 and 7, regarding the request for**
2 **the authority to establish a regulatory asset of approximately \$89.6 million**
3 **and other expenses related to the termination of the relevant contracts.**

4 **a. Provide a detailed breakdown of the \$89.6 million in expenses that**
5 **Big Rivers is requesting to establish as a regulatory asset.**

6 **b. Provide an estimate of the " ... other expenses relating to the**
7 **termination of the Terminated Contracts, including but not limited**
8 **to the costs of consultants and the costs of prosecuting this case."**

9 **c. Refer also to the application, Exhibit 6, page 2 of 2. Provide an**
10 **estimate of any potential decommissioning costs.**

11
12 **Response)**

13 **a. The \$89.6 million represents Big Rivers' estimated capital asset cost less**
14 **accumulated depreciation as of January 31, 2018. A detailed breakdown of**
15 **the calculation of the capital asset cost is attached.**

16 **b. While it is difficult to predict with certainty the actual expenses Big Rivers**
17 **will incur related to the termination of the Terminated Contracts, Big**
18 **Rivers estimates that it may incur other expenses relating to the**
19 **termination of the Terminated Contracts, including but not limited to the**
20 **costs of consultants and the costs of prosecuting this case, totaling**
21 **approximately \$850,000. This amount represents consulting fees and legal**
22 **fees associated with this proceeding as well as any related proceedings.**
23 **Depending on Henderson's future plans for the ongoing operation of Station**

**Case No. 2018-00146
Response to PSC 1-3**

**Witnesses: Paul G. Smith (a. and b. only) and
Michael T. Pullen (c. only)**

Page 1 of 2

BIG RIVERS ELECTRIC CORPORATION

**NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS
ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR
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CASE NO. 2018-00146**

**Response to Commission Staff's Initial Request for Information
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July 6, 2018

1 Two, there is the possibility that severance costs as well as
2 decommissioning costs may be incurred by Big Rivers which would also
3 become part of this account. However, Big Rivers is unable to estimate
4 what these costs might be without more specific direction from Henderson
5 as to its future plans with respect to the ongoing operation of Station Two.

6 c. As noted in response to Item 3b above, Big Rivers and Henderson have had
7 no discussions to date regarding the scope of any future decommissioning
8 project and cost sharing of that project between the companies. As such,
9 Big Rivers is unable to estimate with any specificity what actual
10 decommissioning costs may be without more specific direction from
11 Henderson as to its future plans with respect to the ongoing operation of
12 Station Two. Notwithstanding the foregoing, potential decommissioning
13 costs, at a minimum, could include closure of the Station Two ash pond. Big
14 Rivers estimates that its share of the cost to close the ash pond is
15 approximately [REDACTED]. Additionally, in its Integrated Resource Plan,
16 provided as Exhibit Berry-3 with the application, Henderson stated that no
17 significant expenditures will occur in shutting down the plant and the
18 existing equipment will be abandoned. Instead, Henderson states that it
19 would incur an ongoing annual cost of approximately \$775,000 (2020\$) for
20 site security.

21
22 **Witnesses) Paul G. Smith (*a. and b. only*) and**
23 **Michael T. Pullen (*c. only*)**

Big Rivers Electric Corporation
Case No. 2018-00146
Station Two - Net Book Values

	(a)	(b)	(c)	(d)	(e) = [(a) x (d)]	(f) = [(b) x (d)]	(g) = [(e) + (f)]		
								SII and Total Value of Shared Assets	
	Cost	Accumulated Depreciation	Net Book Value	Est. SII % of Cost	Cost	Accumulated Depreciation	Net Book Value (Est. SII-Only Portion for Shared Assets)		
SII Only Assets:									
SII Only	STRUCTURES-HMPL	10103115	\$ 554,801.28	\$ (79,126.11)	\$ 475,675.17	100.00%	\$ 554,801.28	\$ (79,126.11)	\$ 475,675.17
SII Only	BOILER PLANT EQUIPMNT	10103125	\$ 22,629,673.46	\$ 1,124,551.91	\$ 23,754,225.37	100.00%	\$ 22,629,673.46	\$ 1,124,551.91	\$ 23,754,225.37
SII Only	ENVIRONMTL COMPLIANCE	1010312F	\$ 30,145,551.22	\$ (3,540,887.64)	\$ 26,604,663.58	100.00%	\$ 30,145,551.22	\$ (3,540,887.64)	\$ 26,604,663.58
SII Only	SCRUBBER	1010312K	\$ 37,750,413.37	\$ (18,449,496.60)	\$ 19,300,916.77	100.00%	\$ 37,750,413.37	\$ (18,449,496.60)	\$ 19,300,916.77
SII Only	ENVIRONMTL COMPL-SHORT LIFE	1010312Q	\$ 5,637,703.72	\$ (5,393,972.71)	\$ 243,731.01	100.00%	\$ 5,637,703.72	\$ (5,393,972.71)	\$ 243,731.01
SII Only	BOILER PLANT-SHORT LIFE	1010312Z	\$ 772,905.73	\$ (152,541.79)	\$ 620,363.94	100.00%	\$ 772,905.73	\$ (152,541.79)	\$ 620,363.94
SII Only	TURBOGENERATOR UNITS	10103145	\$ 9,795,151.00	\$ (1,140,550.96)	\$ 8,654,600.04	100.00%	\$ 9,795,151.00	\$ (1,140,550.96)	\$ 8,654,600.04
SII Only	ACCESS ELECTRIC EQUIP	10103155	\$ 3,857,950.20	\$ (91,123.86)	\$ 3,766,826.34	100.00%	\$ 3,857,950.20	\$ (91,123.86)	\$ 3,766,826.34
SII Only	MISC POWER PLANT EQUIP	10103165	\$ 422,503.60	\$ (115,938.68)	\$ 306,564.92	100.00%	\$ 422,503.60	\$ (115,938.68)	\$ 306,564.92
Total SII Only:			\$ 111,566,653.58	\$ (27,839,086.44)	\$ 83,727,567.14	100.00%	\$ 111,566,653.58	\$ (27,839,086.44)	\$ 83,727,567.14
Reid/SII-Shared: ¹									
R/SII-Shared	STRUCTURES-R/SII	10103116	\$ 770,896.03	\$ (128,170.29)	\$ 642,725.74	75.19%	\$ 579,643.20	\$ (96,372.32)	\$ 483,270.88
R/SII-Shared	ENVIRON COMPL-R/SII	1010312G	\$ 2,028,841.59	\$ (377,184.46)	\$ 1,651,657.13	75.19%	\$ 1,525,503.03	\$ (283,608.16)	\$ 1,241,894.87
R/SII-Shared	BOILER PLANT-SHORT LIFE-R/SII	1010312U	\$ 73,779.49	\$ (47,100.35)	\$ 26,679.14	75.19%	\$ 55,475.42	\$ (35,415.15)	\$ 20,060.27
R/SII-Shared	BOILER PLANT-R/SII	10103126	\$ 3,045,487.12	\$ (163,873.73)	\$ 2,881,613.39	75.19%	\$ 2,289,927.34	\$ (123,218.03)	\$ 2,166,709.31
R/SII-Shared	TURBINE PLT-R/SII	10103146	\$ 1,191,861.39	\$ 34,997.60	\$ 1,226,858.99	75.19%	\$ 896,170.59	\$ 26,314.99	\$ 922,485.58
R/SII-Shared	COMMON-R/SII	10103156	\$ 36,064.06	\$ (671.11)	\$ 35,392.95	75.19%	\$ 27,116.87	\$ (504.61)	\$ 26,612.26
R/SII-Shared	COMMON PLANT-R/SII	10103166	\$ 984,801.10	\$ (181,124.29)	\$ 803,676.81	75.19%	\$ 740,480.22	\$ (136,188.87)	\$ 604,291.35
R/SII-Shared	OFFICE FURN & EQUIP-R/SII	10103916	\$ 7,910.28	\$ 101.23	\$ 8,011.51	75.19%	\$ 5,947.81	\$ 76.12	\$ 6,023.93
Total R/SII-Shared:			\$ 8,139,641.06	\$ (863,025.40)	\$ 7,276,615.66	75.19% ²	\$ 6,120,264.48	\$ (648,916.03)	\$ 5,471,348.45

Big Rivers Electric Corporation
Case No. 2018-00146
Station Two - Net Book Values

	(a)	(b)	(c)	(d)	(e) = [(a) x (d)]	(f) = [(b) x (d)]	(g) = [(e) + (f)]
	Cost	Accumulated Depreciation	Net Book Value	Est. SII % of Cost	Cost	Accumulated Depreciation	Net Book Value (Est. SII-Only Portion for Shared Assets)
Green/SII-Shared: ¹							
G/SII-Shared BOILERPLANT,EC-G/SII 1010312J	\$ 19,481.12	\$ (6,892.55)	\$ 12,588.57	30.26%	\$ 5,895.21	\$ (2,085.76)	\$ 3,809.45
Reid/Green/SII-Shared: ¹							
R/G/SII-Shared STRUCTURES-R/G/SII 10103117	\$ 1,146,436.34	\$ (383,774.98)	\$ 762,661.36	27.51%	\$ 315,430.11	\$ (105,591.72)	\$ 209,838.39
R/G/SII-Shared BOILER PLANT-R/G/SII 10103127	\$ 557,473.63	\$ (147,649.15)	\$ 409,824.48	27.51%	\$ 153,383.11	\$ (40,624.14)	\$ 112,758.97
R/G/SII-Shared TURBINE PLT-R/G/SII 10103147	\$ 31,346.38	\$ (12,783.17)	\$ 18,563.21	27.51%	\$ 8,624.63	\$ (3,517.16)	\$ 5,107.47
R/G/SII-Shared ACCESS ELECTRIC EQUIPMENT 10103157	\$ 57,489.31	\$ (6,765.61)	\$ 50,723.70	27.51%	\$ 15,817.59	\$ (1,861.49)	\$ 13,956.10
R/G/SII-Shared COMMON PLANT-R/G/SII 10103167	\$ 202,543.55	\$ (45,426.43)	\$ 157,117.12	27.51%	\$ 55,727.76	\$ (12,498.61)	\$ 43,229.15
R/G/SII-Shared OFFICE FURN & EQUIP-R/G/SII 10103917	\$ 28,617.14	\$ (21,501.05)	\$ 7,116.09	27.51%	\$ 7,873.71	\$ (5,915.79)	\$ 1,957.92
R/G/SII-Shared MISC EQUIP-R/G/SII 10103987	\$ 1,625.49	\$ (1,015.38)	\$ 610.11	27.51%	\$ 447.24	\$ (279.37)	\$ 167.87
Total R/G/SII-Shared:	\$ 2,025,531.84	\$ (618,915.77)	\$ 1,406,616.07	27.51% ⁴	\$ 557,304.15	\$ (170,288.28)	\$ 387,015.87
Total SII & SII-Shared Assets:	\$ 121,751,307.60	\$ (29,327,920.16)	\$ 92,423,387.44		\$ 118,250,117.42	\$ (28,660,376.51)	\$ 89,589,740.91

¹ Shared assets are allocated by plant on a MW basis as follows:

Reid - 65 MW

Green - 454 MW

SII - 197 MW (BREC's SII capacity reservation as of 1/31/2018)

² Estimated SII amounts included in Reid/SII shared assets is calculated by dividing the SII MW by the total Reid/Green MW (197/(65+197))

³ Estimated SII amounts included in Green/SII shared assets is calculated by dividing the SII MW by the total Green/SII MW (197/(454+197))

⁴ Estimated SII amounts included in Reid/Green/SII shared assets is calculated by dividing the SII MW by the total Reid/Green/SII MW (197/(65+454+197))

BIG RIVERS ELECTRIC CORPORATION

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July 6, 2018

1 **Item 4)** *Refer to the application, page 7, line 21, through page 8, line 2,*
2 *regarding Big Rivers' recovery through its rates of an amount of depreciation*
3 *expense related to Station Two. Provide the amount of Station Two*
4 *depreciation expense that Big Rivers is recovering annually through rates.*

5

6 **Response)** Big Rivers' fully forecasted test period in its last rate case, Case No.
7 2013-00199,¹ included \$3,439,211 for depreciation expense related to Station Two.

8

9

10 **Witness)** Paul G. Smith

11

¹ *In the Matter of: Application of Big Rivers Electric Corporation for a General Adjustment in Rates Supported by Fully Forecasted Test Period (Case No. 2013-00199).*

BIG RIVERS ELECTRIC CORPORATION

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1 **Item 5)** *Refer to the application, Exhibit 1, pages 2 and 4, regarding*
2 *transfer of responsibilities related to the contract termination. Provide an*
3 *update to any additional transfer of responsibilities and consider this an on-*
4 *going request throughout this proceeding.*

5

6 **Response)** To date, Henderson has not given Big Rivers clear direction with respect
7 to its future plans for the operation of Station Two. As such, there have been no
8 updates to the list of responsibilities referenced above. In the event updates to the
9 list are prepared during the transition process as a result of discussions with
10 Henderson, Big Rivers will advise the Commission of those updates.
11 Notwithstanding the foregoing, please see Big Rivers' response to Item 17 of the
12 Commission Staff's initial request for information in this case for a list of ongoing
13 activities being undertaken by Big Rivers related to Big Rivers' exit from the
14 terminated contracts.

15

16

17 **Witnesses)** Michael T. Pullen,
18 Michael W. Chambliss, and
19 Mark J. Eacret

20

BIG RIVERS ELECTRIC CORPORATION

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**Response to Commission Staff's Initial Request for Information
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July 6, 2018

1 **Item 6)** *Refer to the application, Exhibit 4, the Direct Testimony of Robert*
2 *W. Berry ("Berry Testimony"), page 5, lines 11-16. State when Big Rivers*
3 *exercised the option referenced on line 16.*

4

5 **Response)** Although Mr. Berry was not personally involved in the decision to
6 exercise the option referenced in the question above, it is his belief that Big Rivers
7 exercised the option to extend the term of the contracts sometime during 1998. The
8 exercise of the option was subsequently memorialized and incorporated into the
9 Terminated Contracts in Section 1 of the 1998 Amendments to Contracts dated July
10 15, 1998, which was filed in this proceeding as Exhibit 3 to Big Rivers' Application.

11

12

13 **Witness)** Robert W. Berry

14

BIG RIVERS ELECTRIC CORPORATION

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1 **Item 7)** *Refer to the Berry Testimony, page 6, lines 1 through 9. Provide*
2 *Big Rivers' definition of the phrase "the operating life of [Station Two] shall*
3 *be considered to continue for so long as Unit 1 and Unit 2, or either of them,*
4 *is operated or is capable of normal, continuous, reliable operations for the*
5 *economically competitive production of electricity."*

6

7 **Response)** The quoted language is the contractual definition of the operating life of
8 Station Two, and therefore of the terms of the subject contracts. The language was
9 mutually agreed upon by Henderson and Big Rivers, as the parties to the contracts.
10 A reasonable reading of the contractual language gives effect to the parties' intention
11 to define operating life based on economic competitiveness of Station Two.¹ As shown
12 by the evidence which Big Rivers has submitted to the Commission as Exhibits to the
13 Notice and Application filed in this proceeding, Station Two is no longer capable of
14 providing economically competitive electricity, thus concluding the operating life of
15 Station Two and the contracts governing its operation.

16

17

18 **Witnesses)** Robert W. Berry and Counsel

19

¹ Which the Commission has already recognized in its June 27, 2018 Order: "IBEW has failed to demonstrate any expertise in the economic competitiveness of Station Two."

BIG RIVERS ELECTRIC CORPORATION

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1 **Item 8)** *Refer to the Berry Testimony, page 7, lines 11 through 13. Explain*
2 *why Big Rivers' share of the forecasted expense for ash pond closures at*
3 *Station Two was not removed from Big Rivers' internal economic analysis of*
4 *Station Two.*

5

6 **Response)** Because the ash pond closure is being driven by environmental
7 regulations, and is not dependent on whether Henderson continues to operate or
8 decommission Station Two, Big Rivers elected to include Big Rivers' share of the
9 forecasted expenses for ash pond closures in its internal economic analysis of Station
10 Two.

11

12

13 **Witness)** Michael T. Pullen

14

BIG RIVERS ELECTRIC CORPORATION

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1 **Item 9) Refer to the Berry Testimony, page 8, lines 1 through 4, regarding**
2 **the costs of operating Station Two to the revenues Big Rivers would receive**
3 **in the Midcontinent Independent System Operator, Inc. ("MISO") market**
4 **from its share of the power generated by Station Two over the 15-year**
5 **financial forecast.**

6 **a. Also, refer to page 8, lines 9 through 19. Explain why the Brattle**
7 **Group, Inc. ("Brattle") compared Station Two's projected costs and**
8 **projected energy and capacity revenues as a whole, under several**
9 **market outlooks, as opposed to just Big Rivers' share of Station**
10 **Two's costs and revenues.**

11 **b. Provide a comparison of the analysis, in terms of net present value,**
12 **under the base case scenario studied by Big Rivers and Brattle.**

13 **c. Also, refer to Exhibit Celebi-2, page 4, regarding the confidential net**
14 **revenue impact of delaying retirement from the end of 2018 to 2035.**
15 **Provide the stand-alone impact of the carbon pricing impact on the**
16 **present value of that model.**

17 **d. Identify and explain any differences in the methodology used in the**
18 **analysis of Big Rivers, Brattle and by GDS Associates, Inc. ("GDS")**
19 **in the Integrated Resource Plan ("IRP") prepared for Henderson,**
20 **that have a material financial impact in determining whether**
21 **Henderson should divest itself from the Station Two assets.**

22

23

BIG RIVERS ELECTRIC CORPORATION

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1 **Response)**

2 a. The purpose of the analysis presented in Dr. Celebi's direct testimony is to
3 assess the economic viability of Station Two generation plant in the MISO
4 market, regardless of the contractual terms on the allocation of plant's costs
5 and revenues between Big Rivers and Henderson. Dr. Celebi also
6 understands that the extension of the terms of the contract among the City
7 of Henderson, City of Henderson Utility Commission and Big Rivers was
8 conditioned in part on whether the Station Two plant is capable of
9 economically competitive production of electricity. Dr. Celebi's economic
10 viability analysis in his testimony is an assessment of whether Station Two
11 plant is capable of economically competitive production of electricity.

12 b. Big Rivers' analysis did not include a net present value evaluation for the
13 Station Two plant, and instead evaluated the present value of Big Rivers'
14 total utility costs with and without Big Rivers' portion of Station Two as
15 part of the resource mix. In contrast, Dr. Celebi's analysis evaluates the
16 present value of future cash flows for Station Two as a whole. Please see
17 responses to subpart a above and subpart d below for further reasons that
18 the two analyses are not comparable.

19 c. Dr. Celebi estimated the present value of Station Two's projected gross
20 margins during the period 2019-2035 to [REDACTED]
21 [REDACTED]
22 under the Carbon Pricing scenario.

BIG RIVERS ELECTRIC CORPORATION

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1 d. The main differences between the three analyses are the basis used for the
2 analysis and the forecasted market prices and production costs.

3 The basis for Dr. Celebi's analysis is focused on Station Two as a
4 whole and evaluated whether Station Two was capable of the economically
5 competitive production of electricity. In Big Rivers' analysis, the basis was
6 Big Rivers' portion of Station Two and it evaluated Big Rivers' utility costs
7 with and without Station Two. The GDS analysis evaluated Station Two
8 from the City's view to determine the most economical way to serve the
9 City's load.

10 Please see the attachment to this response, which displays the
11 forecasted market prices and Station Two parameters used in each
12 analysis. Big Rivers' analysis was the first analysis completed and its
13 forecasted inputs are the oldest (September 2017). Dr. Celebi's forecasted
14 inputs are from April 2018.

15

16

17 **Witness** Metin Celebi

18

**Market Prices and Variable Cost Comparison among Big Rivers 2017-2031
Long-Term Financial Plan, Brattle HMP&L Station Two Analysis, and
GDS HMP&L Station 2 IRP Study**

Year	Energy Market Prices (HMP&L Gen Node)			Energy Capacity Prices (MISO Zone 6)			Delivered Coal Prices			HH Natural Gas Prices			Non-Fuel VOM Prices			Start Fuel Oil Delivered Prices		
	\$/MWh			\$/KW-mo			\$/MMBtu			\$/MMBtu			\$/MWh			\$/MMBtu		
	BREC	Brattle	GDS	BREC	Brattle	GDS	BREC	Brattle	GDS	BREC	Brattle	GDS	BREC	Brattle	GDS	BREC	Brattle	GDS
2018		\$ 27.39			\$ 0.37	\$ 0.50			\$ 1.85			\$ 2.81			\$ 6.94			
2019		\$ 26.97	\$ 27.80		\$ 0.46	\$ 0.50			\$ 1.90			\$ 2.85			\$ 7.09			
2020		\$ 26.99			\$ 0.46	\$ 0.80			\$ 1.93			\$ 2.88			\$ 7.24			
2021		\$ 27.54			\$ 0.76	\$ 1.00			\$ 1.97			\$ 2.91			\$ 7.40			
2022		\$ 28.38			\$ 5.00	\$ 1.30			\$ 2.00			\$ 2.94			\$ 7.56			
2023		\$ 29.57			\$ 5.00	\$ 1.80			\$ 2.04			\$ 2.97			\$ 7.72			
2024		\$ 30.66	\$ 28.80		\$ 5.00	\$ 2.00			\$ 2.08			\$ 3.00			\$ 7.88			
2025		\$ 31.93			\$ 5.00	\$ 2.30			\$ 2.12			\$ 3.03			\$ 8.05			
2026		\$ 32.93			\$ 5.00	\$ 2.90			\$ 2.16			\$ 3.06			\$ 8.23			
2027		\$ 33.91			\$ 6.20	\$ 3.00			\$ 2.20			\$ 3.09			\$ 8.40			
2028		\$ 34.75			\$ 5.00	\$ 3.10			\$ 2.24			\$ 3.12			\$ 8.59			
2029		\$ 35.86	\$ 30.40		\$ 5.00	\$ 3.25									\$ 8.77			
2030		\$ 36.77			\$ 5.00	\$ 3.90									\$ 8.96			
2031		\$ 37.62			\$ 6.20	\$ 4.10									\$ 9.15			
2032		\$ 38.52			\$ 5.00	\$ 4.20												
2033		\$ 39.39			\$ 5.00	\$ 4.50												
2034		\$ 40.28	\$ 31.80		\$ 5.00	\$ 4.90												
2035		\$ 41.17			\$ 5.00	\$ 5.10												

NOTES

BREC is the board approved 2017-2031 Financial Plan (9/18/17 Market Prices, July-17 capacity and variable cost inputs)

Brattle is the Base Case for HMP&L Station Two economic analysis.

GDS is the Base Case for the HMP&L IRP - Prices estimated from report

NOTES

BREC is the board approved 2017-2031 Financial Plan (9/18/17 Market Prices, July-17 capacity and variable cost inputs)

Brattle is the Base Case for HMP&L Station Two economic analysis.

GDS is the Base Case for the HMP&L IRP - Prices estimated from report

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1 **Item 10)** *Refer to the Berry Testimony, page 10, lines 5 - 17.*

2 *a. Given Big Rivers' internal economic analysis, the Brattle economic*
3 *analysis, and the IRP developed by GDS, all of which calls into*
4 *question the economic viability of Station Two, fully explain why Big*
5 *Rivers is seeking confirmation from the Commission to terminate*
6 *the contracts at issue particularly when, according to Big Rivers,*
7 *those contracts do not require any further authority "from the*
8 *Commission for the termination of the Terminated Contracts to be*
9 *effective."*

10 *b. Given that Henderson "agrees with Big Rivers' determination that a*
11 *minimum of 13 months is necessary to conduct an orderly*
12 *termination process,"¹ fully explain why Big Rivers needs*
13 *Commission authorization to continue operating Station Two.*

14

15 **Response)**

16 *a. The terms of the contracts which are at issue in this proceeding are for the*
17 *operating life of Station Two. The operating life of Station Two is that*
18 *period of time during which Station Two is capable of the normal,*
19 *continuous, reliable operation for the economically competitive production*
20 *of electricity. As the operator of Station Two, Big Rivers has determined*
21 *that Station Two is no longer capable of such operation for the economically*

¹ Henderson Comment filed May 22, 2018.

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1 competitive production of electricity. The contracts at issue therefore are
2 terminated by their terms. Big Rivers does not believe that Commission
3 approval is required for termination of the contracts to occur when the
4 contracts themselves establish the length of the terms.

5 However, as explained in Big Rivers' Notice and Application,
6 Henderson indicated to Big Rivers that Henderson would dispute Big
7 Rivers' discontinuation of the operation of Station Two and the termination
8 of the applicable contracts. (*See, e.g.*, the email from Henderson attached to
9 the Direct Testimony of Robert W. Berry as Exhibit Berry-4.) Because of
10 this dispute, Big Rivers invoked in these proceedings the jurisdiction of the
11 Commission for a declaratory order confirming that the Station Two
12 contracts are terminated because the Station Two units are no longer
13 capable of normal, continuous, reliable operation for the economically
14 competitive production of electricity.

15 Additionally, Henderson's IRP was issued less than a week before
16 Big Rivers filed its Notice and Application in this matter, and even though
17 that IRP supports Big Rivers' conclusion that Station Two is no longer
18 capable of the economically competitive production of electricity, Henderson
19 itself has not said that it agrees with Big Rivers' conclusion. In fact, even
20 though Henderson did not move to intervene in this proceeding, Chris
21 Heimgartner, General Manager for Henderson Municipal Power & Light,
22 recently verbally informed Big Rivers' CEO that Henderson does not agree
23 that the Station Two contracts have terminated.

BIG RIVERS ELECTRIC CORPORATION

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1 The Station Two contracts which are at issue in this proceeding are
2 subject to the jurisdiction of the Commission pursuant to KRS 278.200. The
3 contracts state that they "shall be subject to the approval of all local, state
4 or federal regulatory bodies having jurisdiction thereof."² The Commission
5 has previously exercised its jurisdiction over the contracts at issue by
6 approving the contracts and amendments thereto, including amendments
7 specifically related to the termination provisions that are at issue in this
8 proceeding, and by resolving other issues that have arisen between the
9 parties arising out of the contracts.³ Big Rivers therefore requested that
10 the Commission resolve the dispute between Big Rivers and Henderson by
11 confirming that the contracts at issue have terminated. Big Rivers believes
12 that unless Henderson confirms that it agrees that the contracts have
13 terminated, Big Rivers is justified in invoking the Commission's
14 jurisdiction to resolve this dispute. Additionally, regardless of whether
15 Henderson agrees the contracts have terminated, the Commission should
16 also exercise its jurisdiction over the Station Two contracts to allow Big
17 Rivers to continue to operate the plants for the reasons explained in
18 response to subpart b below.

² See, e.g., Power Sales Contract § 25.1.

³ See Order, P.S.C. Case No. 5406 (Oct. 22, 1970) (approving the Station Two Contracts); Order, P.S.C. Case No. 1998-00267 (July 14, 1998) (approving the 1998 Amendments to the Station Two Contracts); Order, P.S.C. Case No. 94-032 (March 31, 1995) (approving the 1993 Amendments to the Station Two Contracts); Order, P.S.C. Case No. 2016-00278 (Jan. 25, 2018).

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1 b. Please see the response to subpart a above. Given that the contracts at
2 issue have been terminated, on May 1, 2018, Big Rivers extended a written
3 offer to Henderson to continue to operate and maintain Station Two under
4 the same terms and conditions set forth in the Terminated Contracts until
5 May 31, 2019, unless Big Rivers and Henderson reached a mutually
6 acceptable agreement regarding the ongoing operation of Station Two prior
7 to that date, or Big Rivers is ordered to cease operation of Station Two by
8 the Commission prior to that time. On June 15, 2018, Henderson accepted
9 Big Rivers' offer to continue to operate and maintain Station Two under the
10 same terms and conditions set forth in the Terminated Contracts through
11 May 31, 2019.

12 However, even with that agreement between Big Rivers and
13 Henderson, because the Commission approved the contracts and the
14 amendments thereto, Big Rivers believes that changes to those contracts
15 may require Commission approval. Further, since the term of the contracts
16 has expired, Big Rivers sought the approval of the Commission to continue
17 to operate Station Two under the terms of the contracts post termination of
18 the subject contracts.

19
20
21 **Witnesses) Robert W. Berry and Counsel**
22

BIG RIVERS ELECTRIC CORPORATION

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1 **Item 11)** *Refer to the Berry Testimony, page 12, lines 5-6, regarding the*
2 *various options available to Henderson for its power supply. Explain*
3 *whether Big Rivers has engaged in any discussions with Henderson*
4 *concerning a bilateral power supply contract.*

5

6 **Response)** No, Big Rivers has not engaged in any discussions with Henderson
7 concerning a bilateral power supply contract; however, Big Rivers is preparing a
8 proposal to enter into a short-term bilateral power supply contract that will allow an
9 earlier exit of the contracts.

10

11

12

13 **Witness)** Mark J. Eacret

14

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1 **Item 12)** *Refer to the Berry Testimony, page 13, line 17, through page 14,*
2 *line 2.*

3 **a.** *Mr. Berry states "Big Rivers has begun to dispatch the Station Two*
4 *units in MISO on an economic commit basis, so they only operate*
5 *when it makes economic sense to do so, or they are needed for*
6 *reliability."*

7 **(1)** *Explain the statement that the Station Two units are operated*
8 *"when it makes economic sense to do so."*

9 **(2)** *Given that the Station Two units are operated "when it makes*
10 *economic sense to do so," explain Big Rivers' argument that the*
11 *Station Two units are not able to generate economically*
12 *competitive electricity.*

13

14 **Response)**

15 **a.**

16 **(1)** The statement "when it makes economic sense to do so" means the
17 units are operated on the days when the market price that Big Rivers
18 receives from MISO for the energy that is generated is greater than
19 the variable cost that Big Rivers incurs to generate that energy. The
20 variable cost that Big Rivers incurs to generate energy includes fuel,
21 reagent, disposal, and emission allowance costs.

22 **(2)** The margin that Big Rivers makes from energy and capacity sales for
23 Station Two are insufficient to cover the fixed costs of operating

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1 Station Two. The fixed costs of Station Two include items such as
2 labor, operating and maintenance expenses, general and
3 administrative overhead expenses, property taxes, depreciation and
4 interest, and other fixed costs.

5 Please see Slide 27 of Exhibit Celebi-2 filed with Dr. Celebi's
6 Direct Testimony, for the expected base case gross margins for the time
7 period of 2019 to 2035. The gross margin is negative for each of these
8 years.

9
10
11
12

Witness) Michael T. Pullen

BIG RIVERS ELECTRIC CORPORATION

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1 **Item 13) *Fully explain how Big Rivers was able to reduce the minimum***
2 ***generation levels of the Station Two units to 56 MW.***

3 ***a. State whether Big Rivers' internal analysis used a minimum***
4 ***generation level of 56 MW for each of the Station Two units in***
5 ***concluding that Station Two is unable to generate economically***
6 ***competitive electricity.***

7 ***b. State whether Big Rivers has discussed a potential closure of the***
8 ***Station Two units with MISO, and whether there has been any***
9 ***indication from MISO that the units may be required to run for***
10 ***reliability purposes.***

11
12 **Response)** In April 2016, the new Mercury and Air Toxic Standards (MATS)
13 regulations became effective for Station Two, and for several months following the
14 effective date of those regulations, and in particular during the 2016 ozone season,
15 Big Rivers closely monitored the Station Two emission levels to ensure the units were
16 operating in compliance with the new MATS regulation. Once Big Rivers became
17 comfortable with how the system performed under the new and existing regulations,
18 Big Rivers began evaluating the steps that could be taken to reduce the minimum
19 generation levels of the Station Two units while ensuring ongoing compliance with
20 environmental regulations.

21 The Station Two units are designed to utilize two coal mills to achieve the full
22 generating capacity for each unit. Big Rivers performed initial testing in the fall of
23 2016 utilizing a two mill operation in order to determine minimum generation levels.

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1 The testing was inconclusive and required further discussion and evaluation which
2 took place over the course of the following winter months. Additionally, in the spring
3 of 2017, there was a planned outage for one of the Station Two units during which
4 time maintenance work was completed on the selective catalyst reduction unit (SCR)
5 and the flue gas desulfurization scrubber (FGD) which improved the environmental
6 performance of the unit. Following the conclusion of the outage, Big Rivers began
7 evaluating the emission levels from the Station Two units with only one mill
8 operating in order to determine whether that would result in acceptable lower
9 minimum generating levels while maintaining compliance with the environmental
10 regulations. This evaluation included reviewing the NO_x, SO₂, mercury, and
11 particulate emissions during one mill operation to ensure continued compliance with
12 the operating permits. Big Rivers performed this testing during the summer of 2017
13 and determined that one mill operation is acceptable and allowed the units to be
14 operated at 56 MW and remain in compliance with environmental regulations.
15 Following the conclusion of this evaluation, on September 2, 2017, Big Rivers began
16 operating each of the Station Two units with the minimum generation level set to 56
17 MW each. As noted in Big Rivers' response to Item 15 of the Commission Staff's
18 Initial Request for Information, Henderson has objected and continues to object to
19 Big Rivers operating the units at minimum operating levels of 56 MW.

20 a. Yes, Big Rivers' internal analysis used a minimum generation level of 56
21 MW for each of the Station Two units that concluded Station Two is unable
22 to generate economically competitive electricity.

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1 b. Big Rivers is unaware of Henderson's future plans with respect to the
2 operation of Station Two. As such, Big Rivers has not discussed a potential
3 closure of the Station Two units with MISO. Big Rivers has informed MISO
4 that the Station Two contracts have terminated and, as a result of the
5 termination, Big Rivers would no longer be operating Station Two after
6 May 31, 2019, unless ordered to cease operation by the Commission prior
7 to that time. MISO has not indicated to Big Rivers that the Station Two
8 units may be required to run for reliability purposes.

9
10
11
12
13

**Witnesses) Michael T. Pullen and
Michael W. Chambliss (b. only)**

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1 **Item 14)** *Refer to the Berry Testimony, page 14, lines 3-8. State whether*
2 *the cost reductions discussed by Mr. Berry are reflected in Big Rivers'*
3 *internal analysis.*

4

5 **Response)** The lower cost fuel and lower labor costs for Station Two were used in
6 Big Rivers' internal analysis (the 2017-2031 Long-term Financial Plan).

7

8

9 **Witness)** Michael T. Pullen

10

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1 **Item 15) Refer to the Berry Testimony, lines 15-22.**

2 **a. Fully explain the various alternatives that were recommended by**
3 **Big Rivers to Henderson regarding the operational modifications of**
4 **Station Two to make Station Two more economically competitive.**

5 **b. Explain whether Henderson provided any reason(s) to Big Rivers for**
6 **not objecting to having Station Two dispatched on an economic**
7 **basis.**

8

9 **Response)**

10 **a. Big Rivers recommended committing the Station Two units in the MISO**
11 **market on an economic basis so that the units would only generate on those**
12 **days where the market price for energy exceeded the variable cost to**
13 **produce that energy. Henderson agreed to this recommendation on October**
14 **13, 2017.**

15 **Big Rivers also recommended modifying the Station Two fuel box to**
16 **allow additional qualities of coal to be burned at Station Two to lower the**
17 **fuel cost for the units. Henderson agreed to modify the fuel box on January**
18 **8, 2018, for a one year period to end on December 31, 2018.**

19 **Finally, Big Rivers recommended lowering the minimum generation**
20 **level of the units to 56 MW in order to minimize the amount of energy that**
21 **is generated at a loss during uneconomic hours. Big Rivers implemented**
22 **this recommendation on September 2, 2017 against Henderson's objection.**

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1 b. Henderson provided no reason to Big Rivers in October 2017 for not
2 objecting to having Station Two dispatched on an economic basis, despite
3 having objected and threatened legal action during previous discussions on
4 this subject. Henderson did object and continues to object to operating the
5 units at minimum operating levels of 56 MW. Henderson maintains that
6 115 MW for unit 1 and 120 MW for unit 2 are their acceptable minimum
7 operating levels. Operating the units at these higher minimum levels
8 creates additional uneconomic energy. Big Rivers is willing to operate the
9 units at the minimum levels recommended by Henderson only if Henderson
10 agrees to pay for the uneconomic energy generated by Henderson's higher
11 required minimum operating levels. Henderson has not agreed to this
12 proposal and, in addition, it has not paid for any uneconomic energy to date.

13
14
15 **Witness)** Robert W. Berry

16

BIG RIVERS ELECTRIC CORPORATION

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1 **Item 16)** *Refer to the Berry Testimony, page 15, lines 7-9, which states, "The*
2 *MISO market has sufficient reserves to meet Henderson's load demands, and*
3 *power can be procured from the market with liquidated damages terms to*
4 *provide financial protection." Describe the terms that would provide*
5 *financial protection as referenced in this testimony.*

6

7 **Response)** Liquidated damages terms would include an obligation on the part of
8 Henderson's supplier to make Henderson financially whole for all costs incurred by
9 Henderson as a result of the supplier's failure to perform that exceed the costs that
10 Henderson would have incurred if the supplier had performed. The agreement would
11 define a limited set of situations under which performance was excused.

12 The agreement would also require that any supplier meet minimum credit
13 requirements or post credit assurance, in order to be able to make such a performance
14 guarantee.

15

16

17 **Witness)** Mark J. Eacret

18

19

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1 **Item 17)** *Refer to Berry Testimony, page 17, lines 1-5. List the tasks Big*
2 *Rivers must accomplish to cease operating Station Two.*

3

4 **Response)** Please see the attached CONFIDENTIAL schedule for an ongoing list
5 of activities being undertaken by Big Rivers related to its exit from the Terminated
6 Contracts. This CONFIDENTIAL schedule is provided with a Petition for
7 Confidential Treatment.

8


9

10 **Witnesses)** Michael T. Pullen,
11 Michael W. Chambliss, and
12 Mark J. Eacret

13

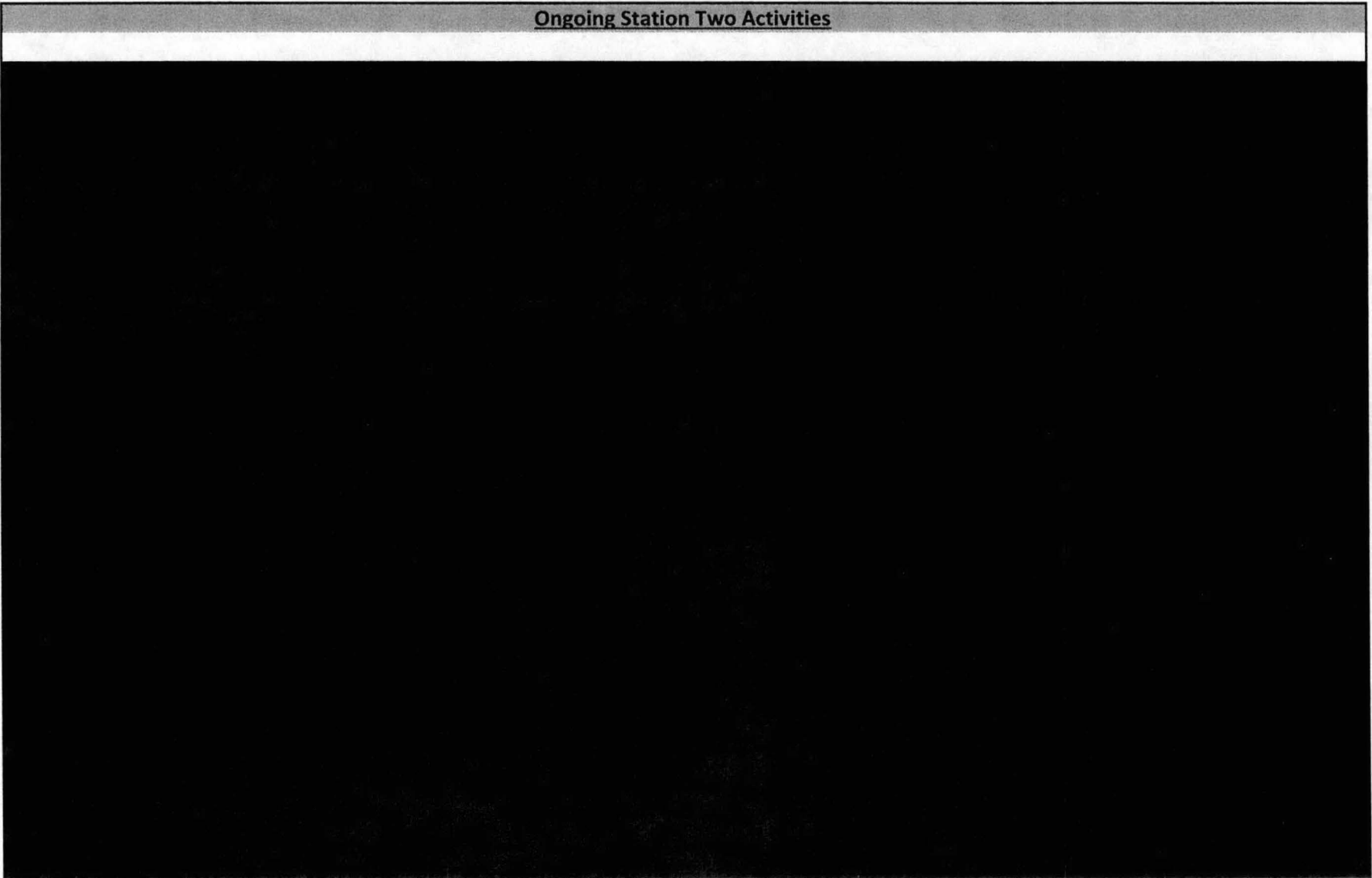
Big Rivers Electric Corporation
Case No. 2018-00146
Big Rivers' Tasks to Cease Operating Station Two

Ongoing Station Two Activities



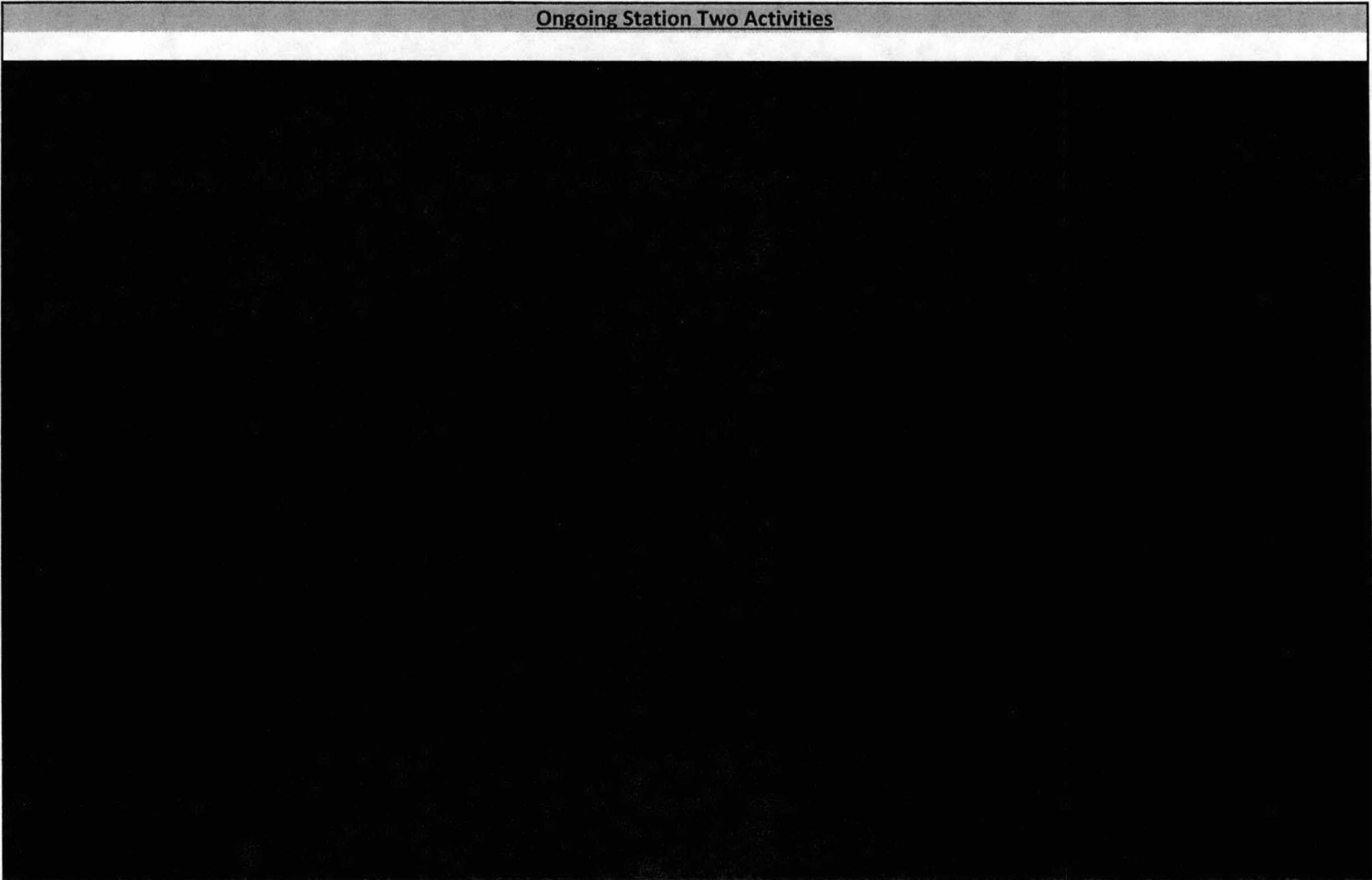
Big Rivers Electric Corporation
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Big Rivers' Tasks to Cease Operating Station Two

Ongoing Station Two Activities




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Big Rivers' Tasks to Cease Operating Station Two

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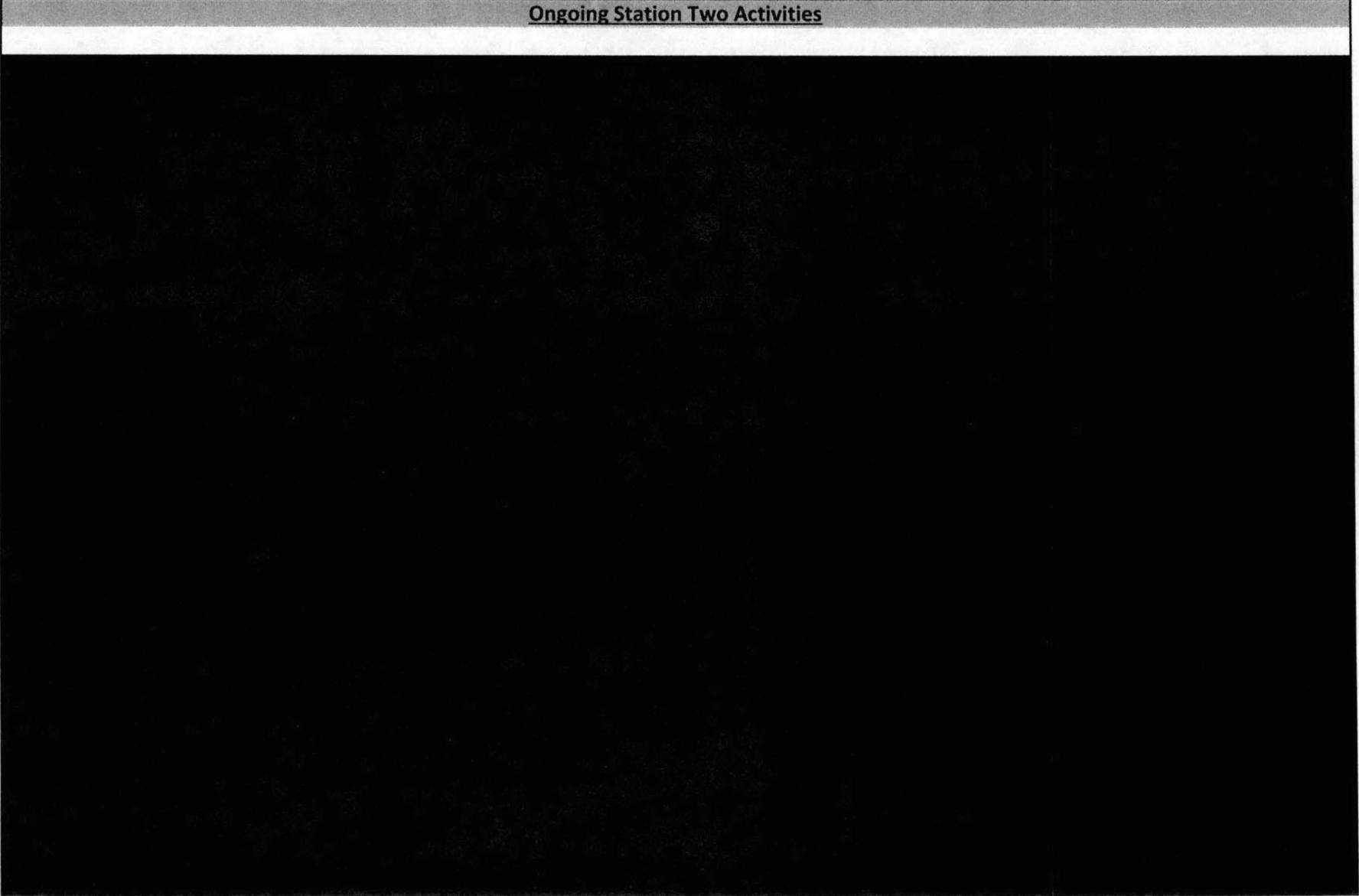
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Ongoing Station Two Activities



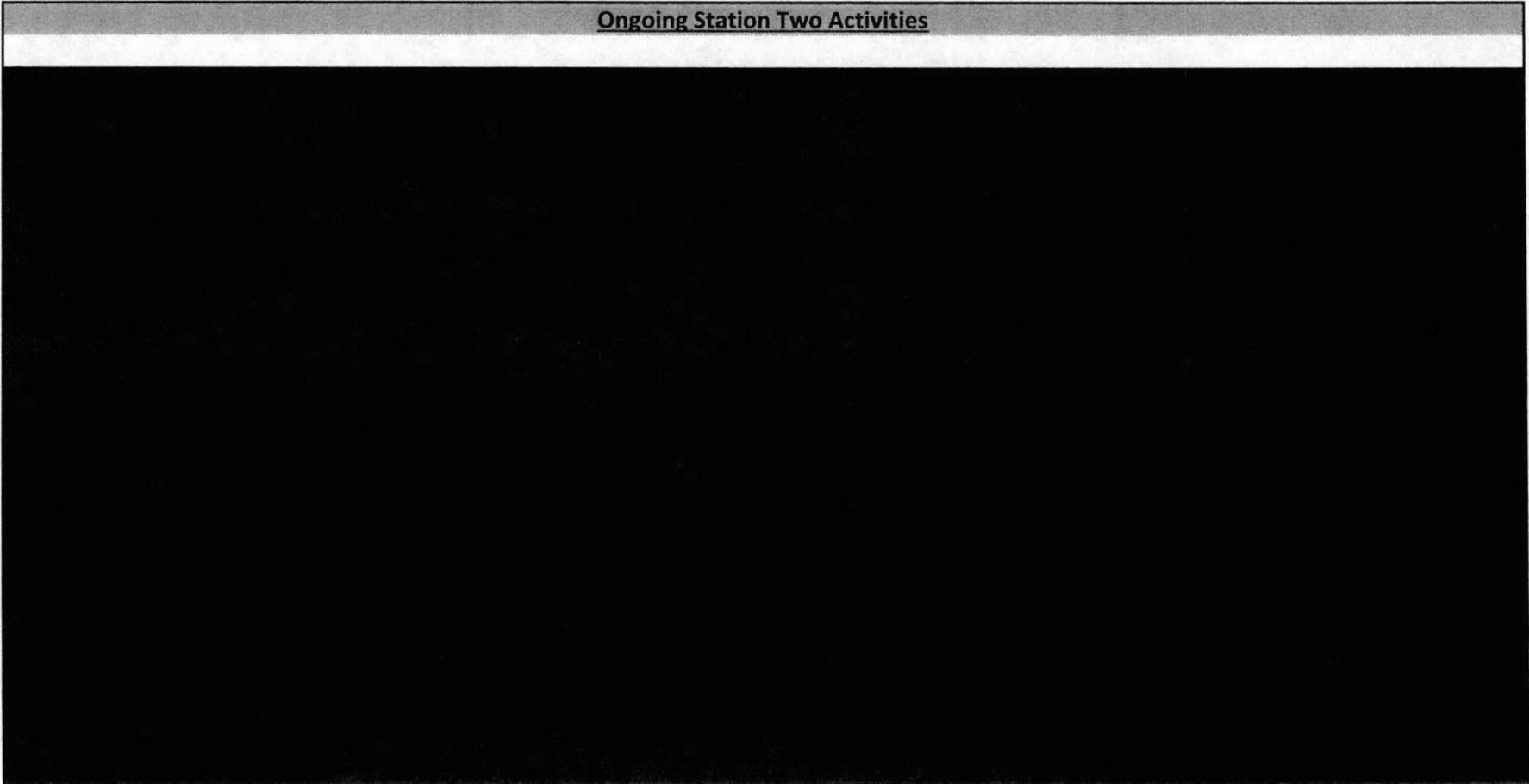
Big Rivers Electric Corporation
Case No. 2018-00146
Big Rivers' Tasks to Cease Operating Station Two

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Big Rivers Electric Corporation
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Big Rivers' Tasks to Cease Operating Station Two

Ongoing Station Two Activities



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1 **Item 18)** *Refer to the application, Exhibit 5, the Direct Testimony of Metin*
2 *Celebi. ("Celebi Testimony"), page 11, footnote 7. State whether Mr. Celebi*
3 *believes the results of the analysis would vary significantly if the projected*
4 *energy revenues in the real-time market were used in the analysis instead of*
5 *in the day-ahead market.*

6
7 **Response)** The results of Dr. Celebi's analysis with respect to economic viability of
8 Station Two would be similar if the real-time energy market prices were used instead
9 of day-ahead energy market prices for two reasons. First, the day-ahead and real-
10 time energy prices at the Station Two nodes were very similar in 2017 (on average
11 \$27.30/MWh in the day-ahead market versus \$27.24/MWh in the real-time market).
12 Second, the expected value of the future day-ahead energy prices and future real-time
13 energy prices in MISO would converge to each other since the virtual demand bids
14 and virtual supply offers in the MISO day-ahead markets would eliminate any
15 substantial and sustained price differences between the two markets.

16

17

18 **Witness)** Metin Celebi

19

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1 **Item 19)** *Refer to the Celebi Testimony, page 6, lines 7-9. Explain how the*
2 *analysis period of 2019-2035 was determined.*

3

4 **Response)** The beginning year of 2019 was chosen as the first full calendar year
5 following the date of Dr. Celebi's analysis. The end year of 2035 was chosen to reflect
6 approximately 15 years of potential operations in the future, based on Dr. Celebi's
7 assessment of the appropriate period for a coal plant that came online in early 1970s.
8 Dr. Celebi notes that his projected gross margins for the Station Two plant are
9 negative in all years during his study period of 2019 through 2035.

10

11

12 **Witness)** Metin Celebi

13

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**Response to the Commission Staff's
First Request for Information
dated June 25, 2018**

July 6, 2018

1 **Item 20) Refer to the application, Exhibit 6, page 2 of 2, the April 9, 2018**
2 **letter from Rural Utilities Service ("RUS") to Robert Berry.**

3 **a. The RUS letter states that "Big Rivers will defer these costs over an**
4 **estimated 15 years." Explain whether this statement indicates that**
5 **Big Rivers will incur costs over a 15-year period that it will defer or**
6 **whether Big Rivers will amortize deferred costs over a 15-year**
7 **period.**

8 **b. Provide a copy of the March 6, 2018 letter from Big Rivers to RUS**
9 **referenced in this exhibit.**

10 **c. The RUS letter states that Big Rivers will include decommissioning**
11 **costs, if any, in the \$89 million regulatory asset it is requesting in**
12 **the instant case. State whether Big Rivers or the city of Henderson,**
13 **will determine whether Station Two units will be decommissioned**
14 **or abandoned in place.**

15

16 **Response)**

17 **a. The statement referenced was meant to indicate that Big Rivers will**
18 **amortize the deferred costs over a 15-year period. Although the RUS letter**
19 **does state that "Big Rivers will defer these costs over an estimated 15 years,"**
20 **it is actually referring to the estimated period over which Big Rivers will**
21 **amortize the deferred costs. The actual amortization period will be based**

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1 on, and coincide with, the period in which the deferred costs will be
2 recovered through rates.

3 b. A copy of the March 6, 2018, letter from Big Rivers to the RUS, referenced
4 in the application, Exhibit 6, page 2 of 2, is provided as an attachment to
5 this response.

6 c. To date, no discussions have taken place between Big Rivers and Henderson
7 regarding the timing and options available for decommissioning Station
8 Two, including the possibility of abandoning the facility in place. Due to
9 the complexities involved in this decision, including but not limited to the
10 facts that a portion of Station Two is subject to the ongoing Joint Facilities
11 Agreement between the parties as well as that certain Station Two facilities
12 are located on Big Rivers' property and are subject to certain easement
13 agreements between the parties, both Big Rivers and Henderson will
14 participate in the decision making process associated with the
15 decommissioning of Station Two.

16
17

18 **Witnesses) Paul G. Smith (a. and b. only)**

19 Robert W. Berry (c. only)

20



201 Third Street
P.O. Box 24
Henderson, KY 42419-0024
270-827-2561
www.bigrivers.com

March 6, 2018

USDA Rural Development
Rural Utilities Service
STOP 1522, Rm 5159
1400 Independence Ave., SW
Washington, DC 20250-1522
Attention: Jim Murray, Assistant Administrator, Program Accounting and Regulatory Analysis

Re: Big Rivers Electric Corporation – Notice to RUS of Intended Termination of Station Two Contracts with Henderson Municipal Power & Light (HMP&L) and Request for RUS Approval to Establish Regulatory Accounts for Deferral of Losses and Expenses Related to Termination of Station Two Contracts with HMP&L

Dear Mr. Murray:

Pursuant to Section 9.1 of the First Amended and Restated Consolidated Loan Contract between Big Rivers Electric Corporation (“Big Rivers”) and the United States of America acting by and through the Administrator of the RUS, Big Rivers hereby notifies the RUS that it intends to terminate certain contracts with the City of Henderson Utility Commission, doing business as HMP&L.

Since 1970, Big Rivers has been one of the contracting parties in a series of related contracts (“Station Two Contracts”) with the City of Henderson, Kentucky and the City of Henderson Utility Commission (collectively “Henderson”), which relate to the operation of an electric generating plant in Henderson County, Kentucky commonly referred to in the contracts as Station Two. Station Two is owned by Henderson and is maintained and operated by Big Rivers as an independent contractor under the Contracts. By their own terms and without further action from Big Rivers, the Contracts terminate when the Station Two units are no longer capable of normal, continuous, reliable operation for the economically competitive production of electricity. After conducting an extensive evaluation, Big Rivers, as the operator of Station Two, has determined that the Station Two units are in fact no longer capable of normal, continuous, reliable operation for the economically competitive production of electricity and is taking steps to terminate the Station Two Contracts.

Pursuant to 7 C.F.R. § 1767.13, Big Rivers requests RUS approval to defer the recognition of certain expenses and other amounts which it expects to incur as a result of the termination of these contracts. As a reminder of our conversation in late February, Big Rivers has not requested funding from the RUS on the Station Two Assets in the past and will not be requesting funding for these assets in the future.

At the present time, Big Rivers currently has on its books an approximately \$90 million asset relating to the value of Station Two. Under the current Rural Development USoA, Big Rivers will have to retire the assets and recognize a loss on the retirement. This would result in a significant reduction in Big Rivers' equity.

In order to avoid this reduction in equity, Big Rivers intends to request from the Kentucky Public Service Commission ("KPSC") recovery of this amount in rates in its next general rate case. Big Rivers hereby requests the authority to depart from the prescribed Rural Development USoA by establishing a regulatory account to defer these costs until its next rate case, planned for filing in 2020 absent a change in circumstances. This departure will result in significant benefits to Big Rivers and its Member-Owners, by allowing Big Rivers to maintain stronger equity levels which will aid it in reestablishing investment grade credit ratings.

In the event RUS approval is obtained to establish the regulatory account as set forth above, Big Rivers would record the following amounts to a 182.2 - Unrecovered Plant and Regulatory Study Costs account, until such time as the KPSC issues an order either allowing or disallowing Big Rivers' request to record the costs in regulatory account(s):

1. Big Rivers' remaining net book value for its share of the Station Two assets (approximately \$89.6 million as of January 31, 2018);
2. Legal and other professional service expenses which it expects to incur in order to legally terminate the contracts;
3. Decommissioning costs, if any; and
4. Other reasonable expenses incurred as a result of terminating the Station Two Contracts.

Big Rivers is currently recovering depreciation on the Station Two assets mentioned above through rates. Big Rivers intends to request that the KPSC allow Big Rivers to reduce the regulatory accounts by an amount equivalent to the depreciation included in the establishment of Big Rivers' current tariff rates on a monthly basis for the Station Two assets until such time that Big Rivers receives a final order from the KPSC on the future rate recovery of these regulatory accounts. Big Rivers does not anticipate a final order on the rate recovery of these accounts until Big Rivers files its next general base rate case.

Big Rivers will first request approval from the KPSC to record the costs in the regulatory account(s) for future rate recovery, and will subsequently request approval during its next general rate case to recover these amounts through rates. Upon approval by the KPSC to establish the regulatory account(s), Big Rivers will make the appropriate accounting entries as outlined in Attachment A.

Big Rivers Board of Directors has authorized this action, and will take official action on the Resolution on March 16, 2018. A copy of the resolution authorizing the termination of the Station Two Contracts and the related accounting treatment will be forwarded on March 16.

Big Rivers respectfully requests expedited treatment of this matter. Pursuant to CFR 1767.13, Big Rivers is required to receive RUS approval before applying with the KPSC for establishment of regulatory accounts. Because this contract termination is in the best interest of our Member-Owners here in rural Kentucky, we respectfully request that the RUS provide us written approval to establish the requested regulatory accounts within 30 days to allow us time to request the same from the KPSC prior to our planned Termination Notice delivery no later than May 31, 2018.

In the event you need any further information on this request, please do not hesitate to contact me. Thank you for your assistance.

Sincerely,



Lindsay N. Durbin, CPA
Chief Financial Officer
Big Rivers Electric Corporation

Cc: Jim Elliott, RUS
Laura Chambliss

Attachment A
Accounting Entries to be made upon Approval of the KPSC

#1 Entry to record the regulatory account(s) approved by the KPSC

Dr. 182.3 – Other Regulatory Asset	\$xx
Cr. 182.2 – Unrecovered Plant and Regulatory Study Costs	\$xx

#2 Entry to reduce regulatory account(s) for the monthly depreciation associated with Station Two assets currently included in Big Rivers' tariff rates

Dr. 447.1 – Sales for Resale RUS Borrowers	\$xx
Cr. 182.3 – Other Regulatory Asset	\$xx

After Big Rivers has filed its general rate case and the KPSC issues its final order, either allowing or disallowing recovery of all or a portion of the amounts in rates, Big Rivers will make the following accounting entries, based on the actual terms of the KPSC's order.

#3 Entry to recognize any amounts disallowed for recovery by the KPSC (if applicable)

Dr. 426.5 – Other Deductions	\$xx
Cr. 182.3 – Unrecovered Plant and Regulatory Study Costs	\$xx

#4 Monthly entry to amortize the regulatory account(s) based on amount recovered through rates during current period

Dr. 407.3 – Regulatory Debits	\$xx
Cr. 182.3 – Regulatory Assets	\$xx

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July 6, 2018

1 **Item 21)**

- 2 a. *Provide Big Rivers' share of the coal inventory at Station Two in*
3 *dollars and tons.*
- 4 b. *Given that Station Two units infrequently dispatch in the MISO*
5 *market, state what Big Rivers intends to do with any unburned coal*
6 *at the time Big Rivers ceases the operation of Station Two units.*

7

8 **Response)**

- 9 a. Big Rivers' share of Station Two coal inventory as of May 31, 2018, is
10 \$4,608,308.85 and 85,785.91 tons.
- 11 b. Any unburned coal inventory at the time Big Rivers ceases the operation of
12 the Station Two units will be transferred to the adjacent R. D. Green
13 Station, which is located at the same Sebree plant site, and will be
14 consumed in those two units.

15

16

17 **Witness)** Michael T. Pullen

18