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Mark David Goss
Chairman

John W. Clay
Commissioner

August 10, 2007

PARTIES OF RECORD

Re: Case No. 2007-00177

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Rick W. Bertelson at 502/564-3940, Extension 260.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: File

FROM: Rick Bertelson, Staff Attorney; Fereydoon Gorjian, Team Leader

DATE: August 10, 2007

RE: Case No. 2007-00177
Application of Big Rivers Electric Corporation for a Certificate of Public Convenience and Necessity ("CPCN") to Construct a 161 kV Transmission Line in Ohio County, Kentucky

On August 3, 2007, Commission Staff held an informal conference with Big Rivers Electric Corporation ("Big Rivers") and Intervenors Alcan Aluminum ("Alcan") and Century Aluminum ("Century"). The purpose of the conference was to discuss Big Rivers' application for a CPCN to construct a 161 kV transmission line in Ohio County and how it relates to Big Rivers' planned filing of an application for approval of its "Unwinding Transaction" regarding its contracts with non-regulated affiliates of LG&E.

In the notice of the informal conference issued by the Commission, the Staff had directed a series of questions to Big Rivers regarding its application and the basis for the need for the transmission line. Big Rivers provided answers to the Staff's questions at the conference. However, Staff agreed to include those questions in its first data request, to be issued on August 10, 2007, so that Big Rivers' experts could provide the answers under oath.

Staff asked about the timeline for constructing the proposed line. Big Rivers stated that the construction phase is approximately 18 months. This line is part of the same route proposed by East Kentucky Power Cooperative, Inc. ("EKPC") in Case No. 2005-00207, so some of the survey work has already been done. In addition, Big Rivers is determining whether it can acquire the easements that EKPC obtained for its project by assignment. Big Rivers has also submitted an environmental assessment ("EA") to RUS. The comment period has now closed and, as EKPC did an evaluation of the same route with no adverse comments, Big Rivers expects RUS to issue a finding of no significant impact ("FONSI") on its EA as well.

Big Rivers has not filed its application for approval of its Unwind Transaction because it needs to finalize new contracts with the smelters, it needs a vote of approval from its members, and it needs to finalize an agreement with the city of Henderson. It does not need approval from its creditors before filing for Commission approval of the Unwind Transaction. According to Big Rivers, it believes that the smelter contracts

should be completed by the end of August, that the members' meeting will be in September, and that it will file the Unwind Transaction application with the Commission in October.

The smelters' attorney stated that he is glad that the PSC is taking an active role in the Unwinding case. He noted that the new contracts are "incredibly complicated" and that the attorneys for Big Rivers and the smelters had done a great deal of work and that they anticipate a great deal more work before the transaction is completed. Big Rivers' attorney stated that the present case is the first of three filings which all relate to the Unwind Transaction. The second will be the "main" unwind filing regarding the contracts with the LG&E affiliates, and the third will be the related financing filing.

Big Rivers stated that, in 2011, the smelters will have the right to cancel their contracts. Therefore, its current creditors have said that Big Rivers will have to demonstrate the ability to sell the excess power if the 850 MW load of the smelters is terminated. According to Big Rivers, it is critical to the financing to have the CPCN beforehand.

The new proposed smelter contracts would run through 2023. However, the contracts will contain a 1-year notice provision for the smelters to terminate their service with Big Rivers. The smelters' attorney noted, however, that if the smelters actually shut down and Big Rivers had to sell the electricity on the open market, Big Rivers would actually make more per kilowatt hour than under the smelters' contracts. Alcan's representative stated that any discussion of the smelters' possibly terminating their service with Big Rivers is essentially theoretical, as the smelters have invested a great deal of capital in their present Kentucky facilities and they plan to stay in business and do plan to maintain their service with Big Rivers for a long time.

Counsel for Staff asked whether the real need for the transmission line has more to do with satisfying creditors as opposed to any actual power flow concern. Counsel for Big Rivers stated that satisfying the creditors is a large part of the need, but also that it is important to Big Rivers from a risk mitigation standpoint. With the smelter load removed from the system, there would be power flow concerns, and the new 161 kV line represents the best route to move the excess power off of Big Rivers' system.

The Staff's electrical engineer displayed a map of the Big Rivers system and asked the attendees why Big Rivers had not previously expressed a need for the proposed high voltage transmission line in case the smelters suddenly had to shut down. Big Rivers stated that it had not studied that contingency and that the smelters'

Intra-Agency Memorandum
August 10, 2007
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facilities have been 97% operational over their existence. Big Rivers said that if such a contingency occurred, it would reduce its generation.

Alcan's representative stated that, prior to 1998, the smelters had take-or-pay contracts with Big Rivers that had a 3-year exit notice. The smelters' counsel also noted that, prior to 1998, there wasn't a real market into which Big Rivers could have sold its power. He also asserted that the Staff's hypothetical question regarding an emergency contingency demonstrates that the line is necessary.

The smelters' counsel asked Big Rivers' representatives what the alternative plans are if this line is not built. Big Rivers stated that an alternative would be to negotiate with TVA for a more costly interconnection, which would also require the construction of more power lines.

Staff then reviewed the existing procedural schedule with the parties, after which the informal conference was concluded.

cc: Parties of Record

Attachment: Sign-In Sheet

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2007-00177

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A
CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO
CONSTRUCT A 161 KV TRANSMISSION LINE IN OHIO COUNTY, KENTUCKY

SIGN IN

August 3, 2007

PERSON

REPRESENTING

<u>Rick DeAtolson</u>	<u>PSC</u>
<u>David Crockett</u>	<u>Big Rivers Electric Corp</u>
<u>Jim Miller</u>	<u>BIG RIVERS - SULLIVAN MOUNTAIN</u>
<u>Tyson Kamuf</u>	<u>"</u>
<u>Mike Kurtz</u>	<u>Alcan 1 Century</u>
<u>Allan Eyre</u>	<u>ALCAN</u>
<u>David Spainhoward</u>	<u>Big Rivers</u>
<u>JEFF SHAW</u>	<u>PSC - FIN. ANALYSIS</u>
<u>BOB AMATO</u>	<u>PSC</u>
<u>David Samford</u>	<u>PSC</u>
<u>Fereydoon Gorjian</u>	<u>PSC</u>
<u>JOHN SHUPP</u>	<u>PSC</u>

Case No. 2007-00177
August 3, 2007

PERSON

Charles Bryant

Christopher T. Hall

Greg Hager

Chris Bradley

Beth O'Donnell

Jorge Valladares

Ruth Rawles

REPRESENTING

PSC

LRC

LRC

Big Rivers Electric Corp.

PSC

PSC

PSC