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worked extremely hard to regain the trust of the folks of Western Kentucky as a result of what we've been through the last several years, and of this body. We've worked hard with you the same way. We think we're making strides, and I think the fact that there's no intervenors here speaks loud to that as well.

Q. Just for the record, did Big Rivers notify the industrial customers of this proposed tariff?

MR. MILLER:

I think that one of the responses to the data requests states that Big Rivers provided and, in fact, I think even made the copies of the proposed filing to its distribution cooperatives, and those distribution cooperatives, in return, notified their respective industrial customers.

MR. RAFF:

Okay. Thank you.

MR. MILLER:

That's under Item 1 of the November 12 response of Big Rivers to the Commission's November 5 data request.

MR. RAFF:

So it was the distribution co-ops that actually sent the notices to the industrial customers?

MR. MILLER:

That's correct, because, obviously, Big Rivers' customers are the three distribution co-ops and then the retail customers are customers of the distribution co-ops.

MR. RAFF:

Did Big Rivers receive any verification from the three distribution co-ops that, in fact, all such notices had been sent?

MR. MILLER:

We didn't receive written verification, but the CEOs of the respective co-ops are here and can testify about that.

Q. Well, have you heard anything from any industrial customer that would indicate they, in fact, have received it and are aware of it?

A. This is Mike Core. As I mentioned earlier, in discussions with Willamette on the co-gen issues that we're working with, they had indicated they had seen it. In fact, we had some discussions, just very brief, with some of their management, and one of those was I indicated they ought to be looking to Kenergy to get a longer term contract on that part that we're still supplying, and they said they agreed that that would be something that they would want to do, take a look at that, because I think they recognize the competitiveness of it, and I was trying to think. Obviously, the load switching customer knew about it, even though they weren't a current customer.

Q. Okay.

MR. MILLER:

I received a call from counsel for Commonwealth Industries asking questions about the filing, and he told me he would be recommending to his client that his client not intervene.

MR. RAFF:

All right. Thank you.

Q. Mr. Core, a number of times you've stated here this morning Big Rivers' willingness and interest in entering into contracts with either new or expanded load. Can you tell me, in your mind, would these contracts be between Big Rivers and the customer itself?

A. Typically, and I'll let counsel correct me, typically, we would negotiate this contract through the distribution system, and the contract, Jim, is through the distribution system to the industrial customer; is that correct?

MR. MILLER:

The typical procedure is that representatives of

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Big Rivers and the distribution cooperative meet with the large industrial customers. The arrangement reached is then documented by the distribution cooperative entering into a contract with the industrial customer. Then Big Rivers enters into a contract with the distribution cooperative to provide that load, back up the obligation assumed by the distribution cooperative, and, at the same time, approves the terms and conditions contained in the distribution cooperative retail customer contract.

MR. RAFF:

Okay. So then is the proposed capacity expansion tariff that we're here discussing today, that's a tariff from Big Rivers to its three distribution cooperatives?

MR. MILLER:

That's correct.

MR. RAFF:

And, if that tariff is approved, there will then have to be a tariff filing by each of the three distribution cooperatives?

MR. MILLER:

We assume that to be the case.

MR. RAFF:

Okay.

CHAIRWOMAN HELTON:

Just for clarity of the record, Mr. Miller, since Mr. Stanley is here, I think there was a list of some 19 customers that were potential candidates for increased load growth. Is that correct?

MR. STANLEY:

That's correct.

CHAIRWOMAN HELTON:

And you notified all of them, and you did not - maybe you had some phone calls. Could you tell us about that, if you did?

MR. STANLEY:

We did notify all of the large industrial customers, and I don't recall specifically the number. I think we have some 22 large industrial customers, 21, and all of them did receive notice. Some of them are served under a tariff that was in place at Henderson-Union, but the large industries were notified by letter, and we've had no contact that I'm aware of with them.

CHAIRWOMAN HELTON:

Thank you.

Q. Is it not true that Big Rivers already has special contracts that relate to specific industrial customers, or is that not true?

A. This is Mike Core. Yes, there are some industrial customers through the distribution cooperatives that we do have contracts with.

Q. Okay. And what kind of terms are covered in those contracts?

A. Well, they vary, obviously, from customer to customer, the length of the contract, specific items that relate to potential growth. There are references to equipment that's in place and a cost provision for recovering the costs if there are special facilities, a facilities charge, if you will.

Q. Right.

A. I would defer to Jim Miller or Dean or the other CEOs that might have that involvement, but, with some of those customers, there are certainly specific contracts.

Q. But, to your knowledge, do any of those contracts specify rates that are different from your Schedule 7 tariff?

MR. GAINES:

No.

A. I can't - go ahead.

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MR. MILLER:

All of those contracts are on file at the Commission, and I believe all of those customers are now served under the Rate Schedule 7 of Big Rivers, although there are some - and perhaps Dean Stanley can speak to this, but, as I recall, there are some large customers that are served under different tariffs than a special contract at the distribution co-op level, I think maybe some coal mines, or there are some large customers that are served under what you might ordinarily consider to be rural tariffs, and, of course, there is at least one large industrial customer, Commonwealth Aluminum, who does not have a contract. It's just served under the tariff.

MR. GAINES:

Big Rivers' rate, in each case, is Rate Schedule 7.

MR. BLACKBURN:

I believe that's correct.

MR. MILLER:

No. I think there are some instances where the rural tariff serves as the rate schedule for customers that are served under a distribution cooperative, large commercial or other tariff.

MR. BLACKBURN:

Bill Blackburn responding. I believe there are two customers that still have the industrial incentive rate in place which would be a portion of the Rate 7, the factor by the percentage, but, other than that, I believe the demand and energy that we bill to the co-op members are all the same for the industrials, which would be Rate 7.

Q. Okay. And the economic incentive rate, that's a grandfathered provision?

MR. BLACKBURN:

I believe that's correct.

CHAIRWOMAN HELTON:

Mr. Raff, unless you're really close to concluding, I think we should take a break at this point.

MR. RAFF:

I think that's an excellent idea. Thank you.

CHAIRWOMAN HELTON:

We'll take a 15 minute break.

OFF THE RECORD

CHAIRWOMAN HELTON:

Mr. Raff, are you ready to continue?

MR. RAFF:

Yes, Chairman.

Q. If Big Rivers should get an additional 400 or more megawatts of new industrial load, will there be any transmission constraints on its system caused by the addition of these new loads?

A. This is Mike Core. At the risk of not being an engineer and trying to answer this, let me give you my take on this, is that it, of course, would depend, I think, on where those loads are located on the system. I think you said 400 megawatts, which is pretty significant. Obviously, if it was all one customer in one location, there probably would be some constraints. To the extent it's spread out, it would have to be looked at on a situation-by-situation basis. Now, having said that, one of the engineers is here. We can turn around and see if he agrees with my answer. He shook his head yes.

Q. Well, do I take it, then, Big Rivers is not currently considering needed expansion to its transmission system in anticipation of what may be additional industrial growth?

A. I think that's a fair assessment. Obviously, we have a plan in place and a budget that we're making additions to the transmission system as they're warranted by the Power Requirements Study and actual data that we're obtaining, but, to specific industrial sites, no, not at this time.

Q. Okay. Do you know whether any of those utilities with which Big Rivers is interconnected with would need to upgrade any of their facilities to serve additional loads?

A. Again, I think it would be on a case-by-case basis and taking a look at those situations. We are inter-connected with a number of utilities. We would just have to see what the situation is.

Q. Thank you.

The witness, JACK GAINES, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. In Big Rivers' response to Item 8c. of the Commission's November 5, 1999, data request, and I believe it was Mr. Gaines, we asked about a hypothetical customer served by Big Rivers that increases its load, in year one, by three megawatts and then, in year four, by another three megawatts, for a total of six, and the response indicated that, once the second increment of three megawatts was added, that that customer would then be served under this proposed rate schedule for the total of its six additional megawatts; is that correct?

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A. Yes.
Q. Can you explain why the entire increase in load would be eligible for the proposed schedule if the increases occur a number of years apart?
A. The purpose of setting it up that way was primarily to provide a manageable quantity to take to the market in the event that they reached the threshold, at the point in time that they do, and, as an example, if a customer grew three megawatts and then three megawatts later for a total of six and we said that, once they got over five megawatts, then it was the increment over five megawatts that we took to the market, well, we would start out with a very small number and that would not be a manageable level to go to the market with. So this was the mechanism that we felt like provided the most manageable and administratively reasonable approach to defining the quantity that was subject to Rate Schedule 10.
Q. All right. I assume, in that same hypothetical, that that customer, until it actually adds the second increment of three megawatts, the first three will be billed under your existing Schedule 7.
A. That's correct.
Q. And that billing tariff would not change until such time as the second three is added?

A. That's correct.

Q. Was there any consideration given to only utilizing the proposed capacity expansion tariff for the increment of load that exceeds five megawatts?

A. Yes, there was, and I think the reason we chose to propose it in this manner was, as I explained earlier, that that increment could conceivably be one kw, and, once you reach a threshold where you say the customer should be subjected to Rate Schedule 10, you need a quantity that is reasonably taken to the market, if you will.

Q. And there is nothing in your capacity expansion tariff that addresses the number of years over which the customer's expansion would have to reach the five threshold; is that correct?

A. That's correct.

Q. So is it the intent that, no matter how long it takes, if, in fact, a customer does eventually reach five or more, that it would then be covered under this new tariff?

A. That's correct.

The witness, BILL BLACKBURN, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. Could we refer for a moment, please, to Big Rivers' response to the Commission's Order of October 12, 1999, Item 3, Parts c. and d.? In discussing that response at the informal conference that was held here on November 23, Big Rivers indicated that its long-term expectations were for lower on-peak power prices in the future; is that correct?

A. I believe that's correct. Bill Blackburn responding.

Q. And staff's notes from that conference indicate you expect prices to remain high for the next few years, but you expect prices to come down after new merchant plant generating capacity come on line. Is that accurate, too?

A. I believe that's accurate, that it will have an impact on the summer prices.

Q. Does Big Rivers have a current projection or expectation for when this capacity will come on line and when market prices will begin to decline?

A. There is a lot of discussion and a lot of announcements of new capacity being built. The very earliest - we will see some capacity coming on line this year, the

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summer of this year. A lot of what you see that has been announced and talked about will be on line in the summer of 2001, and the forward curve that we have access to is beginning to show that the summer prices in 2001 through 2005 are lower than the forward curve showed the prices for, let's say, 1999 and 2000.

Q. All right.

The witness, MIKE CORE, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. In light of what may be some change in the market conditions, does Big Rivers have any strong feelings about whether the tariff that it's now proposing be approved on an experimental basis to be subject to review in two or three years to see where it's at and what the results have been?

A. This is Mike Core. While we don't specifically have something like that in mind, I would say that Big Rivers is always going to be looking at its tariff and product offerings and saying, "Is it doing what needs to be done in approaching this?" We will internally, I think, review and say, "Is this working? Is it not?" To the extent that we don't believe it is, I'm sure we'll be back with some adjustments and changes in it while we're not proposing it as experimental. The fact of the matter is we'll be working through that, and, as I go back to my earlier statement about having flexibility, it wouldn't be wise for us to wire ourselves into something that isn't working, and we would have to come back and probably suggest changes to it if it's not working.

Q. To the extent you determine that changes might be needed some years down the road, would that be changes applicable only to new or expanded industrial load after that point in time, or would those changes also impact the load growth that has been experienced between now and that future time?

MR. MILLER:

I guess I would object on the speculative nature of the answer that's required.

A. Well, I was just going to say my answer would be speculative.

Q. Would you care to speculate on that question?

A. Since we're among friends, I think that there are so many things that can change out there. That's why it's hard to say. We don't know where this whole issue of customer choice and retail wheeling may or may not go in the State of Kentucky or for federal legislation either, and certainly those, along with market forces and other kinds of changing information and situations, will have an impact on this, and I think that's one of the things we would review, and then, based upon the nature of the contracts that were in place, assuming Rate Schedule 10 is out there, we would have to make a judgment on how that would affect them. Customers may have a totally different viewpoint at that time. You know, this customer choice will bring us about to a customer driven entity, and we like to think we are now, but, if, at some point in time, there is customer choice available in Kentucky, then it's hard to say exactly what the impact would be.

Q. Will your recognition of these indeterminable and somewhat speculative issues influence your decision regarding the length of a contract term that you would be willing to enter into with new or expanded load under this proposed tariff?

A. I would expect it would affect both sides of the negotiating group on that because they're going to factor in how long they want to be involved in a contract depending upon what they might believe changes out there. I'm sure we will, too, but I also go back to one of my original statements that I would hope that the contract we negotiate would stand the test of time within our internal risk review and the members in an

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effort to obtain a customer that's there for a period of time, that we know is there for a period of time because of this contract, and so I guess that's a speculative answer as well as to the other, but I think that would affect both sides of the equation on the negotiations, how long our term would be and how long theirs would be.

The witness, BILL BLACKBURN, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. If we could refer, please, to the responses to the Commission's November 5, 1999, Order, in Item 5, can you tell us the current status of the voluntary load curtailment tariff which is referred to there?

A. Bill Blackburn responding. We have a draft of that in house that we are reviewing. In fact, we had some discussions on it yesterday. Our goal is to refine those and present it to the Board of Directors, I believe, at our January meeting for their consideration before we submit it to the Commission.

Q. So you think within a couple of months it will be filed?

A. I believe so; yes.

Q. In Item 6 of that response, in reference to the Big

Rivers contract with Reliant Energy Services, the contract has been in effect now for just over a year; is that correct?

A. Yes, sir.

Q. Are you willing to give us an assessment of Reliant's performance?

A. Yes, sir, I'm very willing to. I'm not sure exactly what you're looking for as far as an assessment. Big Rivers is pleased with Reliant and the relationship that we have developed and what they have been able to accomplish for Big Rivers in utilizing the excess capacity in energy that we have and the opportunities that they've taken advantage of in the market when they were buying power that was less than the LG&E contract. Reliant has done a very good job in interfacing and working directly with LEM as well.

Q. Okay. That's all I was looking for. What is the term of that contract?

A. It expires December of 2000, December 31.

Q. Okay. Do you envision that, if the proposed capacity expansion tariff is approved and you get firm inquiries from either new or expanding load, that Reliant would play some role in that process of acquiring additional capacity?

A. Reliant would play a role in acquiring that simply because I would have an obligation to ask first a price from them, and then, at that point, Big Rivers is again free to quote through Request for Proposals in the open market.

Q. Okay.

A. Right. Mike makes a very good point. We always try and we do go to LEM to get proposals as well.

Q. Just so I'm clear on this, so that the services that you get from Reliant, if you don't want to accept the price that they're offering, do they not also provide you services in acquiring supply sources elsewhere in the market?

A. They quite often purchase from a source other than their own portfolio and take title to that power and resell that power to Big Rivers.

Q. I may not be artfully expressing this. If you call them up and say, "We want a block of power," you know, of 30 or 40 megawatts, and they quote you a price and you say, "No, we don't like that price," can you and will they then go out and try to see what else is available and come up with a better price, or do you not do that?

A. At this point, we have not asked them to go out and do that. I believe that they would do that, but, again, Big Rivers has the right to issue a Request for

Proposal . . .
Q. Okay.
A. . . . and go directly to the market ourselves.
Q. Do you want to add something or . . .
A. Well, what Jack was telling me, and a good point that I do need to make, is, you know, a lot of what Reliant is doing for us now is basically hourly, next day, next week, even next month. We've prescheduled something for the month of June, so four or five months into the future, but what we're looking for, under Rate Schedule 10, would be something very long term, something that would mirror the contract that we would have with the distribution companies. So it could be five to ten years in length, . . .
Q. Okay.
A. . . . a different type of service.
Q. Could you refer, please, to Item 11 in that same volume of responses? There's a series of questions set forth there related to the potential for industrial customers to develop qualifying facilities. In the passage of a couple of months, has anything set forth there changed?
A. The Commission is aware that we continue to work with Willamette Industries, that we've reached a term sheet and that we're working on a contract, but, other than that, I don't believe there's anything that has

changed.

Q. Would you also refer, in that same volume, to Item 14, please, and take a look at the response and let me know whether there's any updated information that would need to be provided to those questions?

A. I don't believe that there's any.

Q. Well, I guess most of the references this morning have been to industrial load. Your capacity expansion tariff would cover commercial customers also; is that correct?

MR. GAINES:

Yes.

The witness, MIKE CORE, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. Would you refer, please, to the response to the Commission's data request of December 22, Item 4? It addresses the role that the customer would have in securing the supply for its load. Does Big Rivers have any objections to language that would more explicitly set forth the responsibilities of Big Rivers with regards to the negotiation and obtaining of power supplies for new or expanded loads?

A. The question is would we have an objection to there

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being more explicit language? I assume you're saying that Big Rivers would go to the market, and it would be at Big Rivers' sole discretion . . .

Q. Yes.

A. . . . to bring these types of things back. Subject to seeing the language, the concept is probably not a bad concept.

MR. MILLER:

Is the question whether Big Rivers would object to language in the tariff which basically incorporates this particular answer?

MR. RAFF:

I think that's fair; yes.

MR. MILLER:

Okay.

A. I think, subject to seeing the language, we would probably not have a problem.

Q. All right. Let me ask it in somewhat of a different way of whether Big Rivers would have any objection to the tariff specifically prohibiting any retail customer or member co-op or anyone not expressly authorized by Big Rivers to act on its behalf from having direct involvement in the procurement of power supplies to serve these loads.

A. Yeah. The only thing is that we need to have the ability to talk to the member systems on the characteristics and trade information back and forth there. We have an all power requirements contract with our member systems except for the smelter loads, . . .

Q. Right.

A. . . . which I have carved out, and I would assume that the member systems would look to us to supply that power. So, based upon that, I . . .

MR. MILLER:

Big Rivers, as stated in several places in the filings, I think, plans to do nothing differently than it has been doing in the past with respect to acquiring third-party sources of power to use to meet its contractual requirements.

A. I can assure you that Big Rivers is in no willingness to lead the parade down to the customer choice issue. We think that's better left in the circles that it's being worked through. It's not our intent to give the retail customer itself this choice at all. It is to allow us to take to those customers, through the members, different kinds of options, and so forth, but Big Rivers would have the control over that.

MR. MILLER:

I think it's fair to say that Big Rivers has read and fully understands the April 30, 1998, Order of the Commission in 97-204.

MR. RAFF:

Thank you. I believe we have a number of additional questions, but they concern some financial performance, and I think Big Rivers had designated Mr. Hite as the witness to the questions that had been set forth in the data requests.

MR. MILLER:

Right.

MR. RAFF:

So I think maybe we could . . .

MR. MILLER:

Okay. May I do a couple of redirects, a brief redirect?

MR. RAFF:

Oh, I'm sorry. Certainly. Certainly.

REDIRECT EXAMINATION OF PANEL

BY MR. MILLER:

Q. To any members of the panel, there have been discussions of a lot of alternatives that Big Rivers might employ to meet its resource requirements in the future. Of all those that have been discussed, all of the alternatives discussed, which of those, based upon your experience and your study in preparation of this

Rate Schedule 10, which of those alternatives, in your opinion, would result in the lowest cost to Big Rivers and ultimately the lowest cost to its distribution cooperatives?

MR. CORE:

This is Mike Core. If I might respond to that, I believe the proposed Rate Schedule 10 provides us with the best approach. Having looked at all these things, this is what we felt gave us the broadest, the most flexible, approach to do the greatest value to all the customers.

Q. And would that be the lowest cost approach?

MR. CORE:

That would be - the value being the lowest cost approach; yes.

Q. Mr. Blackburn, there was some discussion about transmission requirements to provide service to new or expanded load. In the data request responses, there is discussion about a potential load switching customer. If that customer, in fact, did switch, does Big Rivers have available a transmission path it could use to provide the requirements to serve that customer?

MR. BLACKBURN:

Presently, what we would have to do is buy transmission capacity across another system.

Q. But there is an existing transmission path available?
MR. BLACKBURN:
That's correct.
Q. To any of the members of the panel, when information is gathered for a Power Requirements Study, how do you obtain information from a large industrial customer about its expansion or contraction plans with respect to its power requirements?
MR. CORE:
It's pretty difficult to get a lot of details on those things. They usually bring to us some concept of an expansion, and we then, through questions, try to obtain those details. They're very guarded in some of these things, especially as you heard Mr. Blackburn report that we attempted to get some of the pricing from the - and this one was a load switching customer. They're very guarded on these things. They will often come to you and say, "We're looking at two or three or four sites, and we want your best shot at this," and they'll do "sort of competitive bidding," if you will, and so we try to get as much information as we can by talking to them, but oftentimes it's very difficult to get that information or a commitment until considerably way, you know, far into the process.
Q. Other than direct discussions with representatives of

the industrial customer, are there third-party sources you can go to, to learn about the internal plans of a large industrial customer?

MR. CORE:

Our member systems occasionally will have some intelligence, but, again, it may be somewhat limited. There can be economic development, perhaps economic development, but, even in those cases, you're sometimes dealing with an entity that has no name. They don't even want their name out there.

Q. Well, I'm talking about existing customers, now. Is there any . . .

MR. CORE:

Oh! Existing customers?

Q. Is there any third-party source of information about large industrial customers' plans other than that large industrial customer?

MR. BLACKBURN:

Bill Blackburn. Most of these customers are very guarded about their expansion plans and are very reluctant to share that market information. They're very competitive industries, and they don't always want their competitors to know what they're doing.

Q. When these large industrial customers do supply you information in connection with a Power Requirements

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Study survey, is that information always proven to be accurate?

MR. BLACKBURN:

Bill, again. No, sir, it is not.

Q. To any member of the panel, under the existing Rate Schedule 7, if an existing customer expands its load by 25 megawatts, let's say Commonwealth Aluminum, which has no contract, expands its load by 25 megawatts, or you have a new large industrial customer decide to locate on a distribution co-op's system with a load of, say, 25 megawatts, would you be required to go to the market to obtain that power? Maybe 25 is too low based upon your current - say, 50 megawatts. Would you be required to go to the market to acquire the resources to serve that customer?

MR. BLACKBURN:

For a block of 50 megawatts, I believe that we would go to the market to serve that customer; that's correct.

Q. When you go to the market to purchase a block of 50 megawatts of power, are you required to enter into a contract for that purchase?

MR. BLACKBURN:

Yes, sir.

Q. Does that contract have a term?

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MR. BLACKBURN:

Yes, it does.

Q. And, if a retail customer did not want to enter into a contract, is it required to enter into a contract under Rate Schedule 7?

MR. BLACKBURN:

I do not believe that it is.

Q. And is Commonwealth Aluminum required to enter into a contract to increase its load?

MR. BLACKBURN:

No, sir.

Q. If a customer that has, under Rate Schedule 7, started taking a load or represents a load that requires you to go to the market and contract for power on the market, if that customer decides to shut down, do you have any recourse against that customer, under Rate Schedule 7, for the costs you incur under your market contract to continue to purchase that power even though the retail customer is gone?

MR. BLACKBURN:

Under our present Rate 7, we do not.

Q. Is that one of the issues you're trying to resolve with Rate Schedule 10?

MR. BLACKBURN:

Yes, it is.

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Q. Under Rate Schedule 10, will every contract entered into by a distribution co-op with a retail customer be submitted to the Commission for review and approval?
MR. BLACKBURN:
Yes, sir.
Q. Will every contract or changing contract between Big Rivers and a distribution cooperative to supply the wholesale power requirements of a new retail load be submitted to the Commission for approval?
MR. BLACKBURN:
Yes.
Q. Will a long-term contract between Big Rivers and a power marketer or other power supplier, and, by "long-term," I mean in excess of a year, entered into to meet the requirements of a retail customer that elects, through its distribution cooperative, to purchase under Rate Schedule 10 also be submitted to the Commission for its review and approval?
MR. BLACKBURN:
Yes.
MR. MILLER:
Those are the only questions we have, Madam Chair.
CHAIRWOMAN HELTON:
Thank you. Commissioner Holmes?

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VICE CHAIRMAN HOLMES:

No.

CHAIRWOMAN HELTON:

Commissioner Gillis?

COMMISSIONER GILLIS:

No.

CHAIRWOMAN HELTON:

Recross?

MR. RAFF:

No, and I might suggest that maybe Mr. Hite just be added to the panel in the event that these questions get beyond his financial area.

MR. MILLER:

Okay.

CHAIRWOMAN HELTON:

Okay.

WITNESS SWORN

The witness, MARK HITE, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. MILLER:

Q. Mr. Hite, did you prepare or have prepared at your directions the data request responses filed with the Commission in this matter which bear your name?

A. Yes, I did.

Q. And are those responses true and correct today as they were when prepared?
A. Yes, they are.
Q. And will you adopt those as your testimony before the Commission here today?
A. Yes, I will.
MR. MILLER:
Mr. Raff?
REPORTER:
What's your first name?
CHAIRWOMAN HELTON:
Mr. Hite, would you give the Court Reporter your address, too?
A. My name is Mark Hite, Vice President of Finance and Administrative Services at Big Rivers, 201 Third Street, Henderson, Kentucky 42419-0024.
CROSS EXAMINATION
BY MR. RAFF:
Q. Good morning, Mr. Hite.
A. Good morning.
Q. If you would refer, please, to the Commission's November 5, 1999, Order, Item 9, please, where you compare the financial impacts on Big Rivers with Rate Schedule 10 being approved versus its being denied and, in that response, you refer to market rates for power

in July, 1999, reaching $7,500 per megawatt; is that correct?

A. That's correct.

Q. Do you know for how long a period of time prices were at that level?

A. I would have to defer that to Bill Blackburn.

MR. BLACKBURN:

Bill Blackburn responding. Either two or three hours.

Q. Okay.

The witness, BILL BLACKBURN, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. If we assume that summer peak period covers approximately one-third of the year from mid-June to mid-September, is that a reasonable assumption for today's discussion?

A. Bill Blackburn. I believe that it is.

Q. And we further assume that - well, I guess it's not an assumption, but, if that is the period for the peak period, that's approximately 2,200 hours out of the year. Will you accept that, subject to check?

A. Yes, sir.

Q. And, if we further assume that prices had been at the high levels for 1 percent of the time, that would be 22

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hours? Would you accept that?

A. Yes, sir.

Q. All right.

The witness, MARK HITE, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. Mr. Hite, do you currently have Big Rivers' preliminary results of operations for December, 1999?

A. No, I do not.

Q. All right.

A. I do have them through November of 1999, though.

Q. Can you tell us how the results for the 11 months of 1999 compared to the forecast results for all of 1999 that were included in what has been known as PSC 2-358, which was that financial model, I believe, incorporated into your restructuring case?

A. Yes. I believe you will see a considerable improvement from what was in PRS 2-38R. I believe the reason for that improvement can be boiled down to three components. The first component is the arbitrage. As you may recall, there was no arbitrage in the Plan of Reorganization prior to 2011, and, through 11 months of 1999, the arbitrage margin or the arbitrage profit is in excess of $9 million. The second reason for the

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improvement in the Big Rivers finances would be the debt service. You may also recall that we emerged from bankruptcy with more cash than we had anticipated. That has allowed us, along with the arbitrage sales, to generate more interest income and pay early RUS debt which lowers our interest expense in the income statement. Let's see. There is a third element. I believe it was just - I think two of those three elements were in the interest income and the interest expense. So those are the three reasons for the improvement. The new depreciation study which was approved was in PRS 2-38R. I think we ran PRS 2-38R with and without the new depreciation study, with and without the Wilson impairment. So the PRS 2-38R that I am referring to is the one without the Wilson impairment and with the new depreciation study.

Q. In that same volume, response to Item 10, Page 2 of 5, the top of the page shows peak demand forecast as per the 1999 Power Requirements Study and if we could also refer to your response to the Commission staff's request at the November 23 informal conference in Item 1. Do you have that, Mr. Hite?

A. Oh, I'm sorry. I'm sorry. Yes. Yes.

MR. MILLER:

Do you have that, Mark?

A. Item 2?

Q. Item 1.

A. Oh, Item 1. I've got you. I'm sorry.

Q. Could you briefly summarize for us what is included in that Item 1 response to the request that was made at the informal conference?

A. Yes. I just wanted to clarify certain comments that were made at the informal conference regarding load factor for both our rural and our large industrial loads, and the split between demand, kw, billing units between those two customer classifications as well as the energy kwh split between those two classifications of customers. So, as you can see here, for the 12 month period ended October 31, the sum of the monthly peak demands for the large industrial customers was 2.6 million kw, and the sum of the peak monthly demands for the rural customers was 4.2 million kw. So just to make this statement that 61.6 percent of the billing demand is large industrial billing demand, also to clarify the overall load factors for those two classes of customers, for that 12 month period, the large industrial load factor was 81 percent, for the rural loads for that 12 month period 63 percent, for a weighted average load of Big Rivers members of 70 percent for that 12 month period, and then the last statement, for clarification purposes, was to break down the energy between those two classes. About 45 percent is large industrial energy, and 55 percent is rural energy. The request made at the Commission specifically was for the 36 months of history billing detail between those two categories of customers and that is the information attached here.

Q. Would it be fair to say, based on that information, that, for the large industrial group, excluding the smelters, that there was a fairly gradual load growth from the beginning of the period which starts November of 1996 through the summer of 1998 when Willamette's expansion increased its load by roughly 25 to 30 megawatts?

A. If you looked at in total, I would agree with your statement, because I'm mindful of our Annual Report which shows that, for the last five years, our large industrial growth in total from an energy perspective was, I believe, an annual compound growth rate of 12 percent. I believe it will be something similar for 1999 when it's compiled. I would assume the same is true for the demand side. So I would agree with your statement.

Q. Would you also agree that the large industrial load excluding the smelters was in the 185 to 190 megawatt range in the last few months before Willamette completed its expansion and has generally been in the 215 to 220 megawatt range since that expansion?

A. I would agree with that.

Q. And I assume that this demand forecast does not include any of the potential load switching customers that have been referred to here this morning.

A. That is true. It does not.

Q. Does it include any known expansion by existing customers or known nonload switching loads coming into the area served by Big Rivers?

A. Other than the expansion that was mentioned by Mr. Blackburn earlier for, I believe it was, Willamette and Kimberly-Clark, generally speaking, I would agree with your statement.

Q. Okay. And there was reference at the informal conference to Kimberly-Clark getting something in the range of 12 megawatts; is that the same . . .

A. I believe it's more like 23 megawatts, but that's subject to verification by Mr. Blackburn.

MR. BLACKBURN:

I would defer that to Dean Stanley, please.

Q. Okay. Do you know when that expansion is anticipated to occur?

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MR. BLACKBURN:

Again, Mr. Stanley may have those numbers off the top of his head. A portion of it was currently, and I believe there was a portion in 2008 or 2009, that time period.

Q. Okay. Well, for the year 2000, your 1999 Power Requirements Study is showing 242 megawatts; is that correct?

MR. BLACKBURN:

Yes, sir, that's correct.

Q. And does that reflect nothing but the additions of Kimberly-Clark and Willamette to what had been your approximately 221 megawatt load?

A. Well, there are a number of slight revisions from the load that was in PRS 2-38R, the basis of which was the 1997 Power Requirements Study, but there were adjustments made to that 1997 Power Requirements Study. One adjustment was made during the hearings for Commonwealth, as I recall, but, comparing that adjusted 1997 Power Requirements Study to the 1999 Power Requirements Study, there are a whole host of minor revisions, customer-by-customer, but the majority of the variance between those two Power Requirements Studies is Kimberly-Clark and Willamette.

Q. Okay. Is it correct that your 1997 Power Requirements

Study forecast reflected approximately 215 to 216 megawatts for the large industrial load during the early years of the forecast period which covered 2000 through 2007?

A. That is correct.

Q. And the 1999 Power Requirements Study starts with 242 megawatts for the large industrial demand beginning in 2000 and then slowly shows some minimal growth through the year 2009?

A. That is correct.

Q. If the strong national economy and Big Rivers' low rates, which have been cited as the primary reasons for changes from the 1997 forecast to the 1999 forecast - can you explain why such modest growth has been forecasted for the next ten years?

A. Well, I'm just going to kind of shoot from the hip here, but it's just a question of what is a forecast. Is it what you truly expect to happen, or is it what is known and determinable? I think, as was said earlier today, for the large industrial element of our forecast, if you will, we have only attempted to incorporate what is truly known and determinable. Whether or not that is going to be an accurate forecast, I think you have to weight that with what has happened, for example, in the last six years, where, as

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you've indicated, we have had, we have actually experienced, annual compound load growth of about 12 percent for the large industrial class, so somewhere within there, it just becomes somewhat speculative and judgmental.

MR. BLACKBURN:

Bill Blackburn. I would like to add to Mark's answer that the information included in the 1999 PRS is the information that we gathered from the distribution co-ops they had gathered from their customers. It's what the customers are saying. We have experienced a lot of growth on our system, but we can't tell whether these companies have maxed out at these locations or whether their plans are to continue to expand and to grow, and, if they don't share that with us, we are reluctant to include that in the forecast. We obviously don't want to overproject and commit to either a purchased power contract or some type of generation that would be expensive for the system if the growth did not develop.

Q. Again, referring to the response to the November 10 Order in Item 10 as well as that Item 1 response to the request at the informal conference, is it correct that the rural load forecast is based on normal temperatures and/or normal weather conditions?

A. Yes.

Q. The response shows a 475 megawatt load in the year 2000 with annual increases of approximately 15 megawatts in the forecast's early years; is that correct?

A. That's true.

Q. What was the basis for the 475 megawatts in the year 2000?

A. Well, I think, in the 1999 Power Requirements Study, what has been incorporated, which is different from the large industrial sector, is approximately a 3.5 percent annual compound load growth for that class of customer in the early years, and Bill Blackburn . . .

MR. BLACKBURN:

That's correct.

Q. Your actual summer peak for the rural customers was 409 megawatts in 1997, 425 megawatts in 1998, and 466 megawatts in 1999; is that correct?

A. I'm sorry. Would you repeat the question?

Q. Your actual summer peaks for 1997 through '99 for the rural load.

MR. BLACKBURN:

I don't have that with me unless we've answered it in one of the data requests. I don't remember that.

A. I can't recall.

Q. I believe it's in the attachments to your response to

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the informal conference.

A. That's the sum of the monthly peaks. I could go through there and see which months that the rural load peaked at.

Q. July for '97. I guess what I want to ask you is how close these actual loads were to the forecasted loads for each of those years.

A. Okay. I see, in July of 1997, the peak rural demand was 409.524 megawatts.

Q. July, '98?

A. In July of '98, it was 425.035 megawatts. In July of '99, it was 469.394 megawatts for July of '99 for the rural load. So that would compare to the 2000 Power Requirements Study of 475 megawatts. So 469 megawatts is where we were in '99 and the 2000, from the 1999 Power Requirements Study, is 475 megawatts. So you've got a six megawatt - Mr. Core makes a good point. 1999, in July, as you recall from, I believe, about July 23 through July 29, we had extreme weather conditions and that's probably why the 469 megawatts is what it is.

Q. Do you know how close the actual loads were for '97, '98, and '99 compared to what had been forecasted for each of those years?

A. Well, I believe that, prior to this 2000 Power

Requirements Study, when we were using this adjusted 1997 Power Requirements Study, it had annual compound rural load growth of 2.67 percent in it, and, in fact, history will show, for the last five to six years, that the rural annual compound load growth has been in excess of 4 percent.

Q. So your actual would have exceeded your forecast?

A. Yes.

Q. So do you believe that the 1999 peak of 469 megawatts was significantly influenced by the hot weather conditions in July?

A. Yes.

Q. The next highest peak demand experienced in 1999 was 433 megawatts in August of '99. Do you know if that represents a more representative level of normal summer peak rather than the 469 megawatts?

MR. BLACKBURN:

Bill Blackburn responding. I'm sorry. The 469 megawatts was the July peak. The next highest peak very well could have happened in July outside of the extreme weather that we're referring to. That data would be buried behind that number. We would have to analyze that.

Q. In a somewhat related but unrelated area, can you tell us the current status of your efforts to negotiate a sale/leaseback that was approved by the Commission a couple months ago in Case 99-450?

MR. MILLER:

If it's appropriate, I'll respond to that as counsel for Big Rivers. The sale/leaseback did not close at the end of 1999 as was anticipated. There are a number of issues that the equity participants and AMBAC have been trying to resolve. Our latest understanding is that, over the weekend, there was great progress made toward that end, and we're encouraged that the period of torpor that we suffered is now over and that the sale/leaseback is going to proceed. The way we expect it to proceed, although we don't have the exact time frame yet, is that the Participation Agreement, which was identified in the term sheet filed back in November, will be signed and will have attached to it the substantially completed form of documents for a sale/leaseback transaction. There are going to be a number of sale/leaseback transactions under the one umbrella. The documents attached to the Participation Agreement will be the form of document that will be used for all of them. We expect that that Participation Agreement will be filed immediately with the Commission with a description of the changes that have occurred in the sale/leaseback transaction since the filing in November, since the Commission's Order on November 24. We don't anticipate that the changes will be dramatic except that RUS, in the final analysis, did not agree to the interest rate reduction we had anticipated in November. We'll set out those changes and we'll, unfortunately, ask the Commission for a quick turnaround again because of the desire of Big Rivers to get the sale/leaseback transaction closed before the end of the month of February, 2000. There are financial implications to not closing by the end of February. The benefits to Big Rivers have changed because we didn't close in 1991 just as was predicted. There have been a lot of things that have changed that go into the calculation of the actual net benefit at closing that Big Rivers receives. All that will be detailed in the filing that we make. We don't really think that the filing that will be made will be extensive except that it will include a copy or however many copies you think appropriate of the Participation Agreement. The changes should not be significant beyond the changes in the benefit that naturally occur by reason of not closing in 1999 and that specifically occur by reason of RUS not agreeing to the interest rate reduction that Big Rivers had anticipated.

MR. RAFF:

And you anticipate making that filing, I guess, no later than around the 24th or 25th of . . .

MR. MILLER:

We hope the filing will be made much sooner than that because, in order for the 33 days to run to make the Commission's Order final and nonappeal-able, the Commission's Order would have to be entered, I think, no later than the 27th of January, and, I mean, even though we don't think there's going to be much of a change, nonetheless we want to give the maximum amount of time for the Commission to consider those changes, and, of course, February, even though I think this is a leap year, it's a short month.

MR. RAFF:

And your intent is to close by the 29th of February?

MR. MILLER:

Yes, the intention would be to close in the month of February, and we'll be in a little different situation than we were in, in November. In November, the documents had not even been negotiated. Big Rivers had told the participants in the sale/leaseback transaction that it will not file for Commission approval of any of the changes until we have a Participation Agreement, which means we will have the documents that will be used in the closing, the form of document, and we won't have to go through this again.

MR. RAFF:

Do you have an estimate of the total value to Big Rivers of this transaction?

MR. MILLER:

The latest estimate, and I would add, for what that's worth at this point, is a $65 million net benefit. That's a net cash benefit to Big Rivers at the closing. Now, RUS has imposed some requirements which will be - I mean, we'll give you a copy of the RUS letter when we file. It would require Big Rivers to make sure that RUS gets a total net benefit. In other words, a principle reduction of $70 million. So there would be a $5 million differential that Big Rivers would have to make up. Big Rivers has, in fact, already prepaid that much to RUS just as a way of investing some of the money that it has accumulated and that money is subject to clawback under the arrangement with RUS that was entered into at the closing of the bankruptcy Plan of Reorganization. So Big Rivers would just basically have to give up the right to clawback those amounts in order to meet the RUS requirements.

MR. CORE:

One of the unknowns, of course, is the interest rates that will be in effect at the closing which have an impact upon the final net benefit. Right now interest rates are going in the right direction.

MR. MILLER:

The estimate is that interest rates will continue to go in the right direction and everyone would like to get the deal closed before the Fed meets in February because, if the Fed does nothing in February, that could cause interest rates to drop somewhat from where they are in anticipation of the meeting of the Fed.

MR. RAFF:

All right. Thank you all very much. I have no further questions.

CHAIRWOMAN HELTON:

Mr. Miller, I assume you had no redirect after we added Mr. Hite to the panel.

MR. MILLER:

No.

CHAIRWOMAN HELTON:

Okay.

MR. MILLER:

I would move, with respect to the confidentiality matter and would include in that this motion I'm about to make . . . (confidential)

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CHAIRWOMAN HELTON:

Any other matters, Mr. Miller?

MR. MILLER:

No. Does the Commission desire a brief on this?

CHAIRWOMAN HELTON:

I was going to suggest to you that, unless you felt the need, I think we have extensively explored the filing this morning, and, since there are no intervenors, I don't see the need for a brief unless you prefer to do so.

MR. MILLER:

I think that's fine.

CHAIRWOMAN HELTON:

Okay.

MR. MILLER:

There was a suggestion made, during the course of the cross examination by Commission staff, that some additional language to the tariff might be helpful and resolve a Commission problem. Is that something that we could work on while we are here?

MR. RAFF:

I don't think that would be appropriate at this time.

MR. MILLER:

Okay.

CHAIRWOMAN HELTON:

A time frame?

MR. RAFF:

If you want to submit something, I mean, you could do that, but I . . .

CHAIRWOMAN HELTON:

It might expedite it, if you know the wording you would like, to submit it while you're here. It just would expedite things but to discuss it with staff before you actually submit it might not be appropriate.

MR. MILLER:

I mean, we could do it right here in front of God and everybody.

MR. RAFF:

Well, I think you are presuming that the Commission makes a decision to require such language and that decision has not yet been made. So . . .

MR. MILLER:

No. I agree. I agree with that, but the very fact that the question was asked indicates that, at least under one scenario, you're considering the language would be relevant. I guess the alternative would be that, if the Commission decides to approve a tariff, you would give the parameters within which you would want language to be submitted and the tariff refiled . . .

MR. RAFF:

Certainly.

MR. MILLER:

. . . in compliance with the Order. So maybe that's the way to approach it.

CHAIRWOMAN HELTON:

I don't believe there were any outstanding requests asked for during the hearing.

MR. RAFF:

There were not, Your Honor.

CHAIRWOMAN HELTON:

So there being no further matters, the hearing is adjourned.

MR. MILLER:

We did not bring with us the evidence of publication of notice of the hearing, but we'll submit that later.

FURTHER THE WITNESSES SAITH NOT

HEARING ADJOURNED

OFF THE RECORD

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STATE OF KENTUCKY
COUNTY OF FRANKLIN

I, Connie Sewell, the undersigned Notary Public, in and for the State of Kentucky at Large, do hereby certify the foregoing transcript is a complete and accurate transcript, to the best of my ability, of the hearing taken down by me in this matter, as styled on the first page of this transcript; that said hearing was first taken down by me in shorthand and mechanically recorded and later transcribed under my supervision; that the witnesses were first duly sworn before testifying.

My commission will expire November 19, 2001.

Given under my hand at Frankfort, Kentucky, this the 23rd day of January, 2000.

Connie Sewell

Connie Sewell, Notary Public
State of Kentucky at Large
1705 South Benson Road
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COPY

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE TARIFF FILING OF BIG RIVERS ELECTRIC CORPORATION TO REVISE THE LARGE INDUSTRIAL CUSTOMER RATE SCHEDULE

CASE NO. 99-360

FILED
JAN 25 2000
PUBLIC SERVICE
COMMISSION

TRANSCRIPT OF EVIDENCE

DATE OF HEARING: January 10, 2000

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I N D E X (CONTINUED)

CHAIRWOMAN HELTON:

We're here in the matter of the tariff filing of Big Rivers to revise the large industrial customer rate schedule, Case No. 99-360. Could we have the appearances of the parties, please?

MR. MILLER:

May it please the Commission, I'm Jim Miller, Sullivan, Mountjoy, Stainback & Miller, Owensboro, Kentucky, for Big Rivers Electric Corporation. Co-counsel here today is Doug Beresford, Long, Aldridge & Norman, Washington, D.C., also co-counsel for Big Rivers.

CHAIRWOMAN HELTON:

Mr. Denton?

MR. DENTON:

Yes. Madam Chairman, we're an intervenor, Jackson Purchase Electric. My name is David Denton.

MR. KING:

Intervenors, Kenergy Corp. and Meade County RECC, Frank N. King, Jr., attorney, 318 Second Street, Henderson 42420.

MR. DENTON:

P. O. Box 929, Paducah 42001.

CHAIRWOMAN HELTON:

Mr. Raff?

MR. RAFF:

For the Commission and the staff, Richard Raff.

CHAIRWOMAN HELTON:

Is there any member of the public that wishes to give comment before we begin? Hearing none, Mr. Miller?

MR. MILLER:

Yes, ma'am, Madam Chair, just a couple of preliminary things. First of all, Big Rivers did file voluntary responses to the issues list that the Commission generated at the request of Big Rivers to help us get prepared for the hearing. We have discovered a few errors, three errors, in there that we wanted to correct. It was a busy week in Owensboro last week when we filed this. The first is in Item 1, Page 3, Line 17. The word "anticipated" should be "unanticipated." The next item is in Item 2, Page 2, Line 26, the words "Big Rivers may face" are surplusage. Then Item 3, Page 2, Line 1 at the top of the page duplicates the last line on the previous page. That's it. There are some other things that have been filed that we would like to move - there are some matters that have been filed that we would like to move to be made a part of the record. One is this voluntary response of Big Rivers to the issues list. Second are the letters of August 27 and October 13, 1999, which

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makes some corrections to the original application, and then our data requests of October 22, November 15, and November 30, and we would, at this time, move those to be included in the record.

CHAIRWOMAN HELTON:

So ordered.

MR. MILLER:

I would just remind the Commission, as I have reminded myself this morning, that there is a pending Confidentiality Petition and there's one that has already been granted, in fact, regarding some of the information that has been produced in connection with this matter, and we'll try to be alert to tell everyone when we get to that point so we can go into a confidential session, although there's no one here but Big Rivers' folks. Nonetheless we want to make sure we get it properly noted in the record. On January 4, Big Rivers identified the persons whom we expect to testify regarding the issues that the Commission produced for us. We would propose to offer all three of these people in a single panel since the issues do overlap, although Bill Blackburn, Big Rivers' Vice President of Marketing, and Jack Gaines of Southern Engineering will be principally responsible for the first three issues, and Mike Core will be principally responsible for the last. We also have here with us the persons who have answered the data request responses that the Commission has propounded to Big Rivers. So they are also available to the extent that you need them. At this point, of course, we have no opening statement or summaries to the testimony. So, at this point, we would announce ready, and we're ready to put our panel on.

CHAIRWOMAN HELTON:

Bring your panel forward.

MR. MILLER:

Okay.

WITNESSES SWORN EN MASSE

CHAIRWOMAN HELTON:

Mr. Miller?

The witness, MIKE CORE, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. MILLER:

Q. Mr. Core, are the data request responses, the application in this matter, and other filings that have been made by Big Rivers in this matter items that have been prepared by you or under your supervision and filed at your direction?

A. Yes, they have been.

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Q. Are those items true and correct to the best of your knowledge and belief?

A. Yes, they are.

Q. Will you adopt those as part of your testimony here today?

A. Yes.

MR. MILLER:

Okay.

The witnesses, BILL BLACKBURN and JACK GAINES, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. MILLER:

Q. Mr. Blackburn and Mr. Gaines, have each of you filed data request responses in this matter?

MR. BLACKBURN:

Yes.

MR. GAINES:

Yes.

Q. And have you also participated in the development of the voluntary responses of Big Rivers to the issues list produced by the Commission?

MR. BLACKBURN:

Yes.

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MR. GAINES:
Yes.
Q. And will you incorporate those responses as part of your testimony here today?
MR. BLACKBURN:
Yes.
MR. GAINES:
Yes.
Q. And are those responses true and correct to the best of your knowledge and belief?
MR. BLACKBURN:
Yes.
MR. GAINES:
Yes, they are.

The witness, MIKE CORE, after having been first duly sworn, testified further as follows:

DIRECT EXAMINATION CONTINUED

BY MR. MILLER:
Q. Mr. Core, have you received a specific response from each of the distribution cooperatives about their positions on Rate Schedule 10 that's the subject of this matter?
A. Yes, we have.
Q. And what has that response been?
A. The responses that have been conveyed to me are that

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they are in favor of this Rate Schedule 10.
Q. All three of the member co-ops?
A. Yes.
Q. Are the CEOs of each of those member co-ops in the hearing room today as intervenors?
A. Yes, they are.
Q. And are they available to address the Commission in the event the Commission has any question about their support of this schedule?
A. Yes, they are.
MR. MILLER:
Okay. That's all we have, Madam Chair.
CHAIRWOMAN HELTON:
Mr. Raff?
MR. RAFF:
Thank you. I've got a lot of questions. Maybe I'll just read them and one of you or two of you or whomever can sort of try to answer as best you can.
CHAIRWOMAN HELTON:
Would you preface your answer with your name for the Court Reporter, please?

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CROSS EXAMINATION

BY MR. RAFF:

Q. Could we refer to Big Rivers' response to the Commission's December 22, 1999, issues list, Item No. 1? The question is, could someone describe the term "a load switching customer" and what is meant by the term "load switching customer growth"?

MR. MILLER:

Madam Chair, I guess this gets into the area where there are some confidential items, and we would move that the hearing go into confidential session.

CHAIRWOMAN HELTON:

Does it have to go into confidential session if we don't mention individual customers?

MR. MILLER:

Well, the facts and circumstances surrounding the "load switching customers" are central to the reason why this tariff was filed, and, I mean, we're going to have to talk about it at some time. This is as good a time as any just to go ahead and talk about it. I don't think anyone here has to - there's no one here that has to leave the room for that to occur.

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MR. RAFF:

I'm just a little troubled about having the - while a portion of your response to that issues list has been requested to be held confidential, I mean, the term "load switching customer" has not been, and I'm not sure that, if all of this needs to be confidential, whether that's going to place the Commission in a position of not being able to issue an Order that discusses what Big Rivers' problem is and what the approved solution is.

MR. MILLER:

Okay. Well, let's go ahead and try it without going into confidential session at this point.

MR. RAFF:

I certainly didn't want to get into the specifics of what customers you were referring to.

MR. MILLER:

Okay. Let's try it like that.

A. This is Mike Core. Let me try to answer your question as I recall the way you stated it. The term "load switching customer" you asked for a definition of would refer to a customer which is rather unique in the State of Kentucky but has the ability to switch load from one utility to another, and we're talking about, in this instance, a customer or group of customers, in this

instance, potentially that can switch from (confidential) service to service of one of our member systems because they are in that member system's service territory. So I guess we would define, for the purposes of this, load switching to be a customer that has that option already.
Q. All right.
A. There was another part to your question.
Q. Yeah. The other question was the term "load switching customer growth."
A. Well, load switching customer growth is a group of customers that fit the definition of load switching customer that are already in existence. Big Rivers had no plans for that growth and that has become a possibility at this point in time, and it's more than one customer. It's a group of several customers.
Q. So that would be the growth in Big Rivers' load if one or more of these customers actually switched?
A. Yes, that's correct.
Q. Okay.
CHAIRWOMAN HELTON:
Could I ask a clarifying question, Mr. Miller? Would that definition also include or should it include the definition not only served by another utility but historically served by another utility

prior to and subsequent to 1972?

MR. MILLER:

Trying to tie it back into the certified territory statute?

CHAIRWOMAN HELTON:

Uh-huh.

MR. MILLER:

Well, I think subsequent to 1972 is broad enough, . . .

CHAIRWOMAN HELTON:

Okay.

MR. MILLER:

. . . if you want to leave it at that.

CHAIRWOMAN HELTON:

Mr. Raff?

MR. RAFF:

Thank you.

MR. MILLER:

Basically, it addresses just an existing customer that has been there that's established and taking power from another utility at the time that it switches its supplier.

Q. Are customers who fall into the category of having the ability to switch load the only customers that predate the territorial boundary Act, if you know?

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MR. BLACKBURN:

I don't know.

A. I don't know either.

Q. Are you able to say how many customers are potentially in this category?

MR. BLACKBURN:

Bill Blackburn. I believe there's four to six customers that we're concerned about.

Q. Well, you say four to six you're concerned about, but are there more than that that would fall under the category of having the ability to switch load?

MR. BLACKBURN:

I believe - I'm not sure. I know that Kelly Nuckols is here today, and he may be able to answer that question for you.

Q. Okay. Are you able to say whether all of these customers, if they switched, would be in one particular co-op's territory?

A. This is Mike Core. As I understand it, the ones that we're referencing here, yes, would be in (confidential) territory.

Q. Okay. Do you know anything about the circumstances of these customers that would allow them to switch other than the fact that they are in (confidential) territory? I mean, is there something about their existing power supply contract?

A. This is Mike Core. In the instance of one of the customers, they have a power supply contract that is expiring in the very near future and have made, through (confidential), contact about potential power supply.

Q. And the others, do they have contracts that would be coming up for renewal in the near future; do you know?

A. I don't know the timing on those contracts.

Q. Okay. When you say "near future" for the one customer, is that within six months?

A. Yes. To our knowledge, it has been represented within six months.

Q. Okay. And do you know when Big Rivers first became aware that there were these customers who had this supply switching ability and that, in fact, they might have some interest in doing it?

A. I don't recall the exact date - this is Mike Core - but we were made aware of this probably in the middle of 1999. I do recall a meeting in probably August of - yeah, and we had some contacts earlier than that, but I do recall a face-to-face meeting, I believe, in August. I would have to go back and check the calendar on it, but it was in 1999 sometime, the middle or perhaps even a little before the middle of the year.

Q. Okay.

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MR. BLACKBURN:

This is Bill Blackburn. I would like to add just a little to Mike's answer there. This one particular customer had contacted Big Rivers several years ago about the possibility of switching and leaving their current supplier and that did not work out, and evidently their contract is expiring now, and they have returned back through (confidential). So it is something that had come up in the past. It just did not materialize.

The witness, BILL BLACKBURN, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION

BY MR. RAFF:

Q. Was any consideration given to discussing with what was LG&E Energy Marketing, and I'm not sure if it still is, regarding modifying Big Rivers' existing purchased power agreement?

A. When we started conversations with this potential customer, I did contact LEM and asked for a proposal to see if they were interested in bidding on this service, and I believe they declined to give us a proposal.

Q. You say you believe? I mean, . . .

A. No. They did decline.

Q. Okay. Refer to Item 1 on that same response, Pages 7 and 8. Can you identify any specific or individual customer load increases or expansions that have contributed to the changes between the two Power Requirements Studies?

A. Bill Blackburn responding. Two of the industrial customers, Kimberly-Clark and Willamette, account for the majority of the change in the Power Requirements Study on the industrial side.

Q. Can you give us the magnitude for each of those?

A. I did not bring that with me. From memory, I believe Kimberly-Clark is 14-16 megawatts. Willamette is maybe four.

Q. In Item 3, Page 1 of 2, the response indicates that no significant expansion load was anticipated by any of Big Rivers' large industrial customers at the time the 1997 Power Requirements Study was prepared. Can some-one explain why the study did not include at least some nominal amount of industrial load growth similar to the normal rural load growth included in the study?

A. Bill Blackburn responding. I believe, at the time, Big Rivers, in the past, had been severely criticized for trying to solve its financial problems by forecasting sales, off-system sales, growth and it took the approach of only including what was known at the time to try to reduce that criticism.

Q. Back in Item 1, Page 3 of 8, there's a reference to strong national economy and new nonload switching industrial loads becoming interested in Big Rivers' low rates. Can you give us an estimate of the magnitude of these nonload switching industrial loads?

MR. CORE:

This is Mike Core. During this past year, we have been asked to give proposals or look at proposals on three or four customers that were interested in the Big Rivers area. In fact, just last week our distribution systems received a couple of new inquiries. Each of those were 20 megawatts, one with a potential of going to 80 megawatts. Earlier in the year, Mr. Blackburn provided to one of our member systems a possible proposal on 30 megawatts of power. So we are seeing, as an outgrowth, I believe, of the strong economy and as a result of the infrastructures that are in place in Western Kentucky, a real interest. Now, how many of those materialize is always another issue, but the fact of the matter is there have been some significant potential customers looking there and that's one of the main reasons or one of the important reasons of this proposal as well.

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The witness, JACK GAINES, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION

BY MR. RAFF:

Q. In developing your proposal, what consideration was given to making the schedule applicable only to new customers rather than both new and existing customers who expand their loads?

A. This is Jack Gaines. I think that was considered, among other things, but the basic approach is that the classification that we're trying to define is load growth, and load growth is - it really doesn't matter whether the customer is a new customer or an existing customer. If the problem is created by load growth, then our approach was to try and identify the class that we would apply this rate schedule to as a class defined by a load growth criteria.

Q. Did you decide that early on?

A. Yes.

Q. So did you not do any study of the effects of limiting the proposed schedule to just new customers, or was any study done to limit the proposed tariff to just new customers, what that impact would be?

A. Well, any evaluation or any study to try and measure the effects of limiting it to only new customers would

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involve making assumptions or presumptions with respect to what load growth might be for existing customers, and I think, with the exception of one customer, Kimberly-Clark, we did not have any more definitive information with respect to load growth of existing customers upon which to make an analysis. So it would only be a hypothetical with respect to what would happen, but, assuming there was load growth from existing customers, the financial consequences or the economic consequences would be the same as if it was a new customer.

Q. Was there not information about possible expansion from existing industrial customers gathered for putting together Big Rivers' 1999 Power Requirements Study?

MR. BLACKBURN:

Bill Blackburn responding. There was information gathered by the distribution cooperatives from the industrial customers, and, when you look at the 1999 PRS, there are a couple of slight increases in the industrial side, and I do believe that reflects what they had been told by their customers.

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The witness, MIKE CORE, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. Again, in Item 1, Page 4 of 8, of the response, there's a discussion of some factors regarding load switching customers having not been involved in the Big Rivers Chapter 11 filing and its restructuring and that those type of customers would not have the same reasonable expectations of continued low prices as would Big Rivers' existing customers. While you make that distinction, you also propose that the new tariff be required for any existing customer who wants to expand its load. Is there not a contradiction there in recognizing certain factors for what would be load switching customers but then denying the benefits of those factors to Big Rivers' existing industrial customers?

A. This is Mike Core. Load growth, whether it be from a load switching customer or a new customer, is an important subject to Big Rivers for several reasons. One, we want to be positive and have strong growth in Western Kentucky. Secondly, Big Rivers is a different company now. I would like to say, instead of plants, we have a portfolio and that portfolio is made up of our purchased power agreement with LEM. It's made up of SEPA power, and then there's also a third element, which is some market purchases that, when a market is in favor of Big Rivers doing that, we do that, such as nights and weekends and different times of the day or year. So we have a limited resource that we want to manage very, very carefully. Now, we believe our customers, our three distribution systems and their customers, the 90,000 plus in Western Kentucky, have put us in a position to manage those assets to the fullest extent that we can for the benefit of new and existing customers. So this issue of growth is very important and how we manage that growth. Now, we believe that Big Rivers has a very, very competitive industrial tariff, and we think that's one of the reasons that perhaps some of the load growth customers are interested, but it isn't just the load growth customers that Big Rivers needs to manage. It's any growth, and we have a certain amount of excess available. That excess, over a period of time, will be utilized by the members through growth. We want to have the opportunity to carefully manage that so that what we're putting into one of these industrial customers is a product they need, and it works for Big Rivers as well, and so we think there's really no distinction in growth in general. Now, it can come from the load switching, but it also can come from somebody coming in and putting down 40-50 megawatts and moving us to the next increment of power, and it's trying to manage that process, manage that portfolio of supply, as we go forward in mixing and matching those things to the needs of those large customers as well as the needs of the other customers of Big Rivers and that's one of the reasons we're trying to do this at this point in time. We think to wait until we're pushed over that edge is not the best way to manage that. That's sort of after the horse is already gone, and we go, "Oh, what do we do now?" So what we're trying to do is take those resources we have now and utilize them to the best benefit of all parties going forward with some careful management and that's the intent of this. It's a long answer to your question, Richard, but the issue of growth, even though it has been pushed forward by the potential load switching, is always an issue out there that we want to carefully manage and that was one of the reasons we drove this. I became concerned about a year ago as I looked at the potential of where are we going to take these resources that are very valuable, very valuable, resources in today's market and maximize this to the benefit of all customers of Big Rivers.

Q. Were there other potential solutions considered other than this tariff?

A. Well, the tariff itself lends itself to other solutions. The tariff we've proposed we really want to focus on the negotiated side. Currently, we have a tariff that is in place, doesn't require a contract, and someone could come in and say, "I want your tariff." What we want to do is focus on sitting down with all growth, as we normally do, but we think it's more important now and, first of all, finding out what it is about their load that's different. Every industrial load is a little bit different. They have different load factors, different power factors. They perhaps have some interruptibility that another one doesn't, and so, for us to sit down and put what I call a product - and I think we're moving away from the issue of tariff as much as we are trying to fit a product to a particular customer that says, you know, "I have the ability to interrupt this amount of power," or "I have the ability perhaps to switch power to another time period," or "I have a low load factor," or "I have a high load factor." We can sit down. We can look at our own portfolio of supply and say, "How does that fit into this mix?" and then, "Are there other solutions that we can fit into this?" I think to craft every solution going forward to begin with is very difficult, because these customers today want to talk to the utility. They want to find out what they can do to save money. We want to work with them to save money, and so this tariff is designed to move us in the direction where we sit down with these folks and say, "Okay." We may take a piece of our own portfolio, and we may blend it with something perhaps from the market or perhaps from a peaker unit that we would buy some output from and put a product together that fits their needs and still fits within the Big Rivers portfolio. One of the things I don't think we can do, and it was something that was raised in the issues list, was to just go out and buy a 50 megawatt block of power and plop it into our supply portfolio right now, because there are different 50 megawatt blocks of power available and which one do we buy depends upon what our needs are. We think the key to the future for Big Rivers is to remain as flexible as we can in dealing with those situations which is to the benefit of those new customers and we think to the benefit of the existing Big Rivers customers because that's what we are. We're no longer plants. We own the plants, but we no longer operate them. So our portfolio is our

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power supply options, and, within that, the flexibility to work the product that fits the best for that customer is what we want to do, because, believe me, we want to see growth in Western Kentucky, but we want to be able to deal with that growth. You know, we went down this path before I was there where we went and built a large power plant. That was the process in the past. You know, you just build a large power plant because you believed these things were coming. Well, the time frame was so extended by the time you got the power plant on line, things had changed. We think we need more flexibility today, and the market changes. The market changes rapidly, and so it's kind of hard to lock into the market unless you know exactly what it is you need for a period of time. Then you can go out and buy it at that moment in time and lock it in.

Q. I'm not taking issue with really anything that you said, but, taking that back to the tariff, was there any consideration given to, as you say, after you talked to customers and industrial customers to determine what their actual requirements are and then going out in the market and, you know, acquiring additional capacity to meet those customers' needs, of then rolling those costs into your existing rates and having a rolled in or average embedded cost for all customers?

A. We've had discussions about that, and there's no question that, at some point in time, that's one of the options that probably has to be utilized. You reach a point where you've saturated your current power supply options to their fullest extent and then have to go on to the next level. What we're trying to do prior to that is manage those options and power supply needs before we have to go out and do an increase for everyone. The other side of that is, with the activity we see, our members have several inquiries, and how do you begin to approach those types of things under that scenario, and how many times do we want to come in for a rate increase every time one of these things happens. What we would like to do is say, "How do we serve it out of our current portfolio?" and the fact of the matter is they may have a load that we say, "We'll serve it out of our current portfolio. It works," or they may have a load that says, "That doesn't work but what can we piece together that works for it?" and I think some of these large load switching customers are a good example of we're looking at some different ways that benefits them and Big Rivers as to how we approach this. You know, the emphasis today is on meeting the customers' needs as much as you can. The term "mass customization," you know, it's a term that's hard to get your hands around, but what you're trying to do, especially for these customers that use large blocks of power, is to try to meet them at their needs within your own resources and handle that. At some point in time, there's probably no question you reach a point where you begin bringing some elements of large blocks of power in or something to address that. One of the other factors about Big Rivers and its power supply portfolio with LEM is we, in the year 2010 and 2011, will gain an additional 200 megawatts as those smelter contracts expire at that time, and I don't want to say we're trying to create a bridge because it's not what we're doing, but we're looking to those types of things in the future and how do you mix and match and fit the current power supply into the fact that you have another 200 megawatts coming out there basically under the same terms and conditions that your current block of 572 is there. So, with all of these moving pieces, it's hard to take the old utility approach, which was just go out there and build the next 100 megawatts or 200 megawatts and slap it in there, put it in your rate base, and go forward, because we think that, in itself, is detrimental to economic development because you now have added in all of these fixed costs. So we want to take a look at these on an individual basis, and, while going out and buying a block and putting it in there is an option, and that may be one of the options, Richard, that we would opt to do, we would like to see what are the other options that that customer needs, because Big Rivers' only intent here is to serve its member systems with their customers' needs. They drive us. They own us. There's no money going to anyplace else except the members or savings going to anyplace else but the members.

Q. Was any consideration given to adding blocks of power to meet new industrial growth and having the cost of that power paid for by everyone on the system but not coming in for rate increases, as you referenced, but establishing something in the nature of a purchased power adjustment clause whereby, whenever your cost of purchased power exceeded what your existing costs are, that, you know, that could be passed on on a monthly basis or a quarterly basis similar to what you used to do with your fuel costs and your environmental costs?

A. Again, I think that is an option, but it's not an option we're ready to commit to until we understand how these power supply growth needs can be met because for us to do that, in itself, is a rate case or some case here before the Commission, and it has been my experience, over many years in this industry, if I can avoid those kind of things, I would like to do it because it causes all kinds of questions from customers whether it's fuel adjustments or power supply adjustments. I'm not saying we shouldn't use it, but I don't think it's one of the first things that I would want to turn to until I've got a good feel, until the organization and the members have got a good feel, of what this load growth means in that kind of scenario. One thing customers like is stability and that line that appears on that bill, as you know, is very difficult to explain to the customers, and so, to the extent we can avoid that, we would like to, but it's an option. I'm not saying we wouldn't do it at some point in time, but it's not something that appealed to us at this time nor was it necessary at this time.

The witness, BILL BLACKBURN, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. Has Big Rivers made any analyses or determination regarding the cost to purchase a block of market power and how that cost would compare to its existing average cost between the LEM and its SEPA power? I recognize that, during certain peak summer periods, prices are extremely high, in the thousands of dollars, but, when you average those peak periods with off-peak periods, for example, you know, an industrial customer that has a 70 or 80 percent load factor, you know, how the buying a block of power on a 365 day period would compare to your existing cost.

A. Bill Blackburn responding. During the past year, we have had several requests for quotes on power from our member systems, and I have contacted LEM, Reliant, and others in the market, and each time that I have done so, when I receive a response because not every one does respond, I have not seen a price as low as the LG&E contract with Big Rivers nor the SEPA contract that we presently have.

Q. And this is for year-round power?

A. Yes, it is.

MR. CORE:

One of the things, too, Richard, if I might add to that answer, is the products that are on the market are varied. I mean, you can buy 7 days/24 hour power at a certain price, 5 days/16 hour power at another price, 8 hour nighttime price. There are so many out there, and then you have the firm price and the nonfirm prices. That's why you need to know what that load is and what it can take. To buy 7/24 firm pricing is a pretty expensive item right now in the marketplace. Now, it may change and that flexibility is something that we want to have to try to change with that.

CHAIRWOMAN HELTON:

Mr. Blackburn, when you asked for those quotes, was it for individual customers of a distribution cooperative? In other words, you didn't ask for a quote on an estimated aggregated amount that you might need; it was for individual customers?

A. It was for individual customers, yes, ma'am, but the volume of power for these customers was quite large. One of the blocks was, I believe, for a 50 megawatt customer.

Q. The price that you were quoted for those blocks of power, how close were they to the price that you're paying under the LEM?

A. To give you an example, one that I particularly remember is a quote we received in October of 1999. The on-peak strip that the quote came back for was for $55 and that was a 7 by 16, and I remember that. I thought that was high. The off-peak portion of that, which would be a 7 by 8, was in the $15 range. So you would have to weight those two together based on the number of hours on peak versus off peak for the year. The price is somewhere in the forties.

MR. CORE:

Which, I might add - this is Mike Core - is about twice what we're paying under the LEM and significantly more than under the SEPA.

MR. GAINES:

This is Jack Gaines, and a very important component of that is in comparison to the amount of revenue that would be derived under the existing industrial rate and that, for a 100 percent load factor load, is about $27.50 a megawatt-hour. For a 90 percent load factor, it's about $29 a megawatt-hour. So you're really comparing not just how much it would cost Big Rivers to procure it incrementally but how much it would cost incrementally versus the revenue it could derive under the firm rate.

COMMISSIONER GILLIS:

Mr. Blackburn, just trying to think through your math there a minute on what you just discussed, the $55 for the 7 by 16, I believe, . . .

A. Yes, sir.

COMMISSIONER GILLIS:

. . . and the $15 would be 7 by 8, would that not make the other, some $85, the 7 by 8 so that it averaged the $55 or $95?

A. No. The 7 by 8 is just for the off-peak hours, and you would pay $15, let's say, or $15-$15.50 for that power . . .

COMMISSIONER GILLIS:

Uh-huh.

A. . . . during off-peak hours and, during the on-peak hours, then you would pay the $55 for that. So, for a given day, you would have 16 hours at $55, and you would have 8 hours at $15. So you would average that over a 24 hour period and that would be the blended rate that the customer would be paying.

COMMISSIONER GILLIS:

I misunderstood. I thought you said the blended rate was $55.

A. No. I'm sorry.

VICE CHAIRMAN HOLMES:

He said the forties.

A. That was the on peak.

COMMISSIONER GILLIS:

Okay.

A. Right. It would be in the forties, I believe.

MR. GAINES:

$41.7.

COMMISSIONER GILLIS:

Thanks.

A. Thank you.

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VICE CHAIRMAN HOLMES:

And how much was the LEM; in the range of . . .

CHAIRWOMAN HELTON:

The twenties.

A. The LEM range is under $20 and will be there for another three or four years. It has an escalator that goes up over a period of time.

Q. Mr. Gaines, you referred to the difference in revenue that Big Rivers would receive if it were to purchase blocks of power for its industrial customers at the prices at which Mr. Blackburn indicated power was being offered at. Does Big Rivers have a particular margin that it believes it must receive from power sales?

MR. GAINES:

I'm not sure I understand the question. From power sales to members or off system?

Q. The margins that it would have to add to the cost of a block of power that it purchased for an industrial customer.

MR. GAINES:

Well, the adder that we've proposed as part of Rate Schedule 10 is, I believe, 35 cents per kw per month. For a 50 percent load factor customer, that would be about a mill per kilowatt-hour. It would be about a half a mill for a 100 percent load factor customer.

Q. Okay. Mr. Core had extensive testimony on how Big Rivers believes that it needs to talk to its customers regarding their particular needs. To the extent that a new customer has the potential to buy power just on an hourly basis, would there be a mechanism for Big Rivers to be able to communicate pricing information to that customer?

MR. CORE:

If we have a customer that would have that interest, we would explore that possibility with him. Are you asking do we have the existing capability now? We probably have the information. Getting it to them is the question of how we would do it, the time period of notification, and so forth. Let me go back, and this is a good point because we've talked about our contract with LEM, and it has peak limits, but we have a significant amount of energy available under that contract. It's just that everybody wants it at one particular time. Back to the question Commissioner Gillis raised, it may be that we can take the hourly needs of that customer and blend it with some of this energy we have in these shoulder months or even shoulder times of the day or at night when, even ourselves in our own arbitrage, we're unable to really do anything with it because the price is fairly low.

You've heard the comment of $15. At nighttime, we go out and buy on our own because it's cheaper than the LEM contract. It's just part of good management to do those kinds of things. What we can do, based upon an hourly customer or time of day customer or perhaps a customer that can be moved from first shift to third shift in production, for example, if they're only a one shift customer, there are lots of opportunities to work with those kinds of situations and that's why I say for us to just go buy a block of power doesn't help us until we know what we've got available from our own portfolio in these other hours and perhaps even, to some extent, on peak and blend that with something else that winds up being a pretty good rate for that individual and not putting a lot of costs back to the current customers. What we're really looking at here is the ability to manage this power supply options and portfolio for the benefit of these customers, and we would be willing - you know, our approach is let's talk to these customers. Let's talk to our members. The customers are actually customers of our members but let's talk with our members and, through them, to these customers and say, "What are your needs? Do you want an hourly pricing? Let's talk about that." We think we have the capability of working that out within our own organization and with our third party marketing partner that we have. Currently, that's Reliant, but, you know, that can change based upon whatever the needs are of Big Rivers, and we think we can fit those kinds of things. We want to try to do that through our members to offer, I call it, products, not electricity, but these folks need a product out there that fits their operation and that's what we want to try to do, and we want to encourage those kind of things, too, because, believe me, there's pricing breaks available if you can pick the time of day that you can move this power.

Q. Is there an underlying assumption to the proposed tariff that the new or expanded load that would be served under the tariff that those customers are ultimately going to be paying higher rates than your existing system rates?

MR. CORE:

Well, I think . . .

A. That's true.

MR. CORE:

. . . that's true.

MR. GAINES:

I think it depends a little bit on the type of product that they seek and what it costs to procure the power

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that's needed to meet those needs. I think that, currently, with what we're seeing in the market at the present time and in the very near future, that, if the customer seeks a firm supply, that's the product that they want, then the likelihood is that the costs would be higher than what they would pay under Big Rivers' firm rate, and, of course, that, in and of itself, is what presents the dilemma and the predicament is a very real concern and desire on Big Rivers' part to minimize, to the extent possible, any upward pressure on its existing rates created by unexpected and unplanned for growth of significant magnitude. However, markets change, as we all know, and, from a long-term standpoint, pricing in this fashion, even for a firm product, could very well change in terms of the cost level and could become comparable to or, conceivably, even less than what is reflected in the current firm rate, but the essential thing, and I think Mike has said it several times, is that Big Rivers needs the ability to manage these resources and help to manage its risk associated with meeting its obligations as a power supplier.

Q. When you use the term "firm power supply," are there other categories other than just an interruptible, or is a nonfirm an interruptible, or is there a difference in those categories?

A. Bill Blackburn. Some of the categories that I'm familiar with, there's financially firm power, there's system firm power, there's unit firm power. Then you get into the different types of - there's interruptible power, limited hours, limited calls on the interruption. So there are several different types of power in the market.

MR. CORE:

The market sort of customizes - this is Mike Core - sort of customizes a product to what you want. If you call in and say, "I want this following thing," somebody is going to give you a price, but they're going to go back and weigh the market cost for it, whatever risk they would have to take on it or build into this. So, I mean, this is a new world. I mean, I know deregulation is a hot topic, you know, retail deregulation, but the fact of the matter is wholesale deregulation is there, and it is market driven, and the difference in just the last three years from where it was and what it is today is amazing, and the amount of flexibility you need to have within that is very, very important and that's what we're looking at here, because you can go out for an RFP, a Request for Proposal today, and go out again six months later, and you may get two totally different prices, or it will depend upon how you've structured it. Do you want a portion of it firm, a portion of it nonfirm? Are you willing to take unit firm, which means, if the unit goes off you don't have it, or do you want financially firm power? That's the premium product, financially firm power. That's what we have from the LEM power supply agreement, is financially firm power. That power is the premium power because that just means you've got it or somebody pays liquidated damages if you have to go out and buy it and get it back. Then it goes down at different levels from that point, and it takes a lot of skill out there working with the market, even if you have a third-party partner in that area, to take a look at those things, because we're involved in that. Bill and his staff are involved in that on a daily basis making decisions on the arbitrage side, as you know, and so we're gaining, we think, some critical experience in dealing with this, because we see that switching over from a period of being arbitrage to switching over to be a period of purchases. It's very important to have the flexibility.

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The witness, MIKE CORE, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. Does Big Rivers currently have much information about the load characteristics of the potential load switching customers?

A. Of the one customer, I think we have a pretty good idea. Of the others, I would say no, but, because of the discussions through (confidential) that we've had with this customer, I think we have a pretty good idea.

Q. Was any consideration given to waiting until you had more information about the customer's load profile and then proposing some type of a tariff that would meet their specific needs?

A. Well, again, I think we get into a situation of filing a tariff every time for a new customer and that didn't seem to be the most efficient way of doing it, and, again, wanting to have the ability up front to work with these people and some reasonable assurances. Obviously, if we negotiated a contract, that comes back and is filed with the Commission, and the Commission can see what we've worked out and judge on whether that's, you know, a good contract or not. One of the other things Big Rivers wants to do is we want our members to have long-term customers, and there's no question that, whatever happens, these larger customers are going to be the ones that can get out there and probably move if that ever happens. To the extent we can "lock" these customers up through negotiating a strong contract, I think it's in the interest of our member systems and Big Rivers especially as we look forward to power supply - you know, managing your power supply and the certainty that you try to obtain in that going forward. So the emphasis here, I think, too, is going back to trying to get something that's in place for a period of time and you know it's there, a commitment is there, because, again, we want our members to have customers that are going to be long-term customers for them, and they're looking to us to give them the power supply options that accomplishes that.

Q. Have these issues caused Big Rivers to give any further consideration to its membership in the Midwest ISO?

A. Well, the short answer is no. I don't have enough information on the Midwest ISO yet. I think they don't have enough available for us to make a decision there. As you know, we have an agreement with our member systems that they would have to approve our membership in an ISO, and I have not seen anything yet to take back to the members, any kind of a proposal to join the ISO. I think that's still being worked out, and I think we all realize, at some point in time, the likelihood of some form of a regional transmission organization or ISO or whatever we come up with is probably there, but Big Rivers, at this point, doesn't have an advantage to getting into that.

Q. So any transmission charges that Big Rivers would incur for purchasing these blocks of power would be passed on to the customer itself?

MR. BLACKBURN:

Bill Blackburn responding. That's correct.

Q. Back to Item 1 of your response to the issues list at Page 3, Lines 17 and 18, Big Rivers refers to the extreme weather situations that could consume your load this summer. Can you explain how your proposed tariff would provide flexibility for Big Rivers as a result of any extreme weather situations?

A. Well, to the extent we knew the growth and we could negotiate a contract with that customer, we would have the knowledge there and Bill could be prepared for the summer, knowing what kind of growth he has in his book there of power when we face the market. So, to the extent it's anticipated and we have the ability to work with that customer, that gives us more certainty in knowing, to a greater degree, what our load will be.

Q. Well, isn't this tariff being proposed due to concerns of increased industrial load and not out of concerns of unusual extreme weather?

MR. GAINES:

This is Jack Gaines. I think the reference here to extreme weather situations is simply to highlight or point out the fact that other factors which do affect Big Rivers' load, such as weather, could potentially cause Big Rivers to bump up against or exceed its cap, and it's just another reason why Big Rivers needs the flexibility of Rate Schedule 10 to help manage a potential section of load growth that it cannot manage under the current set of rate schedules. It's not that extreme weather is something that Rate Schedule 10 specifically addresses. It's that extreme weather affects Big Rivers' load, and extreme weather coupled with other factors could help to create a situation where Big Rivers' load expands more rapidly than expected, and this rate will help Big Rivers in the event that that were to happen.

Q. Thank you. Has Big Rivers reached any conclusion regarding the impact of this tariff on gaining new load or expanded existing loads or on the load switching customers?

A. Well, we've considered - this is Mike Core. We've considered the possibility that that could have an impact. How you measure that impact would be very difficult to gauge. We also know that just taking another block of power and rolling it in and raising rates has impact on everyone as well, including the new customer. So there's no question that there will be an upward pressure on Big Rivers' rates assuming the market rates stay where we've seen them. Now, if the market rates change, I mean, everything can change, but I can see possibilities of working with these customers first, and going to this kind of thing is a better direction to go than just simply rolling that in and raising it without looking at that. Now, again, I go back to the original - I think one of my original statements is, at some point in time, there will be an upward pressure that we would probably have to come and raise everybody's rates. What we're trying to do is find a way to take the value of this power, as long as we can, to share it with everybody, and, to the extent we can find different kinds of things to blend with this, we can perhaps forestall a rate increase and keep a large customer, a new customer, very happy with the product that we've put together. So that's our first statement, but, at some point in time, if they say, "We want service and we'll take the proposed rate that we have in the tariff," I guess that's it. The other approach is to raise everybody else's rates when you get to that point and that may happen at some point in time. We would just like to have the opportunity to deal with the issues and work through that before we get to that point of having to bring, you know, the rate pressure to bear. Big Rivers' rates are competitive today, no question about it. I'm really proud of that, coming out of the bankruptcy, that we were able to achieve that. There was a lot of hard work that went in there with our members, with our creditors, and everyone. What we're trying to do is take that very valuable resource and not squander it just indiscriminately but carefully manage it to the benefit of as many people as we can.

Q. In response to inquiries that Big Rivers has gotten within the last six to twelve months from either existing customers thinking about expanding or new customers, has Big Rivers indicated that it may be changing its rates and that new load may be covered under a marked-based rate?

A. I think, in the discussions that we've had with this one particular load switching customer, we've told them that, and they understand this, and we're focusing on a negotiated type of rate that blends several factors together. They have a unique situation with a fairly large amount of interruptible which helps the situation, but I think that's probably the only customer that we've had to interface directly with that on. Although I do know, in discussions with Willamette on the other tariff that we postponed, they were well aware of this tariff, and we have talked about it. In fact, they're interested in a fairly long-term contract on the remaining block of power that we sell to them under that tariff as a result, which is good.

Q. Have you gotten any concerns from your distribution co-op members that this type of a tariff might hinder economic development in adding new industrial growth?

A. I think there have been some discussions on that. I think one of the discussions that concerns one of our member CEOs is what kind of a price does it give to somebody that comes in because there isn't a specific tariff, but, at the same time, even if we had a tariff giving a specific price doesn't always mean that's what it winds up to be. We have various industrial customers out there who are paying various rates per kilowatt-hour because of load factor, power factor, and other services that are required, or equipment charges, and things of that nature. So it's pretty hard to give a firm rate to begin with, and, of course, we would have to sit down and begin immediate discussions with this to give these people an idea of what kind of cost we would be looking at.

Q. Have you had any discussions on this with any other entities responsible for economic development, be it the state Economic Development Cabinet or something on a more local level?

A. We've not had any specific discussions with the Economic Development Cabinet or any local Economic Development folks; no. Certainly, our members who have some involvement in economic development are well aware of what we've done here and essentially have supported us.

Q. Do you know much about the rates that are currently being paid by the customers who are potential load switching?

A. I do not have any knowledge. Bill, do you?

MR. BLACKBURN:

Bill Blackburn. They have been less than willing to share that information with us. They say things in general, but they do not give us anything that's specific.

The witness, BILL BLACKBURN, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. So their contracts are not public?

A. That's correct.

Q. Item 2, over at Page 2, Lines 23-26, can you describe the intense discussions with marketers that's referenced there?

A. I have, during the past year or during the past six months, met with several different marketing companies. I've had discussions with LEM, with Reliant, with ProLiance, Entergy, Duke Power, Coral, Williams, the major ones that I have met with, and each time we always have general discussions of the market, what everyone's view is, where you think you're going. A lot of these folks know that Big Rivers has a marketing contract out with Reliant, and they're always interested in trying to find out when that's up for renewal and can they bid on it. So we have a lot of discussions, and, during these times, I always try to take advantage of information I can glean from them, what they perceive that the market to be, where they think pricing is, what products out there are likely to develop that we don't see, and which ones are traded

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most often. It's during these type of discussions that I have raised the issue of, "Do you think someone would be interested if we put out a request or a proposal to serve our needs as we grow in without us knowing today what those limits might be?" and it's usually received very negatively. It would be very expensive. Now, if we could come up with a narrow band of what we want, you could certainly get proposals, people willing to respond.

Q. "A narrow band" meaning time?

A. Time and quantity. People are generally afraid of something that's open-ended. I may think and have only good reasons that I may need 50 megawatts, but, if the truth is I end up needing 150 megawatts and it's three times what they've committed to and neither one of us could foresee that but the way the contract would be they would be on the hook for that, they're very reluctant.

Q. Your contract with Reliant, is that just for Reliant to market Big Rivers' power, or does it also include Reliant purchasing power for Big Rivers when it needs to do so?

A. Reliant does both for Big Rivers. They sell our excess power, and they purchase for us at times that we need. The contract also allows Big Rivers to either sell or purchase outside of the Reliant contract if we believe that the Reliant price is not, at market, reasonably priced.

Q. So they, in effect, have a first option; is that - I mean, you have to . . .

A. It's probably true that they have the first option on the hourly transactions, but, if we're going for, let's just say, a month, then I do get a proposal for them first. If I do not like that proposal, then I'm free to go to the market with a Request for Proposal. They do not have any right to match it.

Q. Okay.

CHAIRWOMAN HELTON:

Mr. Blackburn, . . .

A. Yes.

CHAIRWOMAN HELTON:

. . . in your discussions with marketers, your existing customers who have incremental load growth, you know those load characteristics. Have you had any discussions with marketers about, if you aggregated that load, what the prices would be?

A. No, not in particular. I have not.

CHAIRWOMAN HELTON:

Okay.

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A.   Most of our existing load customers, our industrial
      customers, are fairly high load factor customers, and
      you would be able to go out and, say, buy a block of 50
      megawatts which would be served at a 100 percent load
      factor, and then you could blend that in with our power
      from LEM to make up the rest of the load and to
      actually do the load following with that. So you might
      not have to buy a block of power that would exactly
      mirror the current industrial load because of the high
      load factor.
CHAIRWOMAN HELTON:
          But you certainly could get a better estimate of
          what those costs would be versus, as you said,
          indeterminate loads from new customers or load
          switching customers?
A.   Yes. Yes, ma'am, because it is known and determinable.
MR. GAINES:
      This is Jack Gaines. Along that same line, I think
      that, from the existing set of twenty some odd
      industrial customers, the extent to which their loads
      may be growing I think is also indeterminable in a
      manner similar to loads for which we have no knowledge
      at this time. In other words, that's also an
      unpredictable.
A.   The growth.

MR. GAINES:

Right, the growth.

A. The growth is correct.

MR. GAINES:

Right. Right.

A. I was assuming the question was at their present level.

The witness, MIKE CORE, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. Would a new or an expanded customer be able to or would Big Rivers be willing to structure a contract such that, during certain periods of time when power is available under its LEM contract, that that power would then be sold to this customer at, I guess, the existing tariff rate for that power or the normal industrial power rate and then, to the extent that the customer wants power during other time periods when it is not available under the LEM or the SEPA, that that portion would be under some type of a market rate so that, in effect, the customer would have different prices for different time periods? Is that what's envisioned here?

A. I think that's one of the possibilities. I mean, whether there would be separate hourly charges, which was an earlier question, or whether those would be blended in some way to an overall price if they wanted an overall price, yes, I think the answer to your question is, yes, as one of the examples of the kinds of things that we might do, is taking where we have energy available in those hours and blending it with something else that's higher price but overall brings the cost perhaps down in line with where the tariff is now. Until you know what their load characteristics are, until you know more about that entity and their needs, then that's where we like the idea of sitting down and trying to blend some things because we don't want to sit on this excess. We just want to use it wisely, and, to the extent we can look a member in the eye and say, "We've done everything we can to this point and now we need to do a rate increase," then I think we're all right, but, for us to say, "Well, we've got another customer. We just added some power. We're going to raise the rates," without trying to do everything we can to mitigate that through better management is what we're trying to avoid here.

CHAIRWOMAN HELTON:

Mr. Core, the term in the tariff that says "lowest reasonable cost" - it may not be in the tariff but it was in the discussion - "lowest reasonable cost" and that's to be passed on to each individual customer, do I assume that that term precludes you from withholding excess capacity in your system and purchasing through purchased power for that customer?

A. Well, I think we want to be competitive, so we're going to have to use some of the value that we have there. You know, if we sit there and hold it back and our members are saying, "Wait a minute. We're not getting the load growth because, you know, you're sitting on this power," I don't think that's at all what we want to do. We want to try to find the best mix and match. The fact of the matter is we may have a customer of six megawatts come along next week, and, after looking at everything, we may negotiate something that's pretty much along the tariff here, especially if that customer says, "Look, I'm willing to sign a ten year contract." Well, that's a different situation than a customer who comes in and says, "I'm going to take your tariff and, in two years or whenever, if things change, sayonara." So it gives us the opportunity to plan and mix that in. If its a high load factor customer, we know what we can do with that versus a low load factor customer. I think what we're trying to do for the benefit of our member systems is manage this portfolio to its fullest value and utilizing that power as best we can. We know there's going to be growth. We know, at some point in time, we're going to have to go out there and obtain some additional power in some fashion, keeping in mind, in 2010 and 2011, we still have this next 200 megawatt block coming in which is going to be incredibly valuable at that time.

MR. GAINES:

A point of clarification, and this is Jack Gaines, Big Rivers' preference is to do precisely what Mike was just talking about and that is enter into and negotiate special contracts with customers to blend its own resource and perhaps market purchases, as the case may be, to provide the best utilization of Big Rivers' resources along with managing its risk and protecting prices and protecting the existing customers, but, just so everybody knows how Rate Schedule 10 has been structured so that there's no confusion and just to back up just a moment, under status quo, Big Rivers can manage its portfolio to meet load requirements. However, it only has, within its tariff structure, one set of tariffs through which it can bill the customer and derive revenues, and, if a customer comes to Big Rivers and says they want so many megawatts of firm service, then Rate Schedule 7 is the rate that they would be provided that service under, if they simply did not want to negotiate and Big Rivers would then be faced with finding the resource mix necessary to render that service and then the costs, if they were different, would be rolled into the average and eventually that would affect Big Rivers' cost of service, and we're concerned that that would necessitate a sooner, rather than later, rate case. What Rate Schedule 10 does is it - well, two things happen. First, as you know, we propose to freeze Rate Schedule 7 so that that's not available, and then Rate Schedule 10 has really two scenarios. One is a default scenario in which, if the customer is not interested in negotiating a special contract with Big Rivers, which I think in most instances would be Big Rivers' preference, then Big Rivers would secure power through a third-party supplier, and, in that situation, all of the customer's energy requirements would come from a third-party supplier. So it would involve no mixing of resources, no mixing of off-peak energy that's available, but it would be the fall back or default position under Rate Schedule 10. Again, I think the main emphasis of Rate Schedule 10 is to provide Big Rivers with the scenario it needs to bring customers in under special contract to take advantage of all of its resource options and to manage its risk, but I just wanted to clarify how Rate Schedule 10 was structured and why it was structured that way.

Q. Was any consideration given to wording Rate Schedule 10 such that the rate to be charged to the new or expanded load would be the greater of the market rate or Big Rivers' existing Schedule 7 rate?

MR. GAINES:

Well, we considered a lot of things and that may well have been one of them as part of general discussions. I guess my reaction to that is that we felt like that a rate of that nature would meet with less - the Commission would be less receptive to that than what we proposed. Now, that may be a bad presumption, but I think that that would - that's my reaction to that.

Q. Well, the basis for my question is whether existing industrial customers might view this tariff as being unfair to them in the sense that, had they been given the option to buy different quantities of power at different times, you know, they might be similarly willing to do that as a new customer would, and they may think that there's some significant price advantage to doing that.

A. This is Mike Core. Let me respond to that if I can. Number one, I think a general observation, by their lack of intervention, indicates they didn't have a problem with that. Number two, along with our member systems, any industrial customer that has a concern we would want to sit down and talk to them about their growth potential, their cost potential, and certainly work with them as we would with any new customer and saying, "Is there something we can do here?" because it can be argued that this extension or expansion, let's say it's a ten megawatt expansion, could be handled separately. You know, under the new contract, they would have that opportunity. To the extent that it fits their load to make changes to their current contract, in other words, the only thing I can think of is if they had some interruptibility or something like that that they didn't have before, Big Rivers is willing to work with them through the member systems towards that, too, because we know, you know, just intuitively that an interruptible load is a good load for Big Rivers to work with, because it could ultimately free up some additional critical megawatts on peak. So I think we would have an interest in working with an existing customer on those kinds of things as well, but I think that Big Rivers' current tariff is important to the existing customers and that's why they probably didn't - I can't speak for them, but, you know, I was quite surprised they didn't even come in and seem to want to monitor this or anything, but I think it speaks volumes about how they feel what that current rate is. Again, that's a significant change from two or three years ago when people thought, "Well, $28 dollars," if it's a 100 percent load factor customer, "you know, we want to try to do better." I think they have looked at this wholesale market, and they know what's going on out there. A different driver is in place on costs today than it was three or four years ago. Even if you own generating plants, you are going to want to get the best value you can, whether you're a cooperative for your members or whether you're an IOU for your stockholders, and, you know, the market is being driven by a five letter word, "greed," for lack of a better term, I mean, but that's the nature of markets, and they seek . . .

MR. GAINES:

I'm going to add a four letter word, "fear."

A. Fear, yeah, greed and fear, and we see things in pricing, and we see marketers who boldly, three or four years ago, went out and boldly said, "This is where it's going, and this is what we're going to do," who today take incredible care of not taking on the risk of

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the market because they've been bitten by it. The last two summers have been real educations for people in this business, a big education for Big Rivers, and one of the things that's driving this particular tariff is to say, "How do we manage under this new world of a market driven cost?" I mean, you know, the old item of cost on the wholesale level is out the window. I mean, the other night, there was some power available for five dollars on New Year's Eve because everybody had their generation up and running and there wasn't any load, and you've got to have load if you've got generation, and there were people dumping it for five dollars just so they could keep it on a few hours, cover the Y2K, and close it. So, at nighttime, you've got a different price. In the daytime, you've got a different price, the summertime a different price, firm, nonfirm, and all of this kind of blends into a whole new world and what we're trying to do is operate because we don't have the generation any more. We have these valuable power supply contracts that we're trying to manage through this. So I think the existing customers understand what we're trying to do, and I think it also shows a trust in their relationship with the member systems and, through the member systems, a trust in the relationship with Big Rivers. We've worked extremely hard to regain the trust of the folks of Western Kentucky as a result of what we've been through the last several years, and of this body. We've worked hard with you the same way. We think we're making strides, and I think the fact that there's no intervenors here speaks loud to that as well.

Q. Just for the record, did Big Rivers notify the industrial customers of this proposed tariff?

MR. MILLER:

I think that one of the responses to the data requests states that Big Rivers provided and, in fact, I think even made the copies of the proposed filing to its distribution cooperatives, and those distribution cooperatives, in return, notified their respective industrial customers.

MR. RAFF:

Okay. Thank you.

MR. MILLER:

That's under Item 1 of the November 12 response of Big Rivers to the Commission's November 5 data request.

MR. RAFF:

So it was the distribution co-ops that actually sent the notices to the industrial customers?

MR. MILLER:

That's correct, because, obviously, Big Rivers' customers are the three distribution co-ops and then the retail customers are customers of the distribution co-ops.

MR. RAFF:

Did Big Rivers receive any verification from the three distribution co-ops that, in fact, all such notices had been sent?

MR. MILLER:

We didn't receive written verification, but the CEOs of the respective co-ops are here and can testify about that.

Q. Well, have you heard anything from any industrial customer that would indicate they, in fact, have received it and are aware of it?

A. This is Mike Core. As I mentioned earlier, in discussions with Willamette on the co-gen issues that we're working with, they had indicated they had seen it. In fact, we had some discussions, just very brief, with some of their management, and one of those was I indicated they ought to be looking to Kenergy to get a longer term contract on that part that we're still supplying, and they said they agreed that that would be something that they would want to do, take a look at that, because I think they recognize the competitiveness of it, and I was trying to think. Obviously, the load switching customer knew about it, even though they weren't a current customer.

Q. Okay.

MR. MILLER:

I received a call from counsel for Commonwealth Industries asking questions about the filing, and he told me he would be recommending to his client that his client not intervene.

MR. RAFF:

All right. Thank you.

Q. Mr. Core, a number of times you've stated here this morning Big Rivers' willingness and interest in entering into contracts with either new or expanded load. Can you tell me, in your mind, would these contracts be between Big Rivers and the customer itself?

A. Typically, and I'll let counsel correct me, typically, we would negotiate this contract through the distribution system, and the contract, Jim, is through the distribution system to the industrial customer; is that correct?

MR. MILLER:

The typical procedure is that representatives of

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Big Rivers and the distribution cooperative meet with the large industrial customers. The arrangement reached is then documented by the distribution cooperative entering into a contract with the industrial customer. Then Big Rivers enters into a contract with the distribution cooperative to provide that load, back up the obligation assumed by the distribution cooperative, and, at the same time, approves the terms and conditions contained in the distribution cooperative retail customer contract.

MR. RAFF:

Okay. So then is the proposed capacity expansion tariff that we're here discussing today, that's a tariff from Big Rivers to its three distribution cooperatives?

MR. MILLER:

That's correct.

MR. RAFF:

And, if that tariff is approved, there will then have to be a tariff filing by each of the three distribution cooperatives?

MR. MILLER:

We assume that to be the case.

MR. RAFF:

Okay.

CHAIRWOMAN HELTON:

Just for clarity of the record, Mr. Miller, since Mr. Stanley is here, I think there was a list of some 19 customers that were potential candidates for increased load growth. Is that correct?

MR. STANLEY:

That's correct.

CHAIRWOMAN HELTON:

And you notified all of them, and you did not - maybe you had some phone calls. Could you tell us about that, if you did?

MR. STANLEY:

We did notify all of the large industrial customers, and I don't recall specifically the number. I think we have some 22 large industrial customers, 21, and all of them did receive notice. Some of them are served under a tariff that was in place at Henderson-Union, but the large industries were notified by letter, and we've had no contact that I'm aware of with them.

CHAIRWOMAN HELTON:

Thank you.

Q. Is it not true that Big Rivers already has special contracts that relate to specific industrial customers, or is that not true?

A. This is Mike Core. Yes, there are some industrial customers through the distribution cooperatives that we do have contracts with.

Q. Okay. And what kind of terms are covered in those contracts?

A. Well, they vary, obviously, from customer to customer, the length of the contract, specific items that relate to potential growth. There are references to equipment that's in place and a cost provision for recovering the costs if there are special facilities, a facilities charge, if you will.

Q. Right.

A. I would defer to Jim Miller or Dean or the other CEOs that might have that involvement, but, with some of those customers, there are certainly specific contracts.

Q. But, to your knowledge, do any of those contracts specify rates that are different from your Schedule 7 tariff?

MR. GAINES:

No.

A. I can't - go ahead.

MR. MILLER:

All of those contracts are on file at the Commission, and I believe all of those customers are now served under the Rate Schedule 7 of Big Rivers, although there are some - and perhaps Dean Stanley can speak to this, but, as I recall, there are some large customers that are served under different tariffs than a special contract at the distribution co-op level, I think maybe some coal mines, or there are some large customers that are served under what you might ordinarily consider to be rural tariffs, and, of course, there is at least one large industrial customer, Commonwealth Aluminum, who does not have a contract. It's just served under the tariff.

MR. GAINES:

Big Rivers' rate, in each case, is Rate Schedule 7.

MR. BLACKBURN:

I believe that's correct.

MR. MILLER:

No. I think there are some instances where the rural tariff serves as the rate schedule for customers that are served under a distribution cooperative, large commercial or other tariff.

MR. BLACKBURN:

Bill Blackburn responding. I believe there are two customers that still have the industrial incentive rate in place which would be a portion of the Rate 7, the factor by the percentage, but, other than that, I believe the demand and energy that we bill to the co-op members are all the same for the industrials, which would be Rate 7.

Q. Okay. And the economic incentive rate, that's a grandfathered provision?

MR. BLACKBURN:

I believe that's correct.

CHAIRWOMAN HELTON:

Mr. Raff, unless you're really close to concluding, I think we should take a break at this point.

MR. RAFF:

I think that's an excellent idea. Thank you.

CHAIRWOMAN HELTON:

We'll take a 15 minute break.

OFF THE RECORD

CHAIRWOMAN HELTON:

Mr. Raff, are you ready to continue?

MR. RAFF:

Yes, Chairman.

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Q. If Big Rivers should get an additional 400 or more megawatts of new industrial load, will there be any transmission constraints on its system caused by the addition of these new loads?

A. This is Mike Core. At the risk of not being an engineer and trying to answer this, let me give you my take on this, is that it, of course, would depend, I think, on where those loads are located on the system. I think you said 400 megawatts, which is pretty significant. Obviously, if it was all one customer in one location, there probably would be some constraints. To the extent it's spread out, it would have to be looked at on a situation-by-situation basis. Now, having said that, one of the engineers is here. We can turn around and see if he agrees with my answer. He shook his head yes.

Q. Well, do I take it, then, Big Rivers is not currently considering needed expansion to its transmission system in anticipation of what may be additional industrial growth?

A. I think that's a fair assessment. Obviously, we have a plan in place and a budget that we're making additions to the transmission system as they're warranted by the Power Requirements Study and actual data that we're obtaining, but, to specific industrial sites, no, not at this time.

Q. Okay. Do you know whether any of those utilities with which Big Rivers is interconnected with would need to upgrade any of their facilities to serve additional loads?

A. Again, I think it would be on a case-by-case basis and taking a look at those situations. We are inter-connected with a number of utilities. We would just have to see what the situation is.

Q. Thank you.

The witness, JACK GAINES, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. In Big Rivers' response to Item 8c. of the Commission's November 5, 1999, data request, and I believe it was Mr. Gaines, we asked about a hypothetical customer served by Big Rivers that increases its load, in year one, by three megawatts and then, in year four, by another three megawatts, for a total of six, and the response indicated that, once the second increment of three megawatts was added, that that customer would then be served under this proposed rate schedule for the total of its six additional megawatts; is that correct?

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A. Yes.
Q. Can you explain why the entire increase in load would be eligible for the proposed schedule if the increases occur a number of years apart?
A. The purpose of setting it up that way was primarily to provide a manageable quantity to take to the market in the event that they reached the threshold, at the point in time that they do, and, as an example, if a customer grew three megawatts and then three megawatts later for a total of six and we said that, once they got over five megawatts, then it was the increment over five megawatts that we took to the market, well, we would start out with a very small number and that would not be a manageable level to go to the market with. So this was the mechanism that we felt like provided the most manageable and administratively reasonable approach to defining the quantity that was subject to Rate Schedule 10.
Q. All right. I assume, in that same hypothetical, that that customer, until it actually adds the second increment of three megawatts, the first three will be billed under your existing Schedule 7.
A. That's correct.
Q. And that billing tariff would not change until such time as the second three is added?

A. That's correct.
Q. Was there any consideration given to only utilizing the proposed capacity expansion tariff for the increment of load that exceeds five megawatts?
A. Yes, there was, and I think the reason we chose to propose it in this manner was, as I explained earlier, that that increment could conceivably be one kw, and, once you reach a threshold where you say the customer should be subjected to Rate Schedule 10, you need a quantity that is reasonably taken to the market, if you will.
Q. And there is nothing in your capacity expansion tariff that addresses the number of years over which the customer's expansion would have to reach the five threshold; is that correct?
A. That's correct.
Q. So is it the intent that, no matter how long it takes, if, in fact, a customer does eventually reach five or more, that it would then be covered under this new tariff?
A. That's correct.

The witness, BILL BLACKBURN, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. Could we refer for a moment, please, to Big Rivers' response to the Commission's Order of October 12, 1999, Item 3, Parts c. and d.? In discussing that response at the informal conference that was held here on November 23, Big Rivers indicated that its long-term expectations were for lower on-peak power prices in the future; is that correct?

A. I believe that's correct. Bill Blackburn responding.

Q. And staff's notes from that conference indicate you expect prices to remain high for the next few years, but you expect prices to come down after new merchant plant generating capacity come on line. Is that accurate, too?

A. I believe that's accurate, that it will have an impact on the summer prices.

Q. Does Big Rivers have a current projection or expectation for when this capacity will come on line and when market prices will begin to decline?

A. There is a lot of discussion and a lot of announcements of new capacity being built. The very earliest - we will see some capacity coming on line this year, the summer of this year. A lot of what you see that has been announced and talked about will be on line in the summer of 2001, and the forward curve that we have access to is beginning to show that the summer prices in 2001 through 2005 are lower than the forward curve showed the prices for, let's say, 1999 and 2000.

Q. All right.

The witness, MIKE CORE, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. In light of what may be some change in the market conditions, does Big Rivers have any strong feelings about whether the tariff that it's now proposing be approved on an experimental basis to be subject to review in two or three years to see where it's at and what the results have been?

A. This is Mike Core. While we don't specifically have something like that in mind, I would say that Big Rivers is always going to be looking at its tariff and product offerings and saying, "Is it doing what needs to be done in approaching this?" We will internally, I think, review and say, "Is this working? Is it not?" To the extent that we don't believe it is, I'm sure we'll be back with some adjustments and changes in it while we're not proposing it as experimental. The fact of the matter is we'll be working through that, and, as I go back to my earlier statement about having flexibility, it wouldn't be wise for us to wire ourselves into something that isn't working, and we would have to come back and probably suggest changes to it if it's not working.

Q. To the extent you determine that changes might be needed some years down the road, would that be changes applicable only to new or expanded industrial load after that point in time, or would those changes also impact the load growth that has been experienced between now and that future time?

MR. MILLER:

I guess I would object on the speculative nature of the answer that's required.

A. Well, I was just going to say my answer would be speculative.

Q. Would you care to speculate on that question?

A. Since we're among friends, I think that there are so many things that can change out there. That's why it's hard to say. We don't know where this whole issue of customer choice and retail wheeling may or may not go in the State of Kentucky or for federal legislation either, and certainly those, along with market forces and other kinds of changing information and situations, will have an impact on this, and I think that's one of the things we would review, and then, based upon the nature of the contracts that were in place, assuming Rate Schedule 10 is out there, we would have to make a judgment on how that would affect them. Customers may have a totally different viewpoint at that time. You know, this customer choice will bring us about to a customer driven entity, and we like to think we are now, but, if, at some point in time, there is customer choice available in Kentucky, then it's hard to say exactly what the impact would be.

Q. Will your recognition of these indeterminable and somewhat speculative issues influence your decision regarding the length of a contract term that you would be willing to enter into with new or expanded load under this proposed tariff?

A. I would expect it would affect both sides of the negotiating group on that because they're going to factor in how long they want to be involved in a contract depending upon what they might believe changes out there. I'm sure we will, too, but I also go back to one of my original statements that I would hope that the contract we negotiate would stand the test of time within our internal risk review and the members in an

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effort to obtain a customer that's there for a period of time, that we know is there for a period of time because of this contract, and so I guess that's a speculative answer as well as to the other, but I think that would affect both sides of the equation on the negotiations, how long our term would be and how long theirs would be.

The witness, BILL BLACKBURN, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. If we could refer, please, to the responses to the Commission's November 5, 1999, Order, in Item 5, can you tell us the current status of the voluntary load curtailment tariff which is referred to there?

A. Bill Blackburn responding. We have a draft of that in house that we are reviewing. In fact, we had some discussions on it yesterday. Our goal is to refine those and present it to the Board of Directors, I believe, at our January meeting for their consideration before we submit it to the Commission.

Q. So you think within a couple of months it will be filed?

A. I believe so; yes.

Q. In Item 6 of that response, in reference to the Big

Rivers contract with Reliant Energy Services, the contract has been in effect now for just over a year; is that correct?

A. Yes, sir.

Q. Are you willing to give us an assessment of Reliant's performance?

A. Yes, sir, I'm very willing to. I'm not sure exactly what you're looking for as far as an assessment. Big Rivers is pleased with Reliant and the relationship that we have developed and what they have been able to accomplish for Big Rivers in utilizing the excess capacity in energy that we have and the opportunities that they've taken advantage of in the market when they were buying power that was less than the LG&E contract. Reliant has done a very good job in interfacing and working directly with LEM as well.

Q. Okay. That's all I was looking for. What is the term of that contract?

A. It expires December of 2000, December 31.

Q. Okay. Do you envision that, if the proposed capacity expansion tariff is approved and you get firm inquiries from either new or expanding load, that Reliant would play some role in that process of acquiring additional capacity?

A. Reliant would play a role in acquiring that simply because I would have an obligation to ask first a price from them, and then, at that point, Big Rivers is again free to quote through Request for Proposals in the open market.

Q. Okay.

A. Right. Mike makes a very good point. We always try and we do go to LEM to get proposals as well.

Q. Just so I'm clear on this, so that the services that you get from Reliant, if you don't want to accept the price that they're offering, do they not also provide you services in acquiring supply sources elsewhere in the market?

A. They quite often purchase from a source other than their own portfolio and take title to that power and resell that power to Big Rivers.

Q. I may not be artfully expressing this. If you call them up and say, "We want a block of power," you know, of 30 or 40 megawatts, and they quote you a price and you say, "No, we don't like that price," can you and will they then go out and try to see what else is available and come up with a better price, or do you not do that?

A. At this point, we have not asked them to go out and do that. I believe that they would do that, but, again, Big Rivers has the right to issue a Request for

Proposal . . .

Q. Okay.

A. . . . and go directly to the market ourselves.

Q. Do you want to add something or . . .

A. Well, what Jack was telling me, and a good point that I do need to make, is, you know, a lot of what Reliant is doing for us now is basically hourly, next day, next week, even next month. We've prescheduled something for the month of June, so four or five months into the future, but what we're looking for, under Rate Schedule 10, would be something very long term, something that would mirror the contract that we would have with the distribution companies. So it could be five to ten years in length, . . .

Q. Okay.

A. . . . a different type of service.

Q. Could you refer, please, to Item 11 in that same volume of responses? There's a series of questions set forth there related to the potential for industrial customers to develop qualifying facilities. In the passage of a couple of months, has anything set forth there changed?

A. The Commission is aware that we continue to work with Willamette Industries, that we've reached a term sheet and that we're working on a contract, but, other than that, I don't believe there's anything that has changed.

Q. Would you also refer, in that same volume, to Item 14, please, and take a look at the response and let me know whether there's any updated information that would need to be provided to those questions?

A. I don't believe that there's any.

Q. Well, I guess most of the references this morning have been to industrial load. Your capacity expansion tariff would cover commercial customers also; is that correct?

MR. GAINES:

Yes.

The witness, MIKE CORE, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. Would you refer, please, to the response to the Commission's data request of December 22, Item 4? It addresses the role that the customer would have in securing the supply for its load. Does Big Rivers have any objections to language that would more explicitly set forth the responsibilities of Big Rivers with regards to the negotiation and obtaining of power supplies for new or expanded loads?

A. The question is would we have an objection to there being more explicit language? I assume you're saying that Big Rivers would go to the market, and it would be at Big Rivers' sole discretion . . .

Q. Yes.

A. . . . to bring these types of things back. Subject to seeing the language, the concept is probably not a bad concept.

MR. MILLER:

Is the question whether Big Rivers would object to language in the tariff which basically incorporates this particular answer?

MR. RAFF:

I think that's fair; yes.

MR. MILLER:

Okay.

A. I think, subject to seeing the language, we would probably not have a problem.

Q. All right. Let me ask it in somewhat of a different way of whether Big Rivers would have any objection to the tariff specifically prohibiting any retail customer or member co-op or anyone not expressly authorized by Big Rivers to act on its behalf from having direct involvement in the procurement of power supplies to serve these loads.

A. Yeah. The only thing is that we need to have the ability to talk to the member systems on the characteristics and trade information back and forth there. We have an all power requirements contract with our member systems except for the smelter loads, . . .

Q. Right.

A. . . . which I have carved out, and I would assume that the member systems would look to us to supply that power. So, based upon that, I . . .

MR. MILLER:

Big Rivers, as stated in several places in the filings, I think, plans to do nothing differently than it has been doing in the past with respect to acquiring third-party sources of power to use to meet its contractual requirements.

A. I can assure you that Big Rivers is in no willingness to lead the parade down to the customer choice issue. We think that's better left in the circles that it's being worked through. It's not our intent to give the retail customer itself this choice at all. It is to allow us to take to those customers, through the members, different kinds of options, and so forth, but Big Rivers would have the control over that.

MR. MILLER:

I think it's fair to say that Big Rivers has read and fully understands the April 30, 1998, Order of the Commission in 97-204.

MR. RAFF:

Thank you. I believe we have a number of additional questions, but they concern some financial performance, and I think Big Rivers had designated Mr. Hite as the witness to the questions that had been set forth in the data requests.

MR. MILLER:

Right.

MR. RAFF:

So I think maybe we could . . .

MR. MILLER:

Okay. May I do a couple of redirects, a brief redirect?

MR. RAFF:

Oh, I'm sorry. Certainly. Certainly.

REDIRECT EXAMINATION OF PANEL

BY MR. MILLER:

Q. To any members of the panel, there have been discussions of a lot of alternatives that Big Rivers might employ to meet its resource requirements in the future. Of all those that have been discussed, all of the alternatives discussed, which of those, based upon your experience and your study in preparation of this

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Rate Schedule 10, which of those alternatives, in your opinion, would result in the lowest cost to Big Rivers and ultimately the lowest cost to its distribution cooperatives?

MR. CORE:

This is Mike Core. If I might respond to that, I believe the proposed Rate Schedule 10 provides us with the best approach. Having looked at all these things, this is what we felt gave us the broadest, the most flexible, approach to do the greatest value to all the customers.

Q. And would that be the lowest cost approach?

MR. CORE:

That would be - the value being the lowest cost approach; yes.

Q. Mr. Blackburn, there was some discussion about transmission requirements to provide service to new or expanded load. In the data request responses, there is discussion about a potential load switching customer. If that customer, in fact, did switch, does Big Rivers have available a transmission path it could use to provide the requirements to serve that customer?

MR. BLACKBURN:

Presently, what we would have to do is buy transmission capacity across another system.

Q. But there is an existing transmission path available?
MR. BLACKBURN:
That's correct.
Q. To any of the members of the panel, when information is gathered for a Power Requirements Study, how do you obtain information from a large industrial customer about its expansion or contraction plans with respect to its power requirements?
MR. CORE:
It's pretty difficult to get a lot of details on those things. They usually bring to us some concept of an expansion, and we then, through questions, try to obtain those details. They're very guarded in some of these things, especially as you heard Mr. Blackburn report that we attempted to get some of the pricing from the - and this one was a load switching customer. They're very guarded on these things. They will often come to you and say, "We're looking at two or three or four sites, and we want your best shot at this," and they'll do "sort of competitive bidding," if you will, and so we try to get as much information as we can by talking to them, but oftentimes it's very difficult to get that information or a commitment until considerably way, you know, far into the process.
Q. Other than direct discussions with representatives of

the industrial customer, are there third-party sources you can go to, to learn about the internal plans of a large industrial customer?

MR. CORE:

Our member systems occasionally will have some intelligence, but, again, it may be somewhat limited. There can be economic development, perhaps economic development, but, even in those cases, you're sometimes dealing with an entity that has no name. They don't even want their name out there.

Q. Well, I'm talking about existing customers, now. Is there any . . .

MR. CORE:

Oh! Existing customers?

Q. Is there any third-party source of information about large industrial customers' plans other than that large industrial customer?

MR. BLACKBURN:

Bill Blackburn. Most of these customers are very guarded about their expansion plans and are very reluctant to share that market information. They're very competitive industries, and they don't always want their competitors to know what they're doing.

Q. When these large industrial customers do supply you information in connection with a Power Requirements

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Study survey, is that information always proven to be accurate?

MR. BLACKBURN:

Bill, again. No, sir, it is not.

Q. To any member of the panel, under the existing Rate Schedule 7, if an existing customer expands its load by 25 megawatts, let's say Commonwealth Aluminum, which has no contract, expands its load by 25 megawatts, or you have a new large industrial customer decide to locate on a distribution co-op's system with a load of, say, 25 megawatts, would you be required to go to the market to obtain that power? Maybe 25 is too low based upon your current - say, 50 megawatts. Would you be required to go to the market to acquire the resources to serve that customer?

MR. BLACKBURN:

For a block of 50 megawatts, I believe that we would go to the market to serve that customer; that's correct.

Q. When you go to the market to purchase a block of 50 megawatts of power, are you required to enter into a contract for that purchase?

MR. BLACKBURN:

Yes, sir.

Q. Does that contract have a term?

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MR. BLACKBURN:
Yes, it does.
Q. And, if a retail customer did not want to enter into a contract, is it required to enter into a contract under Rate Schedule 7?
MR. BLACKBURN:
I do not believe that it is.
Q. And is Commonwealth Aluminum required to enter into a contract to increase its load?
MR. BLACKBURN:
No, sir.
Q. If a customer that has, under Rate Schedule 7, started taking a load or represents a load that requires you to go to the market and contract for power on the market, if that customer decides to shut down, do you have any recourse against that customer, under Rate Schedule 7, for the costs you incur under your market contract to continue to purchase that power even though the retail customer is gone?
MR. BLACKBURN:
Under our present Rate 7, we do not.
Q. Is that one of the issues you're trying to resolve with Rate Schedule 10?
MR. BLACKBURN:
Yes, it is.

Q. Under Rate Schedule 10, will every contract entered
into by a distribution co-op with a retail customer be
submitted to the Commission for review and approval?
MR. BLACKBURN:
Yes, sir.
Q. Will every contract or changing contract between Big
Rivers and a distribution cooperative to supply the
wholesale power requirements of a new retail load be
submitted to the Commission for approval?
MR. BLACKBURN:
Yes.
Q. Will a long-term contract between Big Rivers and a
power marketer or other power supplier, and, by "long-
term," I mean in excess of a year, entered into to meet
the requirements of a retail customer that elects,
through its distribution cooperative, to purchase under
Rate Schedule 10 also be submitted to the Commission
for its review and approval?
MR. BLACKBURN:
Yes.
MR. MILLER:
Those are the only questions we have, Madam Chair.
CHAIRWOMAN HELTON:
Thank you. Commissioner Holmes?

VICE CHAIRMAN HOLMES:

No.

CHAIRWOMAN HELTON:

Commissioner Gillis?

COMMISSIONER GILLIS:

No.

CHAIRWOMAN HELTON:

Recross?

MR. RAFF:

No, and I might suggest that maybe Mr. Hite just be added to the panel in the event that these questions get beyond his financial area.

MR. MILLER:

Okay.

CHAIRWOMAN HELTON:

Okay.

WITNESS SWORN

The witness, MARK HITE, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. MILLER:

Q. Mr. Hite, did you prepare or have prepared at your directions the data request responses filed with the Commission in this matter which bear your name?

A. Yes, I did.

Q. And are those responses true and correct today as they were when prepared?
A. Yes, they are.
Q. And will you adopt those as your testimony before the Commission here today?
A. Yes, I will.
MR. MILLER:
Mr. Raff?
REPORTER:
What's your first name?
CHAIRWOMAN HELTON:
Mr. Hite, would you give the Court Reporter your address, too?
A. My name is Mark Hite, Vice President of Finance and Administrative Services at Big Rivers, 201 Third Street, Henderson, Kentucky 42419-0024.

CROSS EXAMINATION

BY MR. RAFF:
Q. Good morning, Mr. Hite.
A. Good morning.
Q. If you would refer, please, to the Commission's November 5, 1999, Order, Item 9, please, where you compare the financial impacts on Big Rivers with Rate Schedule 10 being approved versus its being denied and, in that response, you refer to market rates for power

in July, 1999, reaching $7,500 per megawatt; is that correct?
A. That's correct.
Q. Do you know for how long a period of time prices were at that level?
A. I would have to defer that to Bill Blackburn.
MR. BLACKBURN:
Bill Blackburn responding. Either two or three hours.
Q. Okay.

The witness, BILL BLACKBURN, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:
Q. If we assume that summer peak period covers approximately one-third of the year from mid-June to mid-September, is that a reasonable assumption for today's discussion?
A. Bill Blackburn. I believe that it is.
Q. And we further assume that - well, I guess it's not an assumption, but, if that is the period for the peak period, that's approximately 2,200 hours out of the year. Will you accept that, subject to check?
A. Yes, sir.
Q. And, if we further assume that prices had been at the high levels for 1 percent of the time, that would be 22

hours? Would you accept that?

A. Yes, sir.

Q. All right.

The witness, MARK HITE, after having been first duly sworn, testified further as follows:

CROSS EXAMINATION CONTINUED

BY MR. RAFF:

Q. Mr. Hite, do you currently have Big Rivers' preliminary results of operations for December, 1999?

A. No, I do not.

Q. All right.

A. I do have them through November of 1999, though.

Q. Can you tell us how the results for the 11 months of 1999 compared to the forecast results for all of 1999 that were included in what has been known as PSC 2-358, which was that financial model, I believe, incorporated into your restructuring case?

A. Yes. I believe you will see a considerable improvement from what was in PRS 2-38R. I believe the reason for that improvement can be boiled down to three components. The first component is the arbitrage. As you may recall, there was no arbitrage in the Plan of Reorganization prior to 2011, and, through 11 months of 1999, the arbitrage margin or the arbitrage profit is in excess of $9 million. The second reason for the improvement in the Big Rivers finances would be the debt service. You may also recall that we emerged from bankruptcy with more cash than we had anticipated. That has allowed us, along with the arbitrage sales, to generate more interest income and pay early RUS debt which lowers our interest expense in the income statement. Let's see. There is a third element. I believe it was just - I think two of those three elements were in the interest income and the interest expense. So those are the three reasons for the improvement. The new depreciation study which was approved was in PRS 2-38R. I think we ran PRS 2-38R with and without the new depreciation study, with and without the Wilson impairment. So the PRS 2-38R that I am referring to is the one without the Wilson impairment and with the new depreciation study.

Q. In that same volume, response to Item 10, Page 2 of 5, the top of the page shows peak demand forecast as per the 1999 Power Requirements Study and if we could also refer to your response to the Commission staff's request at the November 23 informal conference in Item 1. Do you have that, Mr. Hite?

A. Oh, I'm sorry. I'm sorry. Yes. Yes.

MR. MILLER:

Do you have that, Mark?

A. Item 2?
Q. Item 1.
A. Oh, Item 1. I've got you. I'm sorry.
Q. Could you briefly summarize for us what is included in that Item 1 response to the request that was made at the informal conference?
A. Yes. I just wanted to clarify certain comments that were made at the informal conference regarding load factor for both our rural and our large industrial loads, and the split between demand, kw, billing units between those two customer classifications as well as the energy kwh split between those two classifications of customers. So, as you can see here, for the 12 month period ended October 31, the sum of the monthly peak demands for the large industrial customers was 2.6 million kw, and the sum of the peak monthly demands for the rural customers was 4.2 million kw. So just to make this statement that 61.6 percent of the billing demand is large industrial billing demand, also to clarify the overall load factors for those two classes of customers, for that 12 month period, the large industrial load factor was 81 percent, for the rural loads for that 12 month period 63 percent, for a weighted average load of Big Rivers members of 70 percent for that 12 month period, and then the last

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statement, for clarification purposes, was to break down the energy between those two classes. About 45 percent is large industrial energy, and 55 percent is rural energy. The request made at the Commission specifically was for the 36 months of history billing detail between those two categories of customers and that is the information attached here.

Q. Would it be fair to say, based on that information, that, for the large industrial group, excluding the smelters, that there was a fairly gradual load growth from the beginning of the period which starts November of 1996 through the summer of 1998 when Willamette's expansion increased its load by roughly 25 to 30 megawatts?

A. If you looked at in total, I would agree with your statement, because I'm mindful of our Annual Report which shows that, for the last five years, our large industrial growth in total from an energy perspective was, I believe, an annual compound growth rate of 12 percent. I believe it will be something similar for 1999 when it's compiled. I would assume the same is true for the demand side. So I would agree with your statement.

Q. Would you also agree that the large industrial load excluding the smelters was in the 185 to 190 megawatt range in the last few months before Willamette completed its expansion and has generally been in the 215 to 220 megawatt range since that expansion?

A. I would agree with that.

Q. And I assume that this demand forecast does not include any of the potential load switching customers that have been referred to here this morning.

A. That is true. It does not.

Q. Does it include any known expansion by existing customers or known nonload switching loads coming into the area served by Big Rivers?

A. Other than the expansion that was mentioned by Mr. Blackburn earlier for, I believe it was, Willamette and Kimberly-Clark, generally speaking, I would agree with your statement.

Q. Okay. And there was reference at the informal conference to Kimberly-Clark getting something in the range of 12 megawatts; is that the same . . .

A. I believe it's more like 23 megawatts, but that's subject to verification by Mr. Blackburn.

MR. BLACKBURN:

I would defer that to Dean Stanley, please.

Q. Okay. Do you know when that expansion is anticipated to occur?

MR. BLACKBURN:
Again, Mr. Stanley may have those numbers off the top of his head. A portion of it was currently, and I believe there was a portion in 2008 or 2009, that time period.
Q. Okay. Well, for the year 2000, your 1999 Power Requirements Study is showing 242 megawatts; is that correct?
MR. BLACKBURN:
Yes, sir, that's correct.
Q. And does that reflect nothing but the additions of Kimberly-Clark and Willamette to what had been your approximately 221 megawatt load?
A. Well, there are a number of slight revisions from the load that was in PRS 2-38R, the basis of which was the 1997 Power Requirements Study, but there were adjustments made to that 1997 Power Requirements Study. One adjustment was made during the hearings for Commonwealth, as I recall, but, comparing that adjusted 1997 Power Requirements Study to the 1999 Power Requirements Study, there are a whole host of minor revisions, customer-by-customer, but the majority of the variance between those two Power Requirements Studies is Kimberly-Clark and Willamette.
Q. Okay. Is it correct that your 1997 Power Requirements

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Study forecast reflected approximately 215 to 216 megawatts for the large industrial load during the early years of the forecast period which covered 2000 through 2007?

A. That is correct.

Q. And the 1999 Power Requirements Study starts with 242 megawatts for the large industrial demand beginning in 2000 and then slowly shows some minimal growth through the year 2009?

A. That is correct.

Q. If the strong national economy and Big Rivers' low rates, which have been cited as the primary reasons for changes from the 1997 forecast to the 1999 forecast - can you explain why such modest growth has been forecasted for the next ten years?

A. Well, I'm just going to kind of shoot from the hip here, but it's just a question of what is a forecast. Is it what you truly expect to happen, or is it what is known and determinable? I think, as was said earlier today, for the large industrial element of our forecast, if you will, we have only attempted to incorporate what is truly known and determinable. Whether or not that is going to be an accurate forecast, I think you have to weight that with what has happened, for example, in the last six years, where, as you've indicated, we have had, we have actually experienced, annual compound load growth of about 12 percent for the large industrial class, so somewhere within there, it just becomes somewhat speculative and judgmental.

MR. BLACKBURN:

Bill Blackburn. I would like to add to Mark's answer that the information included in the 1999 PRS is the information that we gathered from the distribution co-ops they had gathered from their customers. It's what the customers are saying. We have experienced a lot of growth on our system, but we can't tell whether these companies have maxed out at these locations or whether their plans are to continue to expand and to grow, and, if they don't share that with us, we are reluctant to include that in the forecast. We obviously don't want to overproject and commit to either a purchased power contract or some type of generation that would be expensive for the system if the growth did not develop.

Q. Again, referring to the response to the November 10 Order in Item 10 as well as that Item 1 response to the request at the informal conference, is it correct that the rural load forecast is based on normal temperatures and/or normal weather conditions?

A. Yes.
Q. The response shows a 475 megawatt load in the year 2000 with annual increases of approximately 15 megawatts in the forecast's early years; is that correct?
A. That's true.
Q. What was the basis for the 475 megawatts in the year 2000?
A. Well, I think, in the 1999 Power Requirements Study, what has been incorporated, which is different from the large industrial sector, is approximately a 3.5 percent annual compound load growth for that class of customer in the early years, and Bill Blackburn . . .
MR. BLACKBURN:
That's correct.
Q. Your actual summer peak for the rural customers was 409 megawatts in 1997, 425 megawatts in 1998, and 466 megawatts in 1999; is that correct?
A. I'm sorry. Would you repeat the question?
Q. Your actual summer peaks for 1997 through '99 for the rural load.
MR. BLACKBURN:
I don't have that with me unless we've answered it in one of the data requests. I don't remember that.
A. I can't recall.
Q. I believe it's in the attachments to your response to

the informal conference.

A. That's the sum of the monthly peaks. I could go through there and see which months that the rural load peaked at.

Q. July for '97. I guess what I want to ask you is how close these actual loads were to the forecasted loads for each of those years.

A. Okay. I see, in July of 1997, the peak rural demand was 409.524 megawatts.

Q. July, '98?

A. In July of '98, it was 425.035 megawatts. In July of '99, it was 469.394 megawatts for July of '99 for the rural load. So that would compare to the 2000 Power Requirements Study of 475 megawatts. So 469 megawatts is where we were in '99 and the 2000, from the 1999 Power Requirements Study, is 475 megawatts. So you've got a six megawatt - Mr. Core makes a good point. 1999, in July, as you recall from, I believe, about July 23 through July 29, we had extreme weather conditions and that's probably why the 469 megawatts is what it is.

Q. Do you know how close the actual loads were for '97, '98, and '99 compared to what had been forecasted for each of those years?

A. Well, I believe that, prior to this 2000 Power

Requirements Study, when we were using this adjusted 1997 Power Requirements Study, it had annual compound rural load growth of 2.67 percent in it, and, in fact, history will show, for the last five to six years, that the rural annual compound load growth has been in excess of 4 percent.

Q. So your actual would have exceeded your forecast?

A. Yes.

Q. So do you believe that the 1999 peak of 469 megawatts was significantly influenced by the hot weather conditions in July?

A. Yes.

Q. The next highest peak demand experienced in 1999 was 433 megawatts in August of '99. Do you know if that represents a more representative level of normal summer peak rather than the 469 megawatts?

MR. BLACKBURN:

Bill Blackburn responding. I'm sorry. The 469 megawatts was the July peak. The next highest peak very well could have happened in July outside of the extreme weather that we're referring to. That data would be buried behind that number. We would have to analyze that.

Q. In a somewhat related but unrelated area, can you tell us the current status of your efforts to negotiate a

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sale/leaseback that was approved by the Commission a couple months ago in Case 99-450?

MR. MILLER:

If it's appropriate, I'll respond to that as counsel for Big Rivers. The sale/leaseback did not close at the end of 1999 as was anticipated. There are a number of issues that the equity participants and AMBAC have been trying to resolve. Our latest understanding is that, over the weekend, there was great progress made toward that end, and we're encouraged that the period of torpor that we suffered is now over and that the sale/leaseback is going to proceed. The way we expect it to proceed, although we don't have the exact time frame yet, is that the Participation Agreement, which was identified in the term sheet filed back in November, will be signed and will have attached to it the substantially completed form of documents for a sale/leaseback transaction. There are going to be a number of sale/leaseback transactions under the one umbrella. The documents attached to the Participation Agreement will be the form of document that will be used for all of them. We expect that that Participation Agreement will be filed immediately with the Commission with a description of the changes that have occurred in the sale/leaseback transaction since the filing in November, since the Commission's Order on November 24. We don't anticipate that the changes will be dramatic except that RUS, in the final analysis, did not agree to the interest rate reduction we had anticipated in November. We'll set out those changes and we'll, unfortunately, ask the Commission for a quick turnaround again because of the desire of Big Rivers to get the sale/leaseback transaction closed before the end of the month of February, 2000. There are financial implications to not closing by the end of February. The benefits to Big Rivers have changed because we didn't close in 1991 just as was predicted. There have been a lot of things that have changed that go into the calculation of the actual net benefit at closing that Big Rivers receives. All that will be detailed in the filing that we make. We don't really think that the filing that will be made will be extensive except that it will include a copy or however many copies you think appropriate of the Participation Agreement. The changes should not be significant beyond the changes in the benefit that naturally occur by reason of not closing in 1999 and that specifically occur by reason of RUS not agreeing to the interest rate reduction that Big Rivers had anticipated.

MR. RAFF:

And you anticipate making that filing, I guess, no later than around the 24th or 25th of . . .

MR. MILLER:

We hope the filing will be made much sooner than that because, in order for the 33 days to run to make the Commission's Order final and nonappeal-able, the Commission's Order would have to be entered, I think, no later than the 27th of January, and, I mean, even though we don't think there's going to be much of a change, nonetheless we want to give the maximum amount of time for the Commission to consider those changes, and, of course, February, even though I think this is a leap year, it's a short month.

MR. RAFF:

And your intent is to close by the 29th of February?

MR. MILLER:

Yes, the intention would be to close in the month of February, and we'll be in a little different situation than we were in, in November. In November, the documents had not even been negotiated. Big Rivers had told the participants in the sale/leaseback transaction that it will not file for Commission approval of any of the changes until we have a Participation Agreement, which means we will have the documents that will be used in the closing, the form of document, and we won't have to go through this again.

MR. RAFF:

Do you have an estimate of the total value to Big Rivers of this transaction?

MR. MILLER:

The latest estimate, and I would add, for what that's worth at this point, is a $65 million net benefit. That's a net cash benefit to Big Rivers at the closing. Now, RUS has imposed some requirements which will be - I mean, we'll give you a copy of the RUS letter when we file. It would require Big Rivers to make sure that RUS gets a total net benefit. In other words, a principle reduction of $70 million. So there would be a $5 million differential that Big Rivers would have to make up. Big Rivers has, in fact, already prepaid that much to RUS just as a way of investing some of the money that it has accumulated and that money is subject to clawback under the arrangement with RUS that was entered into at the closing of the bankruptcy Plan of Reorganization. So Big Rivers would just basically have to give up the right to clawback those amounts in order to meet the RUS requirements.

MR. CORE:

One of the unknowns, of course, is the interest rates that will be in effect at the closing which have an impact upon the final net benefit. Right now interest rates are going in the right direction.

MR. MILLER:

The estimate is that interest rates will continue to go in the right direction and everyone would like to get the deal closed before the Fed meets in February because, if the Fed does nothing in February, that could cause interest rates to drop somewhat from where they are in anticipation of the meeting of the Fed.

MR. RAFF:

All right. Thank you all very much. I have no further questions.

CHAIRWOMAN HELTON:

Mr. Miller, I assume you had no redirect after we added Mr. Hite to the panel.

MR. MILLER:

No.

CHAIRWOMAN HELTON:

Okay.

MR. MILLER:

I would move, with respect to the confidentiality matter and would include in that this motion I'm about to make . . . (confidential)

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CHAIRWOMAN HELTON:

Any other matters, Mr. Miller?

MR. MILLER:

No. Does the Commission desire a brief on this?

CHAIRWOMAN HELTON:

I was going to suggest to you that, unless you felt the need, I think we have extensively explored the filing this morning, and, since there are no intervenors, I don't see the need for a brief unless you prefer to do so.

MR. MILLER:

I think that's fine.

CHAIRWOMAN HELTON:

Okay.

MR. MILLER:

There was a suggestion made, during the course of the cross examination by Commission staff, that some additional language to the tariff might be helpful and resolve a Commission problem. Is that something that we could work on while we are here?

MR. RAFF:

I don't think that would be appropriate at this time.

MR. MILLER:

Okay.

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CHAIRWOMAN HELTON:

A time frame?

MR. RAFF:

If you want to submit something, I mean, you could do that, but I . . .

CHAIRWOMAN HELTON:

It might expedite it, if you know the wording you would like, to submit it while you're here. It just would expedite things but to discuss it with staff before you actually submit it might not be appropriate.

MR. MILLER:

I mean, we could do it right here in front of God and everybody.

MR. RAFF:

Well, I think you are presuming that the Commission makes a decision to require such language and that decision has not yet been made. So . . .

MR. MILLER:

No. I agree. I agree with that, but the very fact that the question was asked indicates that, at least under one scenario, you're considering the language would be relevant. I guess the alternative would be that, if the Commission decides to approve a tariff, you would give the parameters within which you would want language to be submitted and the tariff refiled . . .

MR. RAFF:

Certainly.

MR. MILLER:

. . . in compliance with the Order. So maybe that's the way to approach it.

CHAIRWOMAN HELTON:

I don't believe there were any outstanding requests asked for during the hearing.

MR. RAFF:

There were not, Your Honor.

CHAIRWOMAN HELTON:

So there being no further matters, the hearing is adjourned.

MR. MILLER:

We did not bring with us the evidence of publication of notice of the hearing, but we'll submit that later.

FURTHER THE WITNESSES SAITH NOT

HEARING ADJOURNED

OFF THE RECORD

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STATE OF KENTUCKY
COUNTY OF FRANKLIN

I, Connie Sewell, the undersigned Notary Public, in and for the State of Kentucky at Large, do hereby certify the foregoing transcript is a complete and accurate transcript, to the best of my ability, of the hearing taken down by me in this matter, as styled on the first page of this transcript; that said hearing was first taken down by me in shorthand and mechanically recorded and later transcribed under my supervision; that the witnesses were first duly sworn before testifying.

My commission will expire November 19, 2001.

Given under my hand at Frankfort, Kentucky, this the 23rd day of January, 2000.

Connie Sewell

Connie Sewell, Notary Public
State of Kentucky at Large
1705 South Benson Road
Frankfort, Kentucky 40601
Phone: (502) 875-4272

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

The Tariff Filing of Big Rivers Electric	)	
Corporation to Revise the Large Industrial	)	Case No. 99-360
Customer Rate Schedule	)	

BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
INITIAL REQUEST FOR INFORMATION OF
NOVEMBER 5, 1999

Items 1-14

November 15, 1999

1

BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999

CASE NO. 99-360

Item 1) Has Big Rivers notified all existing large industrial customers who could be affected by the proposed Rate Schedule 10? If yes, how was notification accomplished? If no, explain why these customers were not notified.

Response) Big Rivers did not directly notify existing large industrial retail customers of the proposed Rate Schedule 10. Big Rivers did notify its three member distribution cooperative consumers of the proposed rate schedule, as is shown in the August 26, 1999, filing by Big Rivers. Big Rivers provided its two distribution cooperative members who have large industrial customers (Kenergy and Jackson Purchase Energy) with sufficient copies of the filing to send a copy to each of those large industrial customers. Big Rivers is informed that Jackson Purchase Energy sent a copy of the Big Rivers' filing to its only large industrial customer, Shell Oil, on September 9, 1999, and that Kenergy mailed a copy of the Big Rivers' filing to each of its large industrial customers (list attached) on August 26, 1999. Big Rivers is further informed that a copy of the October 13, 1999, revision to the Big Rivers' filing was also sent to those retail large industrial customers by the respective distribution cooperative supplier.

Witness) David Spainhoward

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Alcoa-Hawesville Works
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Alan Boswell
Webster County Coal
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Kevin Atwood
Valley Grain Products
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2

BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999

CASE NO. 99-360

Item 2) Refer to Item 3(a) of Big Rivers' response to the Commission's October 15, 1999, Order. Big Rivers indicates that its "preference is to provide for new and expanded loads with a special contract" and that "Big Rivers does not believe that a one-size-fits-all approach would work well for new load served under the Expansion Tariff." Describe how the new load expected to be served under the Expansion Tariff will differ from Big Rivers' existing load that is served under a "one-size-fits-all" power supply arrangement.

Response) The fundamental difference with load served under the Expansion Tariff is that it will, by definition, be served under third-party power arrangements. Those third-party power supply arrangements will necessarily reflect the specific prices, terms, and conditions of each unique transaction. As yet, Big Rivers does not know the size, duration, firmness, or other characteristics of load to be served under the Expansion Tariff. Hence, a "one-size-fits-all" third-party arrangement is not considered reasonable or practical for yet to be determined loads. Nonetheless, to the extent practicable, Big Rivers intends to aggregate loads under the Expansion Tariff. The pricing of existing load is similar because all existing load customers participated in Big Rivers' bankruptcy resolution.

Witness) Jack Gaines

3

BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999

CASE NO. 99-360

Item 3) Refer to Items 3(c) and (d) of Big Rivers' response to the Commission's October 15, 1999, Order. Provide a detailed listing that identifies and describes the strategies Big Rivers is presently looking into that may result in eliminating the need to purchase long-term power and possibly medium-term power.

Response) Demand-Side Management – Big Rivers is in the process of preparing a tariff to file with this Commission, which would allow Big Rivers and its distribution members to offer to the large industrial customers the opportunity to voluntarily curtail power. This tariff, among other things, would address the notice period prior to curtailment, quantity to be curtailed, frequency, duration, and pricing for curtailments.

Big Rivers also plans to review the possibility of extending this program to commercial customers.

Electricity Futures and Options – Electricity futures and options contracts are a means by which Big Rivers could manage the risk of being exposed in the hourly markets. Buying a call option would limit the risk of rising prices by locking in a price for a specified period of time.

Co-Generation – As the Commission knows, Willamette Industries is seriously considering the installation of a 62-MW power generation unit on its site. It is possible that this unit will be available for operation during the spring of 2001. If Big Rivers is able to negotiate special contracts with cogenerators, and Big Rivers does not have to reserve all of the power backing up the cogeneration, Big Rivers' demand requirements could be reduced.

Witness) C. William Blackburn

4

BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999

CASE NO. 99-360

Item 4) Refer to Items 2 and 4 of Big Rivers' response to the Commission's October 15, 1999, Order. Big Rivers' draft 1999 Power Requirements Study in Item 2 shows excess base power of 45 MW forecast for the year 2000. Item 4 indicates that Big Rivers has immediate concerns about new large loads coming on its system before 2003 and that recent requests to serve potential new loads have asked "for load service to begin mid to late 2000." Is Big Rivers facing a situation where it needs approval of the proposed Expansion Tariff, or some power supply arrangement, before it can make commitments to serve new loads that might require service by mid to late 2000?

Response) Yes. Big Rivers does not have a tariff in place that would support serving a new load where the needs of the load exceed the power available under our present PPA and SEPA agreements. Purchasing additional power at rates higher than those in the PPA requires that the Commission approve this expansion tariff, some other tariff or special contract that would permit Big Rivers to recover its additional cost for sales based on those purchases.

As indicated in Big Rivers' response to Item 4 of the Commission's Initial Request for Information dated October 15, 1999, Big Rivers and one of its distribution members are having serious discussions with a potential customer whose load is approximately 125 MW. If the potential customer were to require service, a contract would likely be prepared between the parties and submitted to this Commission for approval. This new load would require Big Rivers to secure an additional power supply arrangement.

Witness) C. William Blackburn

5

BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999

CASE NO. 99-360

Item 5) Refer to Item 5 of Big Rivers' response to the Commission's October 15, 1999, Order, the third paragraph, which refers to establishing "a mechanism to obtain voluntary curtailment of load from large industrial customers of Big Rivers' members when the electricity market is extremely high." Explain why, at this point, this possible mechanism is only an alternative that Big Rivers is considering rather than a tariff proposal before the Commission for its review.

Response) Big Rivers intends to file, prior to the summer of 2000, a tariff with this Commission, which will allow for voluntary curtailments of load from large industrial customers. We referred to this tariff filing as "a mechanism" only because we are still in the process of developing the proposed tariff.

Witness) C. William Blackburn

6

BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999

CASE NO. 99-360

Item 6) Refer to Item 7 of Big Rivers' response to the Commission's October 15, 1999, Order. The response references Big Rivers' contract with Reliant Energy ("Reliant") under which most of Big Rivers' power requirements outside of the agreements with Louisville Gas and Electric Energy Marketing, Inc. ("LEM") and the Southeastern Power Administration ("SEPA") are conducted. Provide the following information regarding the contract with Reliant:

a. When the contract was executed;

b. The term of the contract;

c. Whether Reliant was chosen as Big Rivers' power marketer as the result of a competitive bidding process;

d. The Request for Proposals issued by Big Rivers which resulted in the selection of Reliant as its power marketer;

e. The contract between Big Rivers and Reliant.

Response) a. The effective date of the contract is January 1, 1999.

b. The contract is a two-year agreement and will expire on December 31, 2000. Purchases and sales under the contract, however, have been short-term with durations of less than one year.

c. Big Rivers chose Reliant as a result of a competitive bidding process.

d. The Request for Proposals is attached.

e. Big Rivers is required by contract with Reliant to request confidential treatment for this information. A copy of the Reliant contract, with the confidential portion redacted, is attached. A complete copy of the Reliant contract is attached to the Petition for Confidential Treatment filed with these responses.

Witness) C. William Blackburn

BIG RIVERS ELECTRIC CORPORATION

November 3, 1998

Mr. Jack L. Farley, Jr.
Vice President of Business Development
Houston Industries Incorporated
P. O. Box 4567
Houston, Texas 77210-4567

RE: Request for Proposals for Wholesale Electric Power Brokering Capabilities

Dear Mr. Farley:

Big Rivers Electric Corporation is currently soliciting written proposals for assistance in the marketing of wholesale electric power and electric power arbitrage (optimize Big Rivers' current Power Purchase Agreement by either buying or selling energy when market conditions are favorable) expertise.

Big Rivers is seeking a marketer to sell available capacity and energy and purchase energy when economically advantageous. The bidder will provide to Big Rivers, marketing services, including but not limited to scheduling transactions, providing information concerning future price curves, and marketing strategies to maximize arbitrage.

The enclosed Table 1 contains the projected MW and MWh available by month for 1999. These projections of energy are not guaranteed. Big Rivers will make available to its Marketer all energy in excess of Big Rivers' native load requirements. Big Rivers currently has three long-term firm off-system sale contracts, which will not be a part of the marketing service. Big Rivers may wish to lock in a block of power for three months or longer and reserves the right to reject the Marketers bid and may solicit proposals from others under the same conditions as it was offered to the Marketer.

Big Rivers' preference is for the marketer to take title to the power at Big Rivers' plant generation sites and schedule all transmission to the delivery point. Please provide your fees and/or incentive base requirements for the categories of pre-scheduled sale and purchase transactions, as well as hourly sale and purchase transactions.

Bidders may propose either a one-year or two-year contract term with a one-year renewal option. The contract term will begin January 1, 1999.

Post Office Box 24, Henderson, KY 42420 Telephone 502-827-2561

If you are interested in submitting a proposal, please forward your proposal to Big Rivers by 4:00 p.m. (cpt) on November 10, 1998. Proposals should be submitted to:

C. William Blackburn
Vice President of Power Supply
Big Rivers Electric Corporation
201 Third Street
P. O. Box 24
Henderson, Kentucky 42419-0024

Facsimile and e-mail proposals will be accepted at 502-827-2101 and bblackburn@bigrivers.com, respectively until 4:00 p.m. (cpt) on November 10, 1998 and must be followed up with original documents by mail.

Big Rivers reserves the right to reject any and all bids, for any reason whatsoever, and to enter into separate negotiations with any party for marketing services. Expenses associated with preparation of a proposal and negotiating an agreement (if applicable) that are incurred by the party responding to this request shall be the sole responsibility of the responding party.

If you have any question regarding this solicitation, please do not hesitate to contact me.

Sincerely,

BIG RIVERS ELECTRIC CORPORATION

C William Blackburn

C. William Blackburn
Vice President of Power Supply

Enclosure

cc: Michael Core
Bill Yeary

BIG RIVERS ELECTRIC CORPORATION

TABLE 1

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Minimum Demand Available for Sales (MW)	140	131	186	266	174	127	93	120	177	259	227	130
Maximum Energy Available for Sales (MWh)	142,339	107,818	147,675	157,726	160,250	160,096	141,203	150,188	173,836	161,221	133,998	117,581

POWER PURCHASE AND SALE AGREEMENT

BY AND BETWEEN

RELIANT ENERGY SERVICES, INC.

AND

BIG RIVERS ELECTRIC CORPORATION

Dated January 1, 1999

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THE REMAINING 27 PAGES OF THIS AGREEMENT ARE REDACTED.

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BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
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CASE NO. 99-360

Item 7) Big Rivers has stated that its proposed "adder" for power purchases under Rate Schedule 10 was $.94 per kW/month. In Item 6 of the response to the Commission's October 15, 1999, Order, Big Rivers provided a narrative description of how part of the "adder" is determined and the supporting workpapers for the remaining $.38 per kW/month. Provide the calculations showing the determination of the entire $.94 kW/month "adder."

Response) Please see the attached copy of Big Rivers' October 13, 1999, letter to the Commission stating the corrected proposed "adder" is $.38 per kW/month. Accordingly, Big Rivers' response to Item 6 of the Commission's October 15, 1999, Order addresses the entire "adder." The calculations showing the determination of the $.94 kW/month "adder" is attached.

Witness) Mark A. Hite

LARGE INDUSTRIAL EXPANSION RATE – PRO FORMA

	Without New Depreciation Study	With New Depreciation Study
Power Supply Cost	$735,697.88	$734,257.04
Billing Demand – kW	3,557,576	3,557,576
	$.207	$.206
Customer Service Cost	$1,947,690.14	$1,943,907.38
Billing Demand – kW	2,641,266	2,641,266
	$.737	$.736
Rate per kW Month Billing Demand*	$.944	$.942

*$.94/kW-month “Adder” (with or without the new Depreciation Study).

Big Rivers Electric Corporation

201 Third Street
P.O. Box 24
Henderson, KY 42419-0024
502-827-2561
www.bigrivers.com

October 13, 1999

Ms. Helen Helton
Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, KY 40602

RE: Tariff Filing of Big Rivers to revise the Large Industrial Customer Rate Schedule, Case No. 99-360

Dear Ms. Helton:

On August 26, 1999, Big Rivers Electric Corporation mailed for filing its request to change its tariffs applicable to large industrial customers. The Commission assigned Case No. 99-360 to that filing.

Section 10 (f) (4) of Big Rivers' August 26, 1999, request to revise the large industrial customer rate schedule contained a Big Rivers' adder of \$.94 per kW/month. As the cover letter stated, this "adder" is to recover Big Rivers' power supply and customer service costs, including a TIER of 1.10. The \$.94 per kW/month computation inadvertently failed to include the rural billing demand kW, and is, therefore, incorrect. The "adder" should be \$.38 per kW/month. I have attached a revised original sheet number 65 to reflect the \$.38. Four additional copies of this letter and the revised rate schedule are also enclosed. A copy of this revision has been mailed to each of Big Rivers' member cooperatives and their local counsel.

I apologize for any inconvenience this mistake has caused. Please feel free to phone me if you have any questions.

Sincerely,

BIG RIVERS ELECTRIC CORPORATION

David Spainhoward

David A. Spainhoward
Vice President
Contract Administration and Regulatory Affairs

Enclosures

c: James Miller, Esq.
Mr. Dean Stanley
Elizabeth Blackford, Esq.
David Denton, Esq.
Frank N. King, Esq.
Mr. Burns Mercer
Mr. Kelly Nuckols

RULES AND REGULATIONS

schedule. Big Rivers shall supply the following six ancillary services as defined and set forth in Big Rivers' OATT: (1) Scheduling, System Control and Dispatch; (2) Reactive Supply and Voltage Control from Generation Sources Services; (3) Regulation and Frequency Response Service; (4) Energy Imbalance Service; (5) Operating Reserve - Spinning Reserve Service; and (6) Operating Reserve - Supplemental Reserve Service. Generation-based ancillary services required to serve customers may, at Big Rivers' option, be purchased separately from Third-Party Suppliers other than LEM, in which case the actual costs of such ancillary services shall be passed through to the respective Member Cooperative. Alternatively, where Big Rivers supplies such ancillary services from its own resources (including additional purchases from LEM), such services will be provided under Big Rivers' tariff rates for such services as contained in Big Rivers' OATT.

(4) Big Rivers Adder

In addition to the charges contained in Items 10(f)(1), (2) and (3), Big Rivers shall charge $.38 per kW/month for each kW billed to the Member Cooperative under this tariff for resale by the Member Cooperative to the qualifying customer.

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Item 8) Concerning the 5 MW load level incorporated in the proposed Rate Schedule 10:

a. Explain how Big Rivers determined that the 5 MW load was the appropriate "threshold" for new or expanded loads.

b. Did Big Rivers intend for the 5 MW load threshold to apply each year to an industrial customer or was this to apply over a series of years? Explain the response.

c. Assume for illustrative purposes that Rate Schedule 10 is approved as proposed. Customer A increases its load in year 1 by 3 MW and increases it again in year 4 by 3 MW. Would 1 MW of Customer A's load be served under Rate Schedule 10 in the fourth year? Explain the response.

Response) a. Big Rivers sought to identify a load threshold for applicability of The Expansion Tariff based on a variety of considerations including:

1. The load threshold should be readily measurable, and reflective of actual expansion rather than normal fluctuations in load.

2. The load threshold should provide adequate room for normal load growth.

3. The load threshold should be sufficiently high so as to present manageable load levels for seeking third party suppliers.

4. The load threshold should provide a degree of flexibility to the member cooperatives for new loads, which would normally be served from the rural distribution system.

5. 5 MWs is a level that is likely to require a dedicated transmission substation.

6. 5 MW was selected for ease of administration.

b. The 5 MW load threshold would apply over a series of years in that the threshold would be reached after the customer's cumulative load increases resulted in a load that is at least 5 MW greater than the Base Year Load.

c. No; 6 MWs would be the Expansion Demand.

Assume	4 MW	Base Year
Add	3 MW	in Year 1
Add	3 MW	in Year 4
Total	10 MW	

10 MW – 4 MW = 6 MW

Witness) Jack Gaines

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Item 9) Provide an analysis of the impact on Big Rivers' financial condition assuming Rate Schedule 10 is approved as proposed versus Rate Schedule 10 being denied in total. Explain any assumptions used in the analysis.

Response) Quantifying the financial impact (upon Big Rivers) resulting from load growth in excess of that shown in PSC2-38R is dependent upon the "market" power cost required to meet a portion of such load (during Big Rivers' peak periods), and is speculative at this time due to uncertainties surrounding such new load such as timing, load, price, etc. Proposed Rate Schedule 10 is simply a means of preparing for and minimizing the potentially detrimental financial impact of such an occurrence upon Big Rivers and its members' existing customer loads. Approval of the proposed Rate Schedule 10 at this time is necessary to better enable Big Rivers to negotiate with such potential new loads.

The attached schedule illustrates the potentially detrimental financial impact a 5 MW load could have upon Big Rivers should proposed Rate Schedule 10 be denied. It assumes that 10 percent or 5 percent of such loads' requirements must be met with "market" purchases (during Big Rivers' peak periods). In this illustration, should "market" power cost more than $128.772/MWh for the 10 percent or more than $238.628/MWh for the 5 percent, there is a detrimental financial impact on Big Rivers versus proposed Rate Schedule 10 being approved. As shown for the 10 percent and 5 percent scenarios, if "market" cost was only 30 percent higher than the breakeven cost, Big Rivers would suffer a $137,818 loss and $127,696 loss versus proposed Rate Schedule 10 being approved. As the Commission is aware, there were purchases during July 1999 in the market for as much as $7,500/MWh. At this rate, only 50 MWhs (5 MW for only 9 hours) begins to adversely impact Big Rivers.

Witness) Mark A. Hite

RESPONSE TO THE COMMISSION'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999
CASE NO. 99-360

	No Market	Break-Even Market	30% Higher Market	Break-Even Market	30% Higher Market
Assumptions:					
Load - MW	5	5	5	5	5
Load Factor	80%	80%	80%	80%	80%
Available Under LEM PPA	**100%**	**90%**	**90%**	**95%**	**95%**
Market Power Purchases	**0%**	**10%**	**10%**	**5%**	**5%**
Loss Factor	1.78%	1.78%	1.78%	1.78%	1.78%
Tariff Demand Revenue - $/kW	10.150	10.150	10.150	10.150	10.150
Tariff Energy Revenue - $/MWh	13.715	13.715	13.715	13.715	13.715
LEM PPA - $/mWh	18.917	18.917	18.917	18.917	18.917
Market Price - $/mWh	**0.000**	**128.772**	**167.404**	**238.628**	**310.216**
Adder - $/kW/month	0.380	0.380	0.380	0.380	0.380
Financial Impact:					
Proposed Rate Schedule 10 Approved					
Sales Margin (Adder)	$22,800	$22,800	$22,800	$22,800	$22,800
Proposed Rate Schedule 10 Denied					
Demand Revenue	$609,000	$609,000	$609,000	$609,000	$609,000
Energy Revenue	$480,574	$480,574	$480,574	$480,574	$480,574
	$1,089,574	$1,089,574	$1,089,574	$1,089,574	$1,089,574
LEM Power Supply Cost	$674,864	$607,378	$607,378	$641,121	$641,121
Market Power Supply Cost	**$0**	**$459,395**	**$597,214**	**$425,653**	**$553,349**
	$674,864	$1,066,773	$1,204,592	$1,066,774	$1,194,470
Sales Margin	$414,709	$22,800	($115,018)	$22,800	($104,896)
Financial Impact	**$391,909**	**$0**	**($137,818)**	**($0)**	**($127,696)**

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BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999

CASE NO. 99-360

Item 10) For each customer class listed below, provide a comparison by year of the customer class loads as shown in the PSC2-38R financial model and the currently expected loads. Explain in detail the reasons for any changes between these forecasted loads.

a. Large industrial. If specific industrial customers are the primary reason for any annual change, identify those customers.

b. Rural.

c. Other sales.

Response) a. and b. A comparison by year of the Large Industrial and Rural Customer Classes is attached showing the 1997 Power Requirements Study (adjusted PRS) versus the 1999 Power Requirements Study. The 1999 Power Requirements Study data has not yet been incorporated into the financial model. While Big Rivers expects the 1999 PRS loads to be reasonably accurate, economic development activities and market environment will likely alter the forecast. Unpredictable load is impossible to forecast. For example, the "Four Star Industrial Park" is expected to lure industry into the area but the extent or type of industry is unknown at this time. The Schedule attached to Big Rivers' response to the Commission's initial data request for information Item 2 was incorrect. The corrected response to Item 2 is attached as page 5 of 5.

c. "Other Sales" are modeled in PSC2-38R beginning in 2011and no "Other Sales" have been forecasted in the 1999 PRS. While "Other Sales" may change in the future, none were projected prior to 2011, PSC2-38R.

Witness) Mark Hite

	2000	2001	2002	2003	2004	2005	2006	2007
1999 PRS								
Peak Demand MW								
Rural	475	490	504	520	534	550	566	579
Large Industrial	242	245	247	247	247	247	248	248
	717	735	751	767	781	797	814	827
Billing Demand kW								
Rural	4,632,427	4,772,582	4,909,320	5,065,915	5,206,026	5,359,498	5,515,999	5,644,282
Large Industrial	2,906,736	2,942,736	2,966,736	2,966,736	2,969,136	2,969,136	2,981,136	2,981,136
	7,539,163	7,715,318	7,876,056	8,032,651	8,175,162	8,328,634	8,497,135	8,625,418
1997 PRS - Adjusted (PSC2-38R)								
Peak Demand MW								
Rural	465	487	499	510	523	535	548	560
Large Industrial	216	217	215	215	215	215	215	215
	681	704	714	725	738	750	763	775
Billing Demand kW								
Rural	4,459,657	4,626,408	4,752,212	4,881,257	5,015,149	5,153,202	5,295,586	5,434,494
Large Industrial	2,654,900	2,686,400	2,660,000	2,660,000	2,660,000	2,660,000	2,660,000	2,660,000
	7,114,557	7,312,808	7,412,212	7,541,257	7,675,149	7,813,202	7,955,586	8,094,494
Difference								
Peak Demand MW								
Rural	10	3	5	10	11	15	18	19
Large Industrial	26	28	32	32	32	32	33	33
	36	31	37	42	43	47	51	52
Billing Demand kW								
Rural	172,770	146,174	157,108	184,658	190,877	206,296	220,413	209,788
Large Industrial	251,836	256,336	306,736	306,736	309,136	309,136	321,136	321,136
	424,606	402,510	463,844	491,394	500,013	515,432	541,549	530,924

	2008	2009	2010	2011	2012	2013	2014	2015
1999 PRS								
Peak Demand MW								
Rural	594	612	628	644	661	678	694	713
Large Industrial	248	250	265	265	265	271	274	272
	842	862	893	909	926	949	968	985
Billing Demand kW								
Rural	5,800,015	5,973,392	6,129,569	6,291,413	6,459,034	6,624,999	6,786,269	6,966,024
Large Industrial	2,981,136	3,005,136	3,185,136	3,185,136	3,185,136	3,257,136	3,257,136	3,259,536
	8,781,151	8,978,528	9,314,705	9,476,549	9,644,170	9,882,135	10,043,405	10,225,560
1997 PRS - Adjusted (PSC2-38R)								
Peak Demand MW								
Rural	573	587	600	614	628	643	657	672
Large Industrial	230	230	230	230	230	241	241	241
	803	817	830	844	858	884	898	913
Billing Demand kW								
Rural	5,577,252	5,724,033	5,874,990	6,030,312	6,184,098	6,341,454	6,502,792	6,668,344
Large Industrial	2,840,000	2,840,000	2,840,000	2,840,000	2,840,000	2,972,000	2,972,000	2,972,000
	8,417,252	8,564,033	8,714,990	8,870,312	9,024,098	9,313,454	9,474,792	9,640,344
Difference								
Peak Demand MW								
Rural	21	25	28	30	33	35	37	41
Large Industrial	18	20	35	35	35	30	33	31
	39	45	63	65	68	65	70	72
Billing Demand kW								
Rural	222,763	249,359	254,579	261,101	274,936	283,545	283,477	297,680
Large Industrial	141,136	165,136	345,136	345,136	345,136	285,136	285,136	287,536
	363,899	414,495	599,715	606,237	620,072	568,681	568,613	585,216

	2016	2017	2018	2019	2020	2021	2022	2023
1999 PRS								
Peak Demand MW								
Rural	729	747	765	784	803	822	842	862
Large Industrial	272	272	278	278	278	278	278	278
	1,001	1,019	1,043	1,062	1,081	1,100	1,120	1,140
Billing Demand kW								
Rural	7,130,378	7,304,340	7,481,060	7,662,141	7,847,692	8,037,833	8,232,675	8,432,331
Large Industrial	3,259,536	3,259,536	3,331,536	3,331,536	3,331,536	3,331,536	3,331,536	3,331,536
	10,389,914	10,563,876	10,812,596	10,993,677	11,179,228	11,369,369	11,564,211	11,763,867
1997 PRS - Adjusted (PSC2-38R)								
Peak Demand MW								
Rural	689	707	725	744	763	783	803	824
Large Industrial	241	241	241	241	241	241	241	241
	930	948	966	985	1,004	1,024	1,044	1,065
Billing Demand kW								
Rural	6,838,299	7,012,728	7,191,763	7,375,517	7,564,129	7,757,719	7,956,780	8,160,949
Large Industrial	2,972,000	2,972,000	2,972,000	2,972,000	2,972,000	2,972,000	2,972,000	2,972,000
	9,810,299	9,984,728	10,163,763	10,347,517	10,536,129	10,729,719	10,928,780	11,132,949
Difference								
Peak Demand MW								
Rural	40	40	40	40	40	39	39	38
Large Industrial	31	31	37	37	37	37	37	37
	71	71	77	77	77	76	76	75
Billing Demand kW								
Rural	292,079	291,612	289,297	286,624	283,563	280,114	275,895	271,382
Large Industrial	287,536	287,536	359,536	359,536	359,536	359,536	359,536	359,536
	579,615	579,148	648,833	646,160	643,099	639,650	635,431	630,918

Big Rivers Elecric Corporation

RESPONSE TO THE COMMISSIONS'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999

1999 PRS

	Capacity	Rural	Industrial	Total	Excess
2000	750	475	242	717	33
2001	775	490	245	735	40
2002	775	504	247	751	24
2003	775	520	247	767	8
2004	775	534	247	781	-6
2005	775	550	247	797	-22
2006	775	566	248	814	-39
2007	775	579	248	827	-52
2008	775	594	248	842	-67
2009	775	612	250	862	-87
2010	775	628	265	893	-118
2011	895	644	265	909	-14
2012	978	661	265	926	52
2013	978	678	271	949	29
2014	978	694	274	968	10
2015	978	713	272	985	-7

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BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999

CASE NO. 99-360

Item 11) The proposed Rate Schedule 10 refers to large industrial customers with Qualifying Facilities ("QF").

a. How many of Big Rivers' current large industrial customers have QFs? Provide a list of those customers.

b. How many of Big Rivers' current large industrial customers have the potential to develop QFs on their sites? Provide a list of those customers.

c. Based on the response to the Commission's October 15, 1999, Order, Item 4, indicate how many of those possible customers inquiring about service have QF potential.

Response) a. None.

b. Willamette Industries has expressed interest in developing a QF on its property. Big Rivers has not surveyed its remaining customers to determine which ones might have the ability to develop QFs on their sites. However, the C&I representatives have visited with the largest 25 distribution customers and during these visits the representatives have not been made aware of any desire on the part of the customers to develop QFs.

c. The one that has QF potential is the 125 MW load.

Witness) C. William Blackburn

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BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999

CASE NO. 99-360

Item 12) Since the beginning of the purchased power agreement ("PPA") with LEM, has Big Rivers signed any contractual agreement that resulted in the sale of Base Power or SEPA power to a party other than one of Big Rivers' three member distribution cooperatives? If yes, provide the full details of each agreement.

Response) Since the beginning of the Purchase Power Agreement ("PPA") with LEM, Big Rivers has only sold its SEPA power to the three member distribution cooperatives.

Base power from the PPA with LEM has been resold to NP Energy, Inc. ("NPE"), Reliant Energy Services, Inc. ("Reliant"), and Hoosier Energy Rural Electric Cooperative, Inc. ("Hoosier"). The NPE contract is attached, with confidential portion redacted. The Reliant contract is attached to Item 6 e. of this response, and the Hoosier contract, with confidential portion redacted, is attached. A petition for confidentiality is attached in regard to the NPE and Hoosier contracts.

Witness) C. William Blackburn

A1-143

POWER PURCHASE AND SALE AGREEMENT

BY AND BETWEEN

NP ENERGY INC.

AND

BIG RIVERS ELECTRIC CORPORATION

Dated July 17, 1998

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Third Draft
7/15/98

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THE REMAINING 28 PAGES OF THIS AGREEMENT ARE REDACTED.

150.0.2.3

Agreement

This Agreement, by and between Hoosier Energy Rural Electric Cooperative, Inc. (hereinafter referred to as "Hoosier"), Big Rivers Electric Corporation (hereinafter referred to as "Big Rivers"), and LG&E Energy Marketing, Inc. (hereinafter referred to as "LEM"), dated as of the 30th day of June, 1999, WITNESSETH THAT:

WHEREAS, Hoosier and Big Rivers are parties to a certain Unit Power Agreement dated as of the 14th day of September, 1990 (the "Reid Agreement"), pursuant to which Big Rivers agrees to make available to Hoosier capacity and energy from its Reid combustion turbine generating unit (the "Reid CT") during the period from June 15 through September 15, 1999, under the terms and conditions more fully set out in the Reid Agreement; and

WHEREAS, Big Rivers and LEM are parties to a transaction executed July 17, 1998 (the Big Rivers-LEM Transaction") wherein Big Rivers has leased its generation to LEM for a term of twenty-five years and LEM has agreed to sell certain quantities of power to Big Rivers (including "Hoosier Power" used to satisfy certain of Big Rivers' obligations to Hoosier under the Reid Agreement) as set forth in a Power Purchase Agreement Between Big Rivers and LEM dated July 1998 ("Power Purchase Agreement"); and

WHEREAS, a forced outage has occurred at the Big Rivers Reid CT operated and maintained by LEM pursuant to the terms of the Big Rivers-LEM Transaction, and Big Rivers and LEM assert that a force majeure exists under the Reid Agreement with Hoosier; and

WHEREAS, certain disputes have arisen between Hoosier and Big Rivers concerning the supply of power under the Reid Agreement and between Big Rivers and LEM concerning the supply of Hoosier Power under the terms of the Power Purchase Agreement; and

WHEREAS, Hoosier, Big Rivers, and LEM wish to avoid litigation and resolve such disputes in a business-like manner;

IT IS THEREFORE AGREED as follows:

1. This Agreement shall apply only to the year 1999, and shall become effective upon its execution by each of Hoosier, Big Rivers, and LEM.

2. Big Rivers shall sell and provide to Hoosier as Block One Power forty-five megawatts of Financially Firm capacity and energy for sixteen (16) consecutive hours per day extending during the North American Electric Reliability Council ("NERC") defined on peak hours, for the five days of Monday through Friday each week during the months of July and August, 1999, except for holidays defined by NERC. Such sale of Block One Power shall be on a Financially Firm, take or pay basis. Hoosier shall pay to Big Rivers for such Block One Power an energy charge of [redacted] per megawatt hour and a monthly capacity fee of [redacted] per megawatt (or a total of [redacted]

For purposes of this Agreement the term "Financially Firm" shall mean that (a) Big Rivers shall not be excused from its obligation to furnish Block One Power for any reason (other than transmission force majeure as set forth in Section 7) and (b) in the event that Big Rivers shall fail to furnish Block One Power (other than transmission force majeure) Big Rivers shall pay Hoosier liquidated damages equivalent to the difference between the amount reasonably incurred by Hoosier to obtain and deliver comparable supplies of replacement energy during the hours in which Big Rivers fails to supply Block One Power and the amount otherwise charged under this contract for Block One Power (i.e., [redacted] per megawatt-hour). For the purposes of this section, the term "reasonably incurred" shall mean that Hoosier has obtained at least three bids to supply replacement energy from utilities or marketers having the capability of reliably delivering such replacement energy, and has selected the lowest bid. Big Rivers and Hoosier hereby stipulate that the liquidated damages set forth above are reasonable in light of the anticipated harm and the difficulty of estimated or calculation of actual damages, and Big Rivers hereby waives the right to contest such damages as an unreasonable penalty.

3. Big Rivers shall sell and provide to Hoosier as Block Two Power twenty megawatts of energy for sixteen (16) consecutive hours per day extending during the NERC defined on peak hours, for the five days Monday through Friday each week during the months of July and August, 1999, except for holidays defined by NERC. Such sale shall be on a Non-Firm, take or pay basis. Hoosier shall pay to Big Rivers for such Block Two Power an energy charge of [redacted] per megawatt hour. There shall be no capacity charge associated with Block Two Power.

For purposes of this section applicable to Block Two Power, the term "Non-Firm" shall mean that Big Rivers shall not be excused from its obligation to furnish Block Two Power for any reason (other than transmission force majeure as set forth in Section 7), except to the extent that all or a portion of the twenty megawatts of Block Two Power is required by Big Rivers to meet its members' reasonably projected next hour load requirements as projected by Big Rivers Energy Control Dispatch Center, during peak periods when such members' load requirements, including losses, are such that all or a portion of the 20 megawatts are not available. During such hour or hours of interruption, Big Rivers will supply its members' load plus the fifty megawatts off-system transaction into TVA which was in place prior to the execution of this Agreement. No additional hourly off-system sales will be made during such time of interruptions. If less than the full twenty megawatts of Block Two Power is required to meet its members' load requirements, Big Rivers shall continue to be obligated to furnish, in 5 MW increments, the remainder of the twenty megawatts of Block Two Power to Hoosier. In the event of such an excused reduction in deliveries by Big Rivers, Hoosier shall be obligated to pay only the energy charge for the actual megawatt hours of Block Two Power delivered to Hoosier during the period of such reduction.

In no event shall Big Rivers be excused from its obligation to supply Block Two Power for economic reasons. If Big Rivers shall fail to furnish Block Two Power, except to the extent it is excused by the exception set forth above, Big Rivers shall pay Hoosier liquidated damages equivalent to the difference between the amount reasonably incurred by Hoosier to obtain and deliver comparable supplies of replacement energy during the hours in which Big Rivers fails to supply Block Two Power and the amount otherwise charged under this contact for Block Two Power (i.e., [redacted] per megawatt-hour). For the purposes of this section, the term "reasonably incurred" shall mean that Hoosier has obtained at least three bids to supply replacement energy from utilities or marketers having the capability of reliably delivering such replacement energy, and has selected the lowest bid. Big Rivers and Hoosier hereby stipulate that the liquidated damages set forth above are reasonable in light of the anticipated harm and the difficulty of estimated or calculation of actual damages, and Big Rivers hereby waives the right to contest such damages as an unreasonable penalty.

4. The energy charges set forth in Sections 2 and 3 above and the capacity charge set forth in Section 2 shall be payable by Hoosier to Big Rivers 15 days after the receipt by Hoosier of a monthly invoice provided by Big Rivers in the month after the power is furnished.

Delinquent payments shall bear interest at the annual rate of Prime as published in the Wall Street Journal plus 2%.

5. Big Rivers and Hoosier agree that LEM shall have no responsibility to supply either Block One Power or Block Two Power to either Hoosier or Big Rivers. Big Rivers and LEM agree that quantities of power to be sold by Big Rivers to Hoosier as either Block One Power or Block Two Power do not constitute "Hoosier Power" as set forth in Section 4.1(b) of the Power Purchase Agreement between Big Rivers and LEM, and that consequently LEM (a) is not required to supply Big Rivers with such power apart from as part of Big Rivers' existing Base Power entitlement as defined in the Power Purchase Agreement, and (b) is not entitled to funds obtained by Big Rivers from Hoosier resulting from such sale of Block One Power and Block Two Power.

6. The point of delivery for Block One Power and Block Two Power shall be the existing point of interconnection between Big Rivers and Hoosier. Big Rivers through its agents or employees shall be responsible for scheduling with LEM deliveries of Block One Power and Block Two Power consistent with the scheduling provisions applicable to Base Power in the Power Purchase Agreement.

7. As between Big Rivers and Hoosier, transmission charges on Big Rivers' transmission system for transmitting Block One Power and Block Two Power from Big Rivers' transmission system to the existing point of interconnection between Big Rivers and Hoosier shall be the sole responsibility of Big Rivers. However, LEM agrees with Big Rivers and Hoosier to transmit Block One Power and Block Two Power as requested by Big Rivers using LEM's existing 66 megawatt firm point-to-point transmission capacity reservation on Big

Rivers' transmission system between the Big Rivers generating plants and the point of interconnection of the transmission systems of Big Rivers and Hoosier. Big Rivers agrees to pay LEM for the transmission used for the delivery of Block One Power and Block Two Power in an amount equal to the reservation charge paid by LEM for this transmission during the months of July and August. Amounts owing from Big Rivers to LEM for this transmission shall be payable five days prior to the date on each month when LEM is required to pay Big Rivers for such transmission capacity under the Big Rivers' transmission tariff. In the event a force majeure condition (as such term is defined in section 10.1 of Big Rivers' Open Access Transmission Tariff) affecting this transmission path occurs, such that Big Rivers is unable to deliver Block One Power and Block Two Power using that transmission path, Big Rivers will be excused from all obligations to supply Block One Power and Block Two Power under this agreement until such force majeure condition is corrected, and Hoosier shall not be entitled to liquidated damages under Sections 2 and 3 of this Agreement. In the event Big Rivers is excused from its obligations to supply Block One Power and Block Two Power because of the event of such a force majeure condition, Hoosier shall have the option to secure another transmission route for the power; provided that, Hoosier shall be responsible for the payment of the cost of the alternate transmission route.

8. Hoosier, Big Rivers, and LEM each hereby releases and discharges each of the others from any and all claims or actions which have arisen or could arise as a result of Big Rivers' failure to provide energy to Hoosier under the terms of the Reid Agreement for the year 1999; provided that, these releases are strictly limited to the year 1999, and shall have no applicability to succeeding contract years, and provided further that these releases shall in no way limit or restrict the remedies or damages which shall be available to any of the parties in the

event one of the other parties should default or otherwise fail to perform any of its obligations under this Agreement. Further, LEM hereby releases and discharges Big Rivers from any and all obligations to pay amounts received from Hoosier under the Reid Agreement during 1999.

9. All of the charges for energy and capacity set forth in the Reid Agreement are hereby waived by Big Rivers for the entire year of 1999, and Hoosier shall not be required to pay any of such charges for that year in recognition of the amounts payable hereunder.

10. Hoosier has the right, at its expense, upon reasonable notice and during normal working hours, to examine the records of Big Rivers to the extent reasonably necessary to verify that a failure of Big Rivers to deliver Block Two Power Non-Firm energy is excused under this agreement. Big Rivers shall make available to Hoosier any and all records necessary for Hoosier to make this verification.

11. Big Rivers hereby represents that this Agreement shall be effective upon execution by the parties and shall be enforceable without the review or approval of any court having jurisdiction over Big Rivers' bankruptcy proceedings or any appointee of such court.

Executed in triplicate as of the day and year first set forth above.

Hoosier Energy Rural Electric Cooperative, Inc.

By: ______________________

Title ______________________

Big Rivers Electric Corporation

By: ______________________

Title President and CEO

LG&E Energy Marketing, Inc.

By: ______________________

Title Vice President

13

BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999

CASE NO. 99-360

Item 13) Provide the following information concerning Big Rivers' sources of purchased power:

a. The minimum and maximum hourly power purchases allowed under the PPA with LEM. Provide these amounts for the entire term of the contract.

b. The minimum and maximum annual power purchases allowed under the PPA with LEM. Provide these amounts for the entire term of the contract.

c. The minimum and maximum power purchases allowed under the SEPA contract. Provide these amounts by year for each year of the current contract, and indicate when the current contract is scheduled to expire.

Response) a. See attached chart.

b. See attached chart.

c. The SEPA contract is scheduled to expire on June 30, 2017. Big Rivers has available under the SEPA contract a monthly maximum 178 MW of demand. However, the energy is limited to 267,000 MWh annually. Big Rivers pays a fixed monthly demand payment of $2.90 per kW and $0.00 for the associated energy. Big Rivers must always pay for the monthly demand allocation even if it chooses not to take the maximum amount of energy.

Witness) C. William Blackburn

Big Rivers Electric Corporation

Response to Commission's Request for Information

Case No. 99-360

Item 13		Hourly Minimum	Hourly Maximum
a.	1999	272	572
	2000	272	572
	2001	297	597
	2002	297	597
	2003	297	597
	2004	297	597
	2005	297	597
	2006	297	597
	2007	297	597
	2008	297	597
	2009	297	597
	2010	297	597
	2011	517	717
	2012	600	800
	2013	600	800
	2014	600	800
	2015	600	800
	2016	600	800
	2017	600	800
	2018	600	800
	2019	600	800
	2020	600	800
	2021	600	800
	2022	600	800
	2023	600	800

Big Rivers Electric Corporation

Response to Commission's Request for Information

Case No. 99-360

		Annual MWh	
Item 13		Minimum	Maximum
b.	1999	2,687,750	5,112,750
	2000	2,687,750	5,112,750
	2001	2,902,285	5,327,285
	2002	2,902,285	5,327,285
	2003	2,902,285	5,327,285
	2004	2,902,285	5,327,285
	2005	2,902,285	5,327,285
	2006	2,902,285	5,327,285
	2007	2,902,285	5,327,285
	2008	2,902,285	5,327,285
	2009	2,902,285	5,327,285
	2010	2,902,285	5,327,285
	2011	3,699,741	6,321,741
	2012	4,300,000	7,008,000
	2013	4,300,000	7,008,000
	2014	4,300,000	7,008,000
	2015	4,300,000	7,008,000
	2016	4,300,000	7,008,000
	2017	4,300,000	7,008,000
	2018	4,300,000	7,008,000
	2019	4,300,000	7,008,000
	2020	4,300,000	7,008,000
	2021	4,300,000	7,008,000
	2022	4,300,000	7,008,000
	2023	4,300,000	7,008,000

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Manufactured
JULIUS BLUMBER
NYC 10013
PRODUCT NO. 5

BIG RIVERS ELECTRIC CORPORATION
RESPONSE TO THE COMMISSION'S
SUPPLEMENTAL REQUEST FOR INFORMATION OF NOVEMBER 5, 1999

CASE NO. 99-360

Item 14) The introduction to the proposed Rate Schedule 10 refers to "certain large industrial or commercial loads."

a. Do Big Rivers' three member distribution cooperatives currently have any commercial customers who could potentially be served under the proposed Rate Schedule 10? If yes, identify those customers.

b. Have any existing commercial customers expressed an interest in the proposed Rate Schedule 10?

c. Have any potential customers inquiring about service from a member distribution cooperative and Big Rivers been commercial customers? If yes, how many of the total inquiries were from commercial customers.

Response) a. Yes. In theory, any commercial customer could have the potential to expand and take advantage of the proposed Rate Schedule 10. However, it is very unlikely that the current commercial customers would expand their electrical service by 5 MW or more to the level of qualifying for service under the proposed Rate Schedule 10.

b. No. However, Arvin Roll Coater, Inc., a large industrial customer, has contacted Kenergy Corp. and requested information concerning the proposed Rate Schedule 10. We are not aware of any other customers who have expressed an interest in this service.

c. No.

Witness) C. William Blackburn