SULLIVAN, MOUNTJOY, STAINBACK & MILLER PSC
ATTORNEYS AT LAW

June 9, 2005

RECEIVED
JUN 10 2005
PUBLIC SERVICE COMMISSION

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard, P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: In the Matter of: An Assessment of Kentucky's Electric Generation, Transmission and Distribution Needs, PSC Administrative Case No. 2005-00090

Dear Ms. O'Donnell:

Enclosed are an original and ten copies of the response of Big Rivers Electric Corporation to the Commission's order of May 27, 2005, and an original and ten copies of the response of Kenergy Corp. to the Commission's order of May 27, 2005. I certify that copies of this letter and attachments have been served, by mail, on each of the persons identified on the attached service list.

Sincerely yours,

TAK

Tyson Kamuf

TAK/ej

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUN 10 2005

PUBLIC SERVICE
COMMISSION

In the Matter of:

AN ASSESSMENT OF KENTUCKY'S ELECTRIC GENERATION, TRANSMISSION, AND DISTRIBUTION NEEDS	)) CASE NO. 2005-00090)

RESPONSE OF BIG RIVERS ELECTRIC CORPORATION TO
INFORMATION REQUESTS CONTAINED IN THE
PUBLIC SERVICE COMMISSION'S ORDER DATED MAY 27, 2005
ADMINISTRATIVE CASE NO. 2005-00090

SULLIVAN, MOUNTJOY, STAINBACK
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June 9, 2005

RESPONSE OF BIG RIVERS ELECTRIC CORPORATION TO
INFORMATION REQUESTS CONTAINED IN THE
PUBLIC SERVICE COMMISSION'S ORDER DATED MAY 27, 2005
ADMINISTRATIVE CASE NO. 2005-00090

Big Rivers Electric Corporation ("Big Rivers") makes the following statement in response to the directive of the Public Service Commission ("Commission") in its order in this matter of May 27, 2005, that "Big Rivers should file a detailed explanation of the reasons why its generating resources will not be used to serve the Smelters after 2010/2011." This directive in the Commission's order was presumably prompted by the statement of Alcan Primary Products Corporation ("Alcan") and Century Aluminum of Kentucky, LLC ("Century") (collectively, the "Smelters") in their "Joint Motion" dated March 10, 2005 seeking information from Kenergy that "[i]t is apparent from its response to the First Information Request that Big Rivers does not intend to use any of its available generating resources to provide energy to Kenergy for resale to the Smelters after their contracts expire in 2010/2011." In addition to their Joint Motion, the Smelters also filed comments with the Commission on June 8, 2005. Big Rivers has reviewed, and does not necessarily agree with, the statements made by the Smelters in those comments. This response by Big Rivers is made solely in response to the Commission's order of May 27, 2005, and is not intended to engage in a debate with the Smelters or as a rebuttal of their comments.

Century and Alcan incorrectly imply in their motion that Big Rivers' responses to the Commission's Data Requests of March 10, 2005 say that Big Rivers does not intend to sell power to the Smelters, through Kenergy, after 2010/2011, the dates, respectively, on which the Smelters' retail electric service contracts with Kenergy expire. First, Big

Rivers currently anticipates that it will continue to make sales of capacity and energy to Kenergy for the Smelters after 2010/2011 on the same basis that it presently does. For 2005, Big Rivers is selling to Kenergy, under Commission-approved special contracts, an aggregate of 80 MW firm, and 105 MW subject to varying degrees of interruptibility for resale to the Smelters. For 2006, Big Rivers and Kenergy already have in place contracts for 35 MW firm, and 50 MW subject to varying degrees of interruptibility for resale to the Smelters. But at this point, neither Kenergy nor the Smelters have asked Big Rivers to make a formal proposal to sell to Kenergy, for the benefit of Alcan and Century, any amount of the capacity and energy that Big Rivers currently expects to have available during the period following the expiration of the Smelters' retail electric service contracts with Kenergy in 2010 and 2011,[1] or the transmission services to deliver power, from whatever source, purchased by the Smelters.

Second, Big Rivers currently has no access to the output of the generating units it owns because those units are leased to Western Kentucky Energy Corp., an unregulated affiliate of LG&E Energy LLC, as part of a series of transactions which implemented Big Rivers' bankruptcy plan of reorganization (the "LG&E Transaction"). The LG&E Transaction was closed effective July 15, 1998, and its term expires in 2023.

[1] The firm capacity Big Rivers anticipates it will have available post 2010/2011 is shown in Big Rivers' March 31, 2005 Response to First Information Requests, Item 7, page 2 of 2. Big Rivers may have additional capacity it could sell to Kenergy for resale to the Smelters subject to varying degrees of interruptibility.

Under the terms of the LG&E Transaction, all the production from Big Rivers' generating assets during the term of the LG&E Transaction belongs to unregulated subsidiaries or affiliates of LG&E Energy LLC. In return, LG&E Energy Marketing Inc. ("LEM") is obligated to supply specified amounts of capacity and associated energy to Big Rivers in accordance with the terms of a power purchase agreement. But LEM's obligation to deliver power to Big Rivers under that agreement is independent of the source of the power.

But in any event, the amount of capacity and energy that Big Rivers currently projects will be available to it in 2012 that could potentially be sold to the Smelters represents only a fraction of the 850 MW the Smelters say in their motion that they collectively require for their operations. Aggregating the power available to Big Rivers under the terms of the LG&E Transaction and other agreements, Big Rivers currently projects to have 800 MW of base load power and 178 MW of peaking power[2] available to meet its needs in 2012. Big Rivers' 2003 Load Forecast projects Big Rivers' native load at 715 MW in 2012, and under an optimistic economic scenario, perhaps as much as 743 MW. That load forecast also forecasts native load growth of approximately 12-15 MW each year thereafter.

[2] The peaking power is an allotment from the Southeastern Power Administration that is available to Big Rivers for 1500 hours or 267,000 MWH during the year.

Finally, the relationship among Big Rivers, Kenergy and the Smelters is unique, and must be fully understood to appreciate the smelter power supply issue. Prior to July 17, 1998, Big Rivers provided 100% of the wholesale power required by its four[3] member rural electric distribution cooperatives under "all-requirements contracts." But as part of the plan of reorganization and the LG&E Transaction, Kenergy's predecessors entered into wholesale power supply agreements with LEM to provide the wholesale power requirements to serve the "Tier 1" and "Tier 2" requirements of Century and Alcan under their respective retail service agreements with Kenergy's predecessors, which expire in 2010 and 2011, respectively. The remaining power needs of the Smelters, referred to in their respective retail service agreements as "Tier 3" service, are acquired by Kenergy for the Smelters through purchases from time to time in the wholesale power market. As noted above, Kenergy has periodically purchased power from Big Rivers to satisfy a portion of the Tier 3 requirement of a smelter.

Under the terms of the Big Rivers plan of reorganization, as implemented through documents entered into at the closing of the LG&E Transaction, Big Rivers no longer has any responsibility to provide the wholesale power requirements for serving the Smelters, the Smelters are not obligated to buy power provided at wholesale by Big Rivers, and the Smelters are excused from any utility stranded costs or exit fees that

[3] Big Rivers currently has three member distribution cooperatives because the two distribution cooperatives who served the Smelters consolidated in 1999 to become Kenergy Corp.

might otherwise apply to them. The reason for these terms being included in the various transactions in 1998 was described by a Smelter representative as a considered business decision on their parts[4]:

> The third-party supplier may include Big Rivers, but the proposed contract provides that neither Big Rivers nor Henderson Union is contractually obligated or entitled to provide Alcan's energy needs and that Alcan is not entitled or obligated to purchase power from Big Rivers. In effect, the settlement is that the smelters are giving up the likelihood that Big Rivers [sic] rates will be below market in 2012 in return for the certainty that their rates will not be above market at that time.

Nonetheless, Big Rivers has met with the Smelters in an effort to explore how Big Rivers can help the Smelters satisfy their power requirements after the expiration of their current contracts, including doing some initial exploration with the Smelters of adding a second generating unit at Big Rivers' Wilson Generating Station. Big Rivers is acutely aware of the importance of the Smelters to the economy and people of western Kentucky, and the Commonwealth as a whole. As Big Rivers has come to realize over the years, electric rates for the Smelters that are quite reasonable relative to electric rates regionally, or even nationally, do not assure that the Smelters can remain competitive in a business that competes in an international commodities market.

Witness) Michael H. Core and David A. Spainhoward.

[4] Direct Testimony of Allan B. Eye dated October 7, 1997, on behalf of Alcan Aluminum Corporation, P.S.C. Case No. 97-204, page 33.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ASSESSMENT OF KENTUCKY'S ELECTRIC GENERATION, TRANSMISSION, AND DISTRIBUTION NEEDS)) CASE NO. 2005-00090)

RESPONSE OF KENERGY CORP. TO INFORMATION REQUESTS CONTAINED IN MAY 27, 2005, ORDER

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June 9, 2005

EXPLANATION CONCERNING SERVICE TO SMELTERS AFTER CURRENT CONTRACTS EXPIRE

Prior to the emergence of Big Rivers Electric Corporation ("Big Rivers") from bankruptcy in July 1998 Kenergy Corp. ("Kenergy") (by and through its two (2) predecessors Green River Electric Corporation and Henderson Union Rural Electric Cooperative Corp.) delivered retail power to the two (2) Smelters with wholesale power provided by Big Rivers pursuant to an all-requirements contract. In connection with the bankruptcy the Commission carved out the Smelters' loads from the all-requirements contract, and service agreements with the Smelters were entered into on July 15, 1998, which specifically provided that the wholesale power for re-sale to the Smelters would be provided by LG&E Energy Corp., using one of its subsidiaries.

These service agreements expire on December 31, 2010 (Century Aluminum), and December 31, 2011 (Alcan), and affirmatively state that upon such expiration the respective Smelters "shall have no further contractual obligation to purchase Energy, Capacity, or transmission service" from Kenergy and Kenergy "shall have no further contractual obligation to sell Energy, Capacity, or transmission service" to the respective Smelters. See section 7.2.

The two (2) Smelters are in Kenergy's service territory and pursuant to KRS 278.016-.018 Kenergy has service responsibilities after expiration of the current contracts. After such expirations, assuming new service agreements have not been successfully negotiated and accepted by the Commission, Kenergy will attempt to obtain power from wholesale suppliers at acceptable rates for distribution to the two (2) Smelters, as is the current practice for fulfilling the Smelters TIER 3 requirements under the existing contracts. Transmission service issues will have to be addressed. Receipt by Kenergy of customary requests for power will be necessary in order to initiate this activity.

Item 7) Provide the most current base case and high case demand and energy forecasts for the period 2005 through 2025, if available. If the current forecast does not extend to 2025, provide forecast data for the longest forecast period available. The information should be disaggregated into (a) native load, firm and non-firm demand; and (b) off-system load, both firm and non-firm demand.

Response) Attached as Item 7, pages 2 through 9 of 9 is the Executive Summary of Kenergy's 2005 Load Forecast which notes that four (4) forecast scenarios including base case, have been provided through 2019, the longest period available. The information is disaggregated into total system energy and demand requirements and rural system energy and demand requirements, the latter being the total system requirements less those associated with direct serve customers. Projected power for the two (2) Smelters is included in the forecast.

Witness) Mark A. Bailey; David Hamilton; John E. Newland.

Kenergy Corp.
Henderson, Kentucky

2005 Load Forecast
May 2005

Prepared by
GDS Associates, Inc.

1. Executive Summary

Kenergy Corp. (Kenergy) is a distribution cooperative headquartered in Henderson, Kentucky. This 2005 Load Forecast was completed in May 2005 and updates the most recent forecast that was completed in June 2003. The forecast contains energy and demand projections for the 2005-2019 forecast horizon. High and low range forecast scenarios were developed to address uncertainties regarding the factors expected to influence energy consumption in the future. In addition to the energy and demand projections, this report presents the assumptions upon which the forecast is based and the methodologies employed in development of the forecast.

1.1 Forecast Results

Total system energy and non-coincident peak demand requirements are projected to increase at average compound rates of 0.3% and 0.6%, respectively, from 2004 through 2019. These growth rates appear relatively low compared to industry norms; however, Kenergy is unique in that approximately 70% of total system energy and demand requirements correspond to two large industrial customers, growth for which is projected to be flat over the next fifteen years. Rural system energy and demand requirements, which are represented as total system requirements less those associated with direct-serve customers, are projected to increase at average rates of 2.3% and 2.4%, respectively over the same period.

The forecast is summarized in Tables 1.1 and 1.2 on the following page. The primary influence on growth in the rural system requirements over the forecast period will continue to be growth in residential sales, which is primarily a function of growth in number of customers.

Table 1.1
Load Forecast Summary

		Total System		Rural System	
Year	Consumers	Energy Requirements (MWh)	Peak Demand (NCP)	Energy Requirements (MWh)	Peak Demand (CP)
1994	44,273	6,646,105	1,031,327	728,893	187,344
1999	49,111	8,092,628	1,134,369	995,896	242,135
2004	52,592	9,407,650	1,233,146	1,109,089	244,804
2009	56,040	9,617,959	1,285,298	1,311,132	288,283
2014	59,746	9,744,267	1,313,566	1,442,765	316,551
2019	63,979	9,892,019	1,346,629	1,596,744	349,614

Table 1.2
Load Forecast – Average Annual Growth Rates

Description	2004-2009	2004-2019
Total System Energy Requirements	0.4%	0.3%
Total System Peak Demand (NCP)	0.8%	0.6%
Rural System Energy Requirements	2.9%	2.3%
Rural System Peak Demand (CP)	3.3%	2.4%
Rural System Peak Demand (NCP)	3.3%	2.4%
Residential Energy Sales	2.0%	2.0%
Residential Consumers	1.1%	1.2%
Small Commercial Energy Sales	2.4%	2.1%
Small Commercial Energy Consumers	2.3%	2.1%
Large Commercial Energy Sales	0.2%	0.1%
Large Commercial Consumers	2.8%	1.8%
Public Street Lighting Sales	1.7%	1.5%

Section 2 of the report presents a summary of the cooperative background and service area characteristics. Section 4 presents the assumptions made during the forecasting process. Section 5 presents the short-term forecast, which contains monthly projections of energy sales and peak demand for years 2005 to 2007. Section 6 presents the long-term forecast, which contains projections for the 2005 to 2019 period. Section 7 presents the range forecasts, which consider deviations in the assumptions made regarding economic growth and average weather conditions.

1.2 Forecast Assumptions

The forecast is based upon a number of assumptions regarding factors that impact energy consumption, including: demographics, economic activity, price of electricity and competing fuels, electric market share, and weather conditions. The assumptions were developed by GDS Associates and discussed with cooperative management prior to development of the final forecast. The economic outlook for the base case forecast was formulated using information collected from Woods & Poole Economics, Inc., NPA Data Services, and the University of Louisville.

- Population will increase at an average rate of 0.3% per year from 2004-2019.
- Employment will increase at an average rate of 0.9% per year from 2004-2019.
- Real personal income will increase at an average rate of 1.7% per year from 2004-2019.
- Real retail sales will increase at an average rate of 1.3% per year from 2004-2019.
- Inflation, as measured by the Personal Consumption Expenditure Index, will increase at an average compound rate of 2.4%.
- Over the long-term the real (deflated) price of electricity to retail customers is projected to decrease slightly and is not expected to significantly impact current energy consumption patterns.
- Weather conditions, as measured by heating and cooling degree days for the Evansville, Indiana area, will be equal to the twenty year normal amounts computed using data spanning the 1985 to 2004 period.
- No demand-side management programs will be implemented during the course of the forecast period that will have a significant impact on system peak demand.
- No impacts associated with industry restructuring or retail competition are included in the forecast.

1.3 Industry Restructuring

At the time this forecast was completed, legislation had been introduced in Congress to deregulate and/or restructure the nation's electric utility industry. Currently 19 states, excluding Kentucky, have deregulated or restructured their electric utilities, allowing customers to choose the generation source of their electric power. California, however, has suspended retail access. Five other states have delayed the restructuring process or the implementation of retail access.

In Kentucky, a 1998 bill providing for retail choice in 2000 was introduced, but the legislature instead passed legislation establishing the Electricity Restructuring Task Force, which released a study concluding that the average rate level in Kentucky would be similar under either a regulated or retail choice environment, and that customers would see higher prices in periods of tight capacity. The task force's final report, issued December 1999, recommended no restructuring action in the legislature for 2000, and monitoring of states in which retail choice has been enacted. During the 2000 legislative session, the task force was reauthorized, and HB 897, which addresses cost allocation and affiliate transactions was enacted. In April 2002 the governor signed SB 257, which creates a plant siting board that must approve all merchant power plants. In March 2004 the governor signed SB 118, which allows cooperative utilities, upon public service commission approval, to sell wholesale power to municipal utilities. In April the governor signed SB 246, which requires utilities to obtain PSC approval for transmission projects 138 KV or greater in capacity and a mile or more in length.

1.4 Forecasting Process

The forecast was developed using methods recognized in the industry today as the standards, including econometrics, informed judgment, exponential smoothing, and historical trends. The residential class accounts for the majority of rural system requirements; therefore, considerable time and effort were devoted to development of econometric models to forecast the number of consumers and energy sales for the class. Similarly, econometric models were developed to project commercial energy sales. Large commercial demand and energy projections were developed using information provided by cooperative management regarding local industrial operations. Energy sales projections for all other classifications were based on linear trends. An econometric model was developed to project rural system CP demand. Projections of rural system NCP demand were developed by applying an average coincident factor to projections of rural CP demand. Total system NCP demand was computed as the sum of rural system CP demand and direct-serve NCP demand.

The forecast is based on a bottom-up approach. Projections were developed at the customer class level and aggregated to the total system level. Projections of peak demand were developed at the rural system and total system levels. The forecast is based on an analysis of data and information for a historical period covering the 1983 to 2004 period, and the forecast period covers years 2005-2019. The base case forecast assumes normal weather conditions for each year, the averages being computed using heating and cooling degree days for the twenty years beginning 1985 and ending 2004.

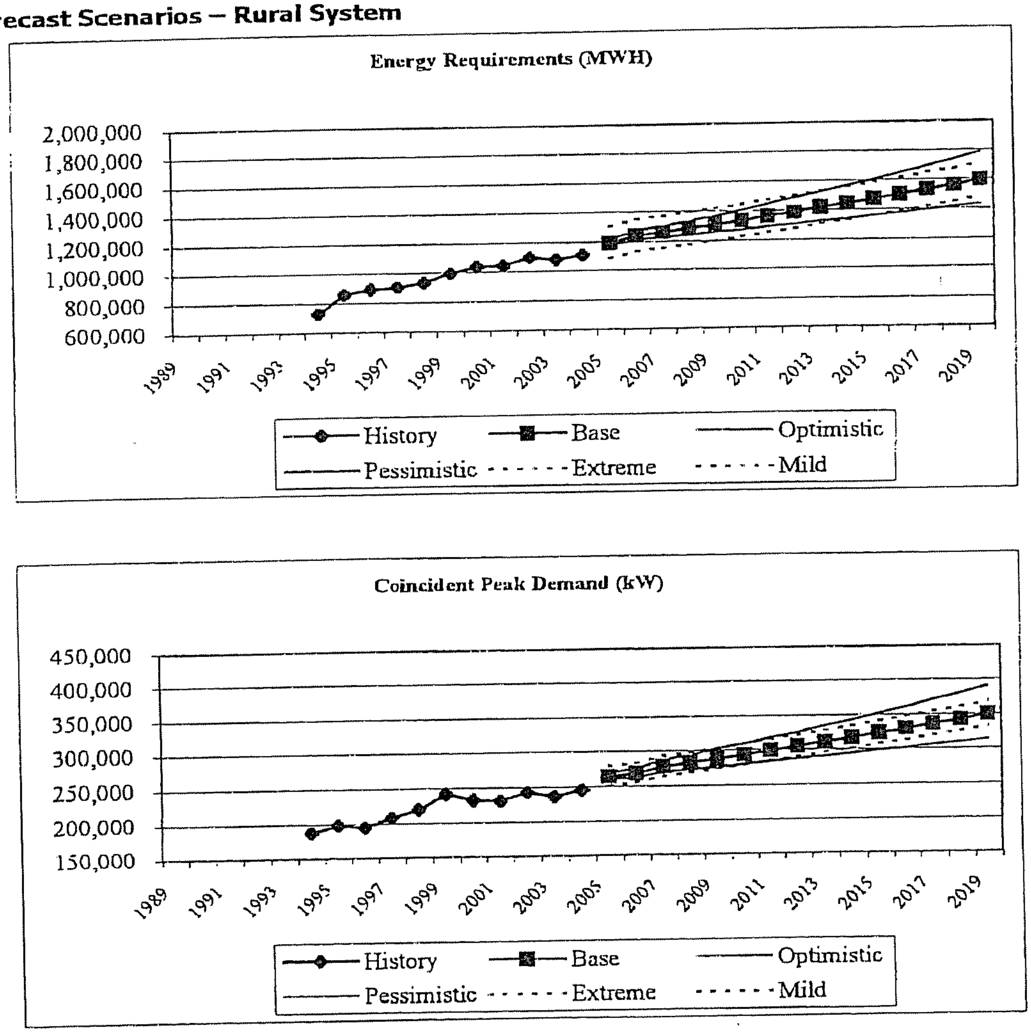
1.5 Comparison to the 2003 Load Forecast

The average annual growth rate projected for rural system energy requirements, 2.3%, is the same rate projected in the 2003 Load Forecast. Residential energy sales, 2.0%, are slightly lower than the rate of 2.2% projected in the 2003 Load Forecast. Similarly, the small commercial energy requirements are lower in this year's forecast (2.1% per year in the 2005 forecast versus 2.4% per year in the 2003 study).

1.6 Forecast Scenarios

The base case forecast was developed using the expected economic outlook and average weather conditions. Since there is uncertainty associated with all load forecasts, four forecast scenarios were generated to evaluate varying economic and weather impacts from those used in development of the base case forecast. Although these scenarios have lower probabilities of occurring than the base case forecast, they provide valuable information for system planning. Results from the four scenarios are presented graphically in Figure 1.1 and presented in detail in Section 7.

Figure 1.1
Forecast Scenarios – Rural System



1.7 Comparison to Regional and National Forecasts

Table 1.3 compares Kenergy's forecast to regional and national forecasts developed by the following entities.

Table 1.3
Forecast Comparison – Average Annual Growth Rates

	Total Energy Consumption	Residential Energy	Commercial Energy
AEO2005	2.0%	1.8%	2.6%
GII	1.7%	1.7%	1.9%
GRI	2.1%	2.2%	2.1%
ECAR	1.7%	N/A	N/A
Kenergy Corp.	2.3%	2.0%	2.1%

Source: AEO2005: Annual Energy Outlook 2005.
GII: DRI-WEFA (now Global Insight, Inc.), U.S. Energy Outlook (Su
2004).
GRI: Gas Research Institute, GRI Baseline Projection of U.S. Energ
Supply and Demand, 2001 Edition.
ECAR: East Central Area Reliability Council (10 Year Projection).

Note: Cooperative values reflect rural system data.

Item 8) Provide the target reserve margin currently used for planning purposes, stated as a percentage of demand, and a summary of your utility's most recent reserve margin study. If this target reserve margin has changed since 2002, provide the prior target reserve margin and explain the reasons for the change. If the target reserve margin is expected to be reevaluated in the next 3 years, explain the reasons for the reevaluation.

Response) Kenergy, a retail electric supplier, does not own or operate generation facilities. Kenergy purchases power for all of its non-smelter load under an "all requirements" contract with Big Rivers. Please see Big Rivers' earlier response to this Item 8.

Witness) Mark A. Bailey; David Hamilton.

Item 9) For the period 2005 through 2025, provide projected reserve margins stated in megawatts ("MW") and as a percentage of demand. Identify projected deficits and current plans for addressing these deficits.

Response) See response to Item 8. Also, please see Big Rivers' earlier response to this Item 9.

Witness) Mark A. Bailey; David Hamilton.

Item 11) Provide a summary of any planned base load or peaking capacity additions to meet native load requirements in the years 2005 through 2025. Include capacity additions by the utility, and those by affiliates, if constructed in Kentucky or intended to meet load in Kentucky.

Response) Kenergy, a retail electric supplier, does not plan to construct any base load or peaking capacity facilities. Kenergy purchases power for all of its non-smelter load under an "all requirements" contract with Big Rivers. Please see Big Rivers' earlier response to this Item 11.

Witness) Mark A. Bailey; David Hamilton.

Item 12) What is the estimated capital cost per KW and energy cost per kWh for new generation by technology?

Response) Kenergy, a retail electric supplier, does not own or operate generation facilities and does not have this information. Kenergy purchases power for all of its non-smelter load under an "all requirements" contract with Big Rivers. Please see Big Rivers' earlier response to this Item 12.

Witness) Mark A. Bailey; David Hamilton.

Item 13) If current plans for addressing projected capacity deficits include the addition of gas-fired generation, describe the extent to which fluctuations in natural gas prices have been incorporated into these plans. Explain how fluctuations in natural gas prices may have altered the results of previous plans.

Response) Kenergy, a retail electric supplier, does not own or operate generation facilities and thus has no plans for such an addition. Kenergy purchases power for all of its non-smelter load under an "all requirements" contract with Big Rivers. Please see Big Rivers' earlier response to this Item 13.

Witness) Mark A. Bailey; David Hamilton.

KENERGY CORP.
RESPONSE TO INFORMATION REQUESTS CONTAINED
IN MAY 27, 2005, ORDER
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Item 14) Provide a summary of any permanent reductions in utilization of generation capacity due to Clean Air Act compliance from 2000 through 2004. Identify and describe any forecasted reductions during the 2005 through 2025 period.

Response) Kenergy, a retail electric supplier, does not own or operate generation facilities. Kenergy purchases power for all of its non-smelter load under an "all requirements" contract with Big River. Please see Big Rivers' earlier response to this Item 14.

Witness) Mark A. Bailey; David Hamilton.