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July 26, 2018

RECEIVED

VIA HAND DELIVERY

JUL 26 2018

PUBLIC SERVICE
COMMISSION

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 Supplemental 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 black ink, appearing to read 'TK'.

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**

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ORIGINAL



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)
DECLARATORY ORDER AND FOR)
AUTHORITY TO ESTABLISH A REGULATORY)
ASSET)**

**Case No.
2018-00146**

**Response to the Commission Staff's
Supplemental Request for Information
dated July 16, 2018**

FILED: July 26, 2018

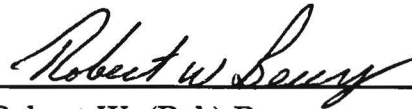
ORIGINAL

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 25th day of July, 2018.



Notary Public, Kentucky State at Large

My Commission Expires 1-12-21

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, Dr. Metin Celebi, 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.

Metin Celebi

Dr. Metin Celebi

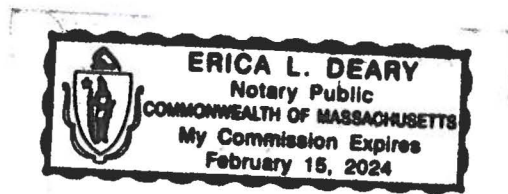
COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF SUFFOLK)

24 SUBSCRIBED AND SWORN TO before me by Dr. Metin Celebi on this the day of July, 2018.

Erica L. Deary

Notary Public

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, 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)

25th 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

October 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 25th day of July, 2018.



Notary Public, Kentucky State at Large

My Commission Expires

October 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

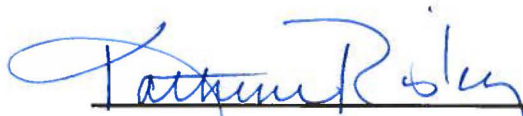
I, Duane E. Braunecker, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.



Duane E. Braunecker

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Duane E. Braunecker on this
the 25th day of July, 2018.



Notary Public, Kentucky State at Large
My Commission Expires October 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
Supplemental Request for Information
dated July 16, 2018**

July 26, 2018

1 **Item 1)** *Refer to the Application, Exhibit 4, page 13, regarding the net*
2 *capacity factor for the Station Two Units for 2018. Provide the net capacity*
3 *factors for the Units for 2013 through 2017.*

4
5 **Response)** The net capacity factor for each of the Station Two units for the years
6 2013 through 2017 is as shown in the table below. It is important to note both units
7 were offered in the MISO market as "MUST RUN" prior to October, 2017, which
8 caused the net capacity to be significantly higher than if the units were offered in as
9 "ECONOMIC" commit status.

10

Big Rivers Electric Corporation Net Capacity Factors - Station Two Units		
Year	Unit 1	Unit 2
2013	83.6	67.4
2014	84.7	83.8
2015	75.4	34.2
2016	58.1	71.4
2017	34.7	47.3

11

12

13

14 **Witness)** Michael T. Pullen

15

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
Supplemental Request for Information
dated July 16, 2018**

July 26, 2018

1 **Item 2)** *Refer to BREC's response to Commission Staff's First Request for*
2 *Information (Staff's First Request), Item 3. What impact, if any, will the*
3 *termination of the contracts have on the accounting treatment for the*
4 *depreciation expense related to Station Two?*

5

6 **Response)** At termination of the Station Two contracts, Big Rivers will cease to
7 record depreciation expense on its books but instead will record the amount of
8 depreciation expense recovered in rates as a reduction in the balance of the requested
9 regulatory asset. This accounting treatment ensures its Member-Owners will receive
10 the benefit of the Station Two depreciation expense included in its rates.

11

12

13 **Witness)** Paul G. Smith

14

BIG RIVERS ELECTRIC CORPORATION

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CASE NO. 2018-00146**

**Response to Commission Staff's
Supplemental Request for Information
dated July 16, 2018**

July 26, 2018

- 1 **Item 3)** *Refer to BREC's response to Staff's First Request, Item 9.d.,*
2 *confidential Attachment 1, which displays the forecasted market prices and*
3 *Station Two parameters used in each analysis presented in this case.*
4 *Explain the large variances in the analyses for the following parameters:*
5 *a. Energy Capacity Prices MISO, \$kw – month;*
6 *b. HH Natural Gas Price, \$/MMBtu;*
7 *c. Non-Fuel VOM Prices, \$/MWh.*

8

9 **Response)**

- 10 a. There is no visible MISO capacity forward market beyond the current
11 planning year. Therefore, the differences in capacity price projections
12 among the three studies are likely attributable to the differences in
13 modeling methodologies and the dates when the studies were conducted, as
14 explained below.

15 Big Rivers' capacity price projections for MISO Zone 6 were based on
16 internal analysis using consultations with capacity market experts at
17 ACES, market observations from July 2017, and executed transactions to
18 develop a long-term capacity price.

19 Brattle's capacity price projections for MISO Zone 6 were developed
20 by using the recent projections on peak load, announced generation
21 additions and retirements as of April 2018, and the offer price curve in the
22 MISO capacity auction for the 2017/2018 planning year. A more detailed

BIG RIVERS ELECTRIC CORPORATION

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CASE NO. 2018-00146**

**Response to Commission Staff's
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1 description of the approach and assumptions were provided in Section IV.C
2 of Dr. Celebi's direct testimony.

3 The GDS study described its approach for projecting the MISO Zone
4 6 capacity prices on page 18 of the report as "GDS' proprietary capacity
5 pricing model" that "identifies incremental capacity needs in MISO based
6 on future capacity margins and operating reserves and projects the fixed
7 cost of those incremental capacity resources less the variable energy margin
8 benefits that could be obtained in the MISO market." The study did not
9 provide any further details on how the capacity price forecast was developed
10 for the future years prior to the first year with incremental capacity needs
11 in MISO.

12 b. The difference in HH natural gas price projections between Big Rivers and
13 Brattle is due to the differences in the vintage and sources of the forecasts.
14 Big Rivers' projections are based on market forwards as of September 18,
15 2017, for the period 2018 through 2029, and the blending of market
16 forwards and Wood MacKenzie forecasts dated March 10, 2017, for the
17 period 2030 through 2035. Brattle's projections are based on the reference
18 case in the EIA Annual Energy Outlook 2018 (AEO 2018) dated February
19 6, 2018.

20 The GDS study described the source of its Base Gas HH natural gas
21 price outlook on page 16 of the study as "the current average of NYMEX
22 Henry Hub forwards contract values with low escalation thereafter." No

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1 further detail was provided with respect to the date of forwards market
2 prices or the duration of the future delivery years for which forwards
3 market prices were used.

4 c. The source and the rationale for the Station Two non-fuel VOM cost
5 assumption in the GDS study was not described in that study. Big Rivers
6 provided the non-fuel VOM cost information to Dr. Celebi, who reviewed
7 the assumption and concluded it as reasonable. Therefore, Brattle's non-
8 fuel VOM cost assumption is the same as Big Rivers' assumption.

9

10

11 **Witnesses) Dr. Metin Celebi and**

12 Duane E. Braunecker (*a. and b. only*)

13

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
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**Response to Commission Staff's
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July 26, 2018

1 **Item 4)** *Refer to BREC's 2017 IRP, page 104, where it states that the*
2 *Company has suspended further development of any specific strategy to*
3 *comply with the Clean Power Plan (CPP).*

4 *a. Confirm this means the Company is making no new environmental*
5 *expenditures related to compliance with the CPP.*

6 *b. Confirm that the analyses presented in this proceeding, future CPP*
7 *compliance costs were included in the determination of the*
8 *economic viability of the Station Two Units.*

9 *a. Quantify the impacts of the analyses in this proceeding, to the extent*
10 *possible, if no future CPP costs were included in the analyses and*
11 *whether that would make any material difference in the findings*
12 *and conclusions under each of the analyses.*

13

14 **Response)**

15 *a. Big Rivers is making no new environmental expenditures related to*
16 *compliance with the CPP at this time.*

17 *b. Big Rivers' analysis in the 2017 IRP did not include a CPP scenario.*

18 *Dr. Celebi's economic viability analysis for Station Two did not*
19 *include CPP compliance costs. Instead, Dr. Celebi analyzed a scenario*
20 *(Scenario 3 – Carbon Pricing) that reflects future CO₂ prices starting in*
21 *2025, and future coal and natural gas prices based on EIA's Annual Energy*

**Case No. 2018-00146
Response to PSC 2-4**

**Witnesses: Michael T. Pullen (a. only),
Duane E. Braunecker (a., b., and c.), and
Dr. Metin Celebi (b. and c. only)**

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BIG RIVERS ELECTRIC CORPORATION

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1 Outlook 2018 projections under the case "Reference Case with Clean Power
2 Plan". Dr. Celebi assumed the future CO₂ prices to be zero in his Base
3 Scenario.

4 c. See response to subpart b. above. In addition, as explained in Big Rivers'
5 response to Item 9c of the Commission Staff's Initial Request for
6 Information, Dr. Celebi's estimates for the present value of Station Two's
7 projected gross margins during the period 2019-2035 under his "Carbon
8 Pricing" scenario were similar to the results under his Base scenario.

9

10

11 **Witnesses)** Michael T. Pullen (*a. only*),

12 Duane E. Braunecker (*a., b., and c.*), and

13 Dr. Metin Celebi (*b. and c. only*)

14

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
Supplemental Request for Information
dated July 16, 2018**

July 26, 2018

1 **Item 5)** *Refer to BREC's response to KIUC 1-17 regarding the costs that*
2 *will cease to exist when Station Two no longer operates, but will be borne*
3 *100% by BREC.*

4 *a. Identify and quantify the costs that will not cease to exist when*
5 *Station Two no longer operates.*

6 *b. Assuming the Units operate through May of 2019, provide the impact*
7 *on BREC's net margins and Times Interest Expense Ratio on a pro*
8 *forma basis assuming removal of the revenues and non-recurring*
9 *expenses associated with Station Two for the fiscal year ending May*
10 *of 2019.*

11

12 **Response)**

13 a. Costs that will not cease when Station Two no longer operates include joint
14 use and shared facilities/activities with Green Station (approximately \$5
15 million), Station Two wind-down, severance, decommissioning, and ongoing
16 security costs (amount not yet estimated), and the reduction of most, if not
17 all, off-system sales credits (\$10 million credit included in current rates).

18 b. Assuming Station Two is operated through May, 2019, Big Rivers' net
19 margins and Times Interest Earned Ratio for the fiscal year ending May,
20 2019, are estimated to be [REDACTED] and [REDACTED], respectively. Pro forma
21 metrics for the same fiscal year assuming the removal of revenues and non-
22 recurring expenses associated with Station Two (rough estimate of [REDACTED])

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1 ██████████), are ██████████ and ██████, respectively. This pro forma period
2 is not believed to be indicative of a test period for rate case purposes.
3
4

5 **Witnesses)** Paul G. Smith and
6 Michael T. Pullen
7