COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE COMMISSION

APPLICATION OF BIG RIVERS ELECTRIC)
CORPORATION FOR A GENERAL) Case No. 2013-00199
ADJUSTMENT IN RATES SUPPORTED BY)
FULLY FORECASTED TEST PERIOD)

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.'S RESPONSE TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

1. Refer to page 14 of the Direct Testimony and Exhibits of Lane Kollen ("Kollen Testimony"). Beginning at line 9, Mr. Kollen states that "the Century and Alcan terminations will result in FAC rate increases due mostly to the increases in average fuel cost per kWh from the shutdown of the Wilson and Coleman plants." Explain how a shutdown of the Wilson and Coleman stations will result in FAC increases.

RESPONSE:

Among the Company's coal-fired capacity, the Wilson and Coleman plants have the lowest fuel cost per kWh. When these plants either are shut down or operated as SSRs, the average fuel cost recoverable from customers through the FAC will increase. More specifically, the Company projects that its FAC rates will be $.005951 per kWh for the Rural class and $0.005944 for the Large Industrial class in the forecast test year compared to $0.003427 for the Rural class and $0.003456 for the Large Industrial class in the base year, based on the information that it provided in Tab 56 of its filing. The FAC costs included in base rates are constant between the forecast test year and the base year. The Company's confidential response to PSC 1-57 provides the Company's production cost model input assumptions and outputs as well as the derivation of the FAC rates used in the financial model for the test year.

Answer provided by Lane Kollen.

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2. Refer to page 20 of the Kollen Testimony wherein Mr. Kollen states that the modifications proposed by Big Rivers Electric Corporation ("Big Rivers") to the Member Rate Stability Mechanism ("MRSM") and Rural Economic Reserve ("RER") "...substantially ratchet up the explosive impact of the time-bomb rate increases once each of the Reserve funds are depleted because the MRSM and RER riders are surcredit riders that only reduce rates temporarily."

a. Explain whether Mr. Kollen is aware that the current MRSM tariff includes an Expense Mitigation Factor ("EMF") that reduces the surcredit over time in order to avoid a sharp increase in rates when the Economic Reserve ("ER") and RER funds are depleted.

b. The current MRSM tariff shows that the EMF will reach a maximum rate of $.009 per kWh in the middle of 2014. If the Commission were to approve Big Rivers' proposal to use the ER and RER to mitigate the increase in this case, explain whether KIUC believes that the EMF maximum rate should be adjusted.

RESPONSE:

a. Yes. Mr. Kollen is aware that under the present MRSM tariff, the EMF will increase to the maximum rate of $0.009 per kWh in mid-2014. The EMF operates to reduce the effect of the MRSM.

b. Mr. Kollen does not have an opinion on whether, or if so how, the maximum EMF rate should be adjusted if the Commission otherwise adopts the Company's proposal to modify

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the MRSM to temporarily offset the effects of the base rate increase requested in this proceeding.

Answer provided by Lane Kollen.

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3. Refer to page 22 of the Kollen Testimony. Beginning at line 6, Mr. Kollen recommends "...that the Commission eliminate the MRSM and the RER tariffs and roll-in the test year effects of the present MRSM into base rates on a non-discriminatory basis."

a. Using the rates approved for Big Rivers in the October 29, 2013 Order in Case No. 2012-00535,[1] provide the base rates that would result from rolling in the MRSM to base rates and the supporting calculations.
b. Under the approach advocated by Mr. Kollen, identify when he estimates the ER and RER funds will be depleted.
c. Explain whether there would be any impact on retail customers (aside from RER funds' being applied only to Rural class customers) if, hypothetically, the Commission:
   1) Adopted Mr. Kollen's revenue-requirement recommendation for this case that Big Rivers be granted an increase of $8.559 million; and
   2) Did not eliminate the MRSM and RER tariffs and did roll in the test-year effects of the present MRSM into base rates; and
   3) Allowed the MRSM and RER tariffs to remain in their current forms.

RESPONSE:

a. The MRSM and RER rates are shown on the Rates tab lines 44 and 45, respectively, for each month during the test year in the Company's confidential corporate financial model provided in response to PSC 1-57. Mr. Kollen recommends that the effects of the Company's proposed modification to these tariffs to temporarily mitigate the requested base rate increase be rejected and that these effects not be reflected in the roll-in of the MRSM to base rates.

[1] Case No. 2012-00535, Application of Big Rivers Electric Corporation for an Adjustment of Rates (Ky. PSC Oct. 29, 2013.)

Accordingly, the MRSM and RER rates shown on these lines need to be reduced by the Rate Mitigation rates shown on line 39 on the Rates tab for each month during the test year in the Company's confidential corporate financial model. The net of these three lines for the test year is the adjustment to the base energy rate approved in Case No. 2012-00535 to reflect the roll-in.

b. Mr. Kollen estimates that the Reserve funds will be depleted in late December 2014 or early January 2015, which reflects all of the recommendations related to the KIUC Rate Plan. This is a correction from the early February 2015 date cited in his Direct Testimony.

c. Under Mr. Kollen's proposal the roll-in of the MRSM would be revenue neutral compared to retention of the present MRSM. The purpose of the roll-in is to convert the Company's time bomb approach to the KIUC hourglass approach and to provide the Commission another opportunity to address and resolve the Company's problems if the Company is unable to do so prior to the depletion of the Reserve funds. 1) The roll-in of the MRSM would not affect retail rates during the test year, assuming that the roll-in is accomplished in the manner described in the response to part (a) of this question. 2) The roll-in of the MRSM would not affect retail rates during the test year, assuming that the roll-in is accomplished in the manner

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described in the response to part (a) of this question. The MRSM would be $0 during the test year, although it could be subject to true-up for actual compared to projected. 3) The roll-in of the MRSM would not affect retail rates during the test year, assuming that the roll-in is accomplished in the manner described in the response to part (a) of this question.

Answer provided by Lane Kollen.

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4. Refer to pages 22-23 of the Kollen testimony. Beginning at line 22 on page 22, Mr. Kollen suggests that Big Rivers could draw down the reserve funds each month to match the amount of the MRSM that was rolled in to base rates. He also states that the draw-downs will be included in revenues. Describe Mr. Kollen's understanding of the journal entries made each month by Big Rivers when it draws down ER funds in accordance with the MRSM tariff.

RESPONSE:

Mr. Kollen understands that there are a series of journal entries that are necessary to record the effects on accounts receivable, revenue billed to customers, revenue previously deferred at the time of the Unwind Transaction representing the regulatory liability to customers, transfers from the restricted Special Fund, and unrestricted cash.

In the first entry, Mr. Kollen understands that the Company records revenue equal to the amount billed to customers, which is the gross amount of the revenue from tariff rates other than the MRSM net of the reduction due to the MRSM. The journal entry is to debit accounts receivable and credit revenues for the amount billed, or the gross revenues less the MRSM. On a more granular basis, if all other revenues are disaggregated from the MRSM, the accounts receivable and the revenues both would reflect the gross revenues billed without the reduction

for the MRSM. The initial entry would be to debit accounts receivable for the gross revenues and to credit revenues for the gross revenues before reduction for the MRSM. A second entry would be required to reflect the MRSM revenues as a debit to revenues and to credit the accounts receivable. Mr. Kollen does not know whether the Company uses a single journal entry or the two more granular entries, but either sequence of entries net to the same result.

The next journal entry requires that the cash in the restricted Special Fund be transferred to unrestricted cash, which requires a debit to Cash and a credit to the restricted Special Fund. The cash then is available in the same manner as if it had been collected directly from customers.

The final journal entries are necessary to transfer the revenues that were deferred at the Unwind Transaction as a regulatory liability into current period revenues equivalent to the amount of the MRSM. Mr. Kollen understands that the Economic Reserve and Rural Economic Reserve funds were deferred on the balance sheet as a regulatory liability and were not taken through the income statement at the Unwind Transaction, unlike the Transition Reserve. This means that the revenues deferred at the Unwind Transaction now must be taken through the income statement as the Reserve funds are utilized. This results in a debit to the Deferred Revenue and a credit to revenues, which are recognized on the income statement.

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In other words, the actual MRSM revenue billed to customers is negative, but then the use of the Reserve funds creates an equivalent positive revenue so that the MRSM revenue essentially is in and out. This is the manner in which the Company models both sides of the revenue equation in its corporate financial model, which starts with the effective rate (the MRSM reduction is netted against the other tariffed rates) multiplied times sales and then adds the revenue from the drawdown of the Deferred Revenue account. This also is consistent with the fact that the Company must record an accounting entry with a debit to accounts receivable equal to its customer billings, which is net of the negative revenue represented by the MRSM component even if it does so in two steps rather than a single step. It should be noted that there is no accounts receivable for the revenue due to the drawdown of the Deferred Revenue even though the revenue is recognized on the income statement.

Answer provided by Lane Kollen.

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5. Refer to page 44, lines 2-12, of the Kollen Testimony. Mr. Kollen claims that Big Rivers increased its revenue deficiency by resolving each known uncertainty against customers. Explain why Mr. Kollen believes it is reasonable to reverse this "systematic bias against customers..." and resolve "each known uncertainty in favor of the customers."

RESPONSE:

This is reasonable because the Company, not customers, bears the burden of proof. The Commission should err on the side of the customers who face these massive rate increases through no fault of their own. The Company's approach is to maximize the rate increase, while the KIUC approach is to minimize the rate increase, all else equal. The KIUC approach is reasonable because the Company made decisions that harmed customers and failed to take appropriate steps to mitigate the impact on customers. This is particularly important if the Commission does not adopt the KIUC Rate Plan. If the Commission adopts the KIUC Rate Plan, then the actual outcome of the uncertainties will be captured and trued-up to the projected outcome reflected in the revenue requirement used to determine the rate increase.

Answer provided by Lane Kollen.

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6. Refer to the top of page 64 of the Kollen Testimony wherein Mr. Kollen summarizes his recommendation that transmission revenues Big Rivers receives from serving the aluminum smelters be included and used to reduce its revenue requirement.

   a. Explain whether this recommendation recognizes that transmission revenues related to the Hawesville smelter are used to offset System Support Resource ("SSR") costs borne by the smelter's owner, Century Aluminum ("Century"), during the period that Big Rivers' Coleman generating station is required to operate in SSR mode.
   b. Mr. Kollen discusses what would occur under KIUC's rate plan if "actual Hawesville Smelter transmission revenues" were to exceed the amount, $7.513 million he recommends be reflected in determining Big Rivers' revenue requirement. Explain what would occur under the KIUC rate plan in the event actual transmission revenues were less than what Mr. Kollen recommends be reflected in the revenue requirement determination.

RESPONSE:

a. Yes. This recommendation assumes that the Coleman plant is shut down and is not operated as an SSR, which reflects the Company's assumption for the test year. The Company's assumption is the basis for its request for amortization of the Coleman plant severance costs and for amortization of the replacement capacity charges, which will be incurred only if the Coleman plant is shut down.

b. Any difference in revenues would be captured and trued-up in the KIUC Rate Plan regardless of whether the actual revenues were more or less than the projected revenues.

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7. Refer to page 67 of the Kollen Testimony, lines 18-23, wherein Mr. Kollen refers to certain costs in the "shutdown of the Coleman plant contemporaneous with the Alcan termination on January 31, 2014." Page 16, line 1, of the Direct Testimony of Robert W. Berry reflects that the Wilson station is expected to be idled beginning February 1, 2014, while lines 14-16 of the same page indicate that the Coleman station is expected to be idled either when Century has installed equipment allowing it to operate at base load with Coleman idled or June 1, 2014, whichever is earlier. Explain whether page 67, lines 18-23, of the Kollen Testimony is correct in its reference to when the "shutdown of the Coleman plant" will occur, or whether some revision is necessary.

RESPONSE:

The reference to the Coleman plant is correct and reflects the Company's assumption. In addition to Mr. Berry's testimony, please refer to Mr. Wolfram's Direct Testimony at 15-16 wherein he discusses Reference Schedule 1.10.

Answer provided by Lane Kollen.

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8. Refer to page 68, lines 9-16, of the Kollen Testimony wherein Mr. Kollen discusses Big Rivers' proposals to defer, amortize, and recover capacity charges from the Midcontinent Independent System Operator, Inc. ("MISO") and labor severance costs related to the shutdown of the Coleman station. At lines 14-16, Mr. Kollen states, "At the same time, the Company simply removed the Smelter surcredit revenues in the test year, thereby increasing the revenue requirement, even though it too is nonrecurring." Mr. Kollen states that nonrecurring revenues and expenses should all be either "removed as nonrecurring and ignored in the revenue requirement or they all should be removed, deferred, and amortized in the revenue requirement." His recommendation is that, if the MISO charges and severance costs are incurred, they should be removed, deferred, and amortized, which he also recommends for the Coleman station layup expenses (Kollen Testimony, pages 64-65). Explain whether Mr. Kollen intended to make a recommendation regarding the "Smelter surcredit revenues," which he identified as also nonrecurring.

RESPONSE:

Mr. Kollen supports such an adjustment, but limited the adjustments that he addressed in his testimony to those with a larger dollar impact.

Answer provided by Lane Kollen.

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9. Refer to page 23 of the Direct Testimony and Exhibits of Stephen J. Baron ("Baron Testimony"). Beginning at line 11, Mr. Baron recommends modification of the Large Industrial tariff to permit customers to receive up to 15 percent of their energy and demand requirements at market-based rates. He also recommends that these customers be permitted to gradually increase the percentage by 5 percent per year up to a maximum of 25 percent.

a. Explain how the recommended percentages were determined.
b. Provide the effect it would have on revenue requirements for the test year, along with the supporting calculations, if this proposal were approved.
c. Refer to page 24 of the Baron Testimony wherein Mr. Baron states that his proposal is "generally consistent" with Big Rivers' Large Industrial Customer Expansion "("LICX") tariff. State whether Mr. Baron is aware that Big Rivers is proposing to eliminate its LICX tariff in this proceeding.
d. Explain whether KIUC supports or opposes Big Rivers' proposal to eliminate its LICX tariff.
e. Explain whether KIUC supports or opposes Big Rivers' overall rate design proposed in this proceeding.

RESPONSE:

a. Mr. Baron's recommend level of initial market based purchases, annual escalation percentage and 25% maximum were all based on Mr. Baron's judgment and not based on any specific analysis. The purpose of the proposal, which is recommended by KIUC only in the event that the Commission does not require that the RER be applied in a non-discriminatory manner to both Rural and Large Industrial customers, is to mitigate the impact on Large Industrial customers from the very large increases that would be imposed pursuant to Big Rivers' rate increase request in this case. The impact on Big Rivers, and the mitigation

benefit of this KIUC proposal, are both clearly a function of the level of market prices compared to Big Rivers effective Large Industrial rate.

b. Mr. Baron has not performed this calculation or analysis. In particular, Mr. Baron has not performed any analysis to determine the amount of Large Industrial load (up to 15% in year 1) that would elect to participate in this optional market based program, nor does Mr. Baron have an analysis of the market prices that would be effective during the projected test year in this case.

c. Yes.

d. KIUC does not take a position on this issue.

e. KIUC supports rate design that reflects cost of service; in particular setting rate schedule energy rates at or near the unit cost of energy/kWh and setting rate schedule demand charges at or near the unit cost of demand/kW, based on a reasonable class cost of service study. KIUC has not taken a position specifically on the Large Industrial rate class rate design proposals made by Big Rivers in this case.

Answer provided by Stephen J. Baron.