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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

In the Matter of:

2017 INTEGRATED RESOURCE PLAN )  
OF BIG RIVERS ELECTRIC CORPORATION ) CASE NO. 2017-00384

**ATTORNEY GENERAL'S COMMENTS**

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“Attorney General”), and submits these Comments, in regards to the Integrated Resource Plan (“IRP”) Big Rivers Electric Corporation (hereinafter “Big Rivers” or the “Company”) filed on September 21, 2017.

**Background**

The scope and requirements of IRP filings are addressed in 807 KAR 5:058. Big Rivers’ most recent IRP plan, prior to the instant one, was filed on May 5, 2014.<sup>1</sup> The 2014 IRP directly followed Big Rivers’ most recent rate cases,<sup>2</sup> which were precipitated by the loss of two large customers in 2013 and 2014, aluminum smelters who terminated their power supply contracts with the Company. The loss of those two customers reduced the Company’s total load by approximately 850 MW.<sup>3</sup> Even now, Big Rivers continues to grapple with the lingering effects of the loss of the smelters whose combined load represented nearly 50% of the Company’s total generation resources.<sup>4</sup> In the Final Order of the Company’s most recent base rate case, the Public Service Commission (“Commission”) ordered a focused management audit of the Company to evaluate “the strategic planning, management, and decision-making of Big Rivers relating to the mitigation

<sup>1</sup> Case No. 2014-00166, *2014 Integrated Resource Plan of Big Rivers Electric Corporation* (“2014 IRP”).

<sup>2</sup> Case No. 2013-00199, *Application of Big Rivers Electric Corporation for a General Adjustment in Rates Supported by Fully Forecasted Test Period*; Case No. 2012-00535, *Application of Big Rivers Electric Corporation for an Adjustment of Rates*.

<sup>3</sup> Application, Case No. 2017-00384, *2017 Integrated Resource Plan of Big Rivers Electric Corporation* (“IRP”) at 39.

<sup>4</sup> Application, 2014 IRP at 3.

efforts” and to provide guidance for further action in addressing the loss of the smelters going forward.<sup>5</sup>

### **Discussion**

Big Rivers’ planning goals and objectives in the 2017 IRP are unchanged from those included in the 2014 IRP.<sup>6</sup> The Company does note that in regards to the focused management audit which was completed in late 2015, only three of the five final recommendations were relevant in its development of the current IRP.<sup>7</sup> Namely, that it should continue to develop in-house expertise regarding price forecasting and MISO market knowledge to the extent that it supports the Company’s core business; that it should keep the Wilson plant in operation while revisiting options for it in the next two to three years, and study whether the sale, retirement, or redevelopment of the Coleman station would be the best way forward; and that it should continue its pursuit of increased sales for both existing and new load, including new members.<sup>8</sup>

As to its in-house MISO market expertise, Big Rivers says that it began this process in the fall of 2014, and continues to further develop the same as an ongoing commitment.<sup>9</sup> The Company pointed to industry uncertainty, especially in operations and environmental requirements, as prompting its initial development of a dedicated planning group to focus on forecasting and modeling trends in the broader market.<sup>10</sup> The Attorney General agrees with the Company’s proactive approach here and would advise that the Company continue to devote resources to the planning group and focus on deepening its in-house market knowledge insofar as it supports Big Rivers’ core business, as is specified in the original recommendation.

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<sup>5</sup> See Final Order, Case No. 2013-00199 at 43-48.

<sup>6</sup> Application, IRP at 15; Application, 2014 IRP at 9.

<sup>7</sup> IRP at 40; Big Rivers Management Audit Report and Big Rivers Action Plan available at [http://psc.ky.gov/PSC\\_WebNet/Static\\_Presentations.aspx](http://psc.ky.gov/PSC_WebNet/Static_Presentations.aspx)

<sup>8</sup> Application, IRP at 40.

<sup>9</sup> *Id.*

<sup>10</sup> Big Rivers Response to AG 1-6, IRP.

The planning group formed by the Company in early 2015 was also tasked with addressing the uncertainty around the Coleman and Wilson power plants, and evaluating the alternate scenarios of sale, conversion, return to service, or eventual retirement in place.<sup>11</sup> The Company idled the Coleman station in May of 2014, and it has remained idle since.<sup>12</sup> Reid Unit 1 was also idled in April of 2016 for economic reasons.<sup>13</sup> In the 2014 IRP, Big Rivers projected that Coleman may restart sometime between 2016 and 2019.<sup>14</sup> In the instant IRP, the Company detailed the annual staffing costs of restarting the Coleman plant, which did not include the additional costs of bringing it into compliance with current state and federal environmental regulations.<sup>15</sup> There would also be a long lead time for Coleman to reenter service due to the MISO procedure for restoring interconnection service to the plant.<sup>16</sup> Meanwhile, the total cost to keep Coleman idled in 2016 and 2017 ranged between \$2.5 and \$2.8 million, respectively.<sup>17</sup>

In the April 3, 2017 progress report for the focused management audit, the Company provided estimated changes to base rates for alternate scenarios in its Coleman financial analysis.<sup>18</sup> In the most recently provided progress report, filed October 4, 2017, the Company stated that the financial analysis regarding the Clean Power Plan compliance options will not be complete until there is more clarity around the future of the Clean Power Plan itself—which is in turn necessary to make a final decision on the future of Coleman and to address the optionality regarding Wilson.<sup>19</sup> The Company projected possible results on this by the fourth quarter of 2018 at the

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<sup>11</sup> *Id.*

<sup>12</sup> Application, IRP at 41.

<sup>13</sup> Big Rivers Response to Sierra Club 1-18, IRP.

<sup>14</sup> Application, 2014 IRP at 37.

<sup>15</sup> See Big Rivers Response to AG 2-9, IRP.

<sup>16</sup> Big Rivers Response to AG 2-2, IRP (which details that the minimum timeline would begin at 505 days and would increase from there based on “the duration of the longest critical path task to return Coleman to service”).

<sup>17</sup> Big Rivers Response to SC 1-5, IRP.

<sup>18</sup> Big Rivers Response to SC 2-1.b, IRP.

<sup>19</sup> *Id.*

earliest.<sup>20</sup> Regardless of its eventual fate, the Attorney General maintains that the Big Rivers must ensure that any costs relating to Coleman, including depreciation expense, should be treated in such a way as to ensure that ratepayers are not burdened with paying exorbitant and unnecessary costs which the vast majority of customers did not incur. It is clear that the idled units represent excess capacity, and the treatment as previously contemplated and ordered by the Commission was and remains reasonable to guard against these costs which could potentially be borne by ratepayers.<sup>21</sup>

As to the recommendation to continue pursuing increased nonmember sales, the Company shows good results. Once each of the various agreements with KyMEA, Owensboro Municipal Utilities, and the Nebraska wholesale entities have begun and are fully phased in by 2022, Big Rivers will have been able to fully mitigate the loss of the aluminum smelters' load and have more stabilized, consistent revenue.<sup>22</sup> Furthermore, a short-term capacity sale agreement with the Missouri Municipals provides some further stability for MISO capacity auction clearing prices.<sup>23</sup> The Company explains that its long-term goal is to grow its native, member-owner load to eventually fully offset the load voided by the smelters, but states that long-term agreements like the ones presented here will achieve that result on a temporary basis until native load can be successfully increased to the necessary level.<sup>24</sup> The Company also sells energy in the day-ahead MISO market while "at least partially hedging the price that the Company would realize using financial and physical instruments."<sup>25</sup> The Attorney General is optimistic that these sales and purchase agreements, some of which are still yet to begin operation, will prove to be a stabilizing

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<sup>20</sup> *Id.*

<sup>21</sup> Final Order, Case No. 2012-00535, at 19–20.

<sup>22</sup> Big Rivers Response to AG 1-14, IRP.

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*

<sup>25</sup> Application, IRP at 41.

force and a net benefit for both the Company's revenue and load. However, he is somewhat concerned by how long it may take the Company to increase member-owner load to the amount the smelters previously took, and would advise that further long-term agreements may be necessary over that time horizon to adequately offset lost load.

Even with this addition of load, Big Rivers projects that it will have an abundance of excess capacity.<sup>26</sup> The Company's current total capacity is 1,795 MW.<sup>27</sup> The Company's allotment of capacity from SEPA will increase from 154 to 178 MW in 2019, which would bring its total capacity back to 1,819 MW.<sup>28</sup> Currently idled generation resources include the Coleman (443 MW) and Reid (130 MW) plants, representing a total of 573 MW of idled capacity.<sup>29</sup> Through 2031, the Company estimates that it will need no new generation in order to meet its projected load and retain an adequate reserve margin.<sup>30</sup>

The Company has taken steps to address some of this excess capacity. In Case No. 2018-00146, Big Rivers' request for a declaration finding that the Henderson Municipal Power and Light ("HMPL") Station Two is no longer economically viable and confirming the termination of the Station Two Contracts, except for the Joint Facilities Agreement, was granted by the Commission, who agreed that the units at issue were "no longer capable of 'normal, continuous, reliable operation for the economically competitive production of electricity,'" as specified in the Station Two Contracts.<sup>31</sup> The Commission further found Big Rivers' request to continue operating Station Two until May 31, 2019 unless it reaches a settlement with the city of Henderson or the Commission orders otherwise, reasonable and granted the same.<sup>32</sup>

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<sup>26</sup> *Id.* at 9.

<sup>27</sup> *Id.* (This number includes the idled Coleman and Reid plants).

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

<sup>30</sup> *Id.* at 19

<sup>31</sup> PSC Order August 29, 2018, Case No. 2018-00146.

<sup>32</sup> *Id.*

The Company has also begun to explore the possibility of renewable generation. In the IRP, Big Rivers described the completion of a project to construct seven small solar arrays totaling 120 kW of direct current at the end of 2017, which are located at sites across its service area.<sup>33</sup> The Company stresses that these solar arrays are intended to be educational in nature, to provide clear information about photovoltaic generation, and that they do not represent an effort by the Company to expand solar power within its service territory.<sup>34</sup> However, the Commission’s final order in the case granting permission to construct the solar arrays noted that this project would enable the utility to “add renewable resources to its generation portfolio and to begin to diversify its fuel sources ... [and] gain valuable experience with owning renewable resources.”<sup>35</sup> The order also noted that the demonstrated primary need for proposed construction was “to respond to Member demand.”<sup>36</sup>

The Attorney General is aware that the current prices for renewable generation are generally not competitive with the cost to build other generation. However, he would note that the Company’s own estimates show prices for fixed solar are projected to steadily decline from 2017 to 2031,<sup>37</sup> though the Company later pointed out a price spike for solar during the second half of 2017.<sup>38</sup> The Company also confirmed that in its projections for planning new generation, the only scenario in which it would currently plan to build solar generation is one in which the Commonwealth of Kentucky adopted renewable portfolio standards.<sup>39</sup> The Company further

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<sup>33</sup> Big Rivers Response to AG 1-4, IRP.

<sup>34</sup> Application, 2017 IRP at 9; Big Rivers Response to AG 1-4, IRP.

<sup>35</sup> Final Order, at 4, Case No. 2016-00409, *Application of Big Rivers Electric Corporation for an Order Declaring the Construction of Seven Solar Power Facilities to be Ordinary Extensions of Existing Systems in the Usual Course of Business*, (March 30, 2017).

<sup>36</sup> *Id.*

<sup>37</sup> See Big Rivers Response to Sierra Club 1-23.b, IRP.

<sup>38</sup> See Big Rivers Response to AG 2-3, IRP.

<sup>39</sup> Big Rivers Response to AG 1-5; IRP at 133–134.

indicated that onshore wind resources were not considered in the IRP process “due to the lack of viable locations for wind energy to be built in northwestern Kentucky.”<sup>40</sup>

The Attorney General would like to continue to see evidence that the Company is at least seriously evaluating the current market cost for different, diverse renewable resources and considering long-term buildout of new renewable generation as an option, if and when it may be cost-effective to build. As the solar array project demonstrated, the interest in renewables from the Company’s cooperative members may only continue to grow. Big Rivers should treat renewable energy as a serious supply-side resource, at least in consideration of the fact that the utility is under an obligation to build and operate least-cost generation.

Most importantly though, the Attorney General urges Big Rivers to continue to give due consideration to the overall state of its current generation fleet, and that in moving forward it formulate a transparent plan to timely address its findings and chosen course of action. Although the ultimate decisions regarding the fate of Big Rivers’ currently idled generation units, and its future needs, may rely in part upon prevailing market forces, the Company should nevertheless strive to preemptively develop plans to ensure resource adequacy while safeguarding against unreasonable rates.

### **Conclusion**

The Attorney General recognizes the progress that Big Rivers has made since its last IRP, and notes the current relative stability of the utility in comparison to the recent past. In order to continue this advancement, the Company should be both measured and deliberate in its strategic decisions moving forward, by continuing to show evidence of progress in complying with the recommendations of the focused management audit and through seeking proactive solutions. As a

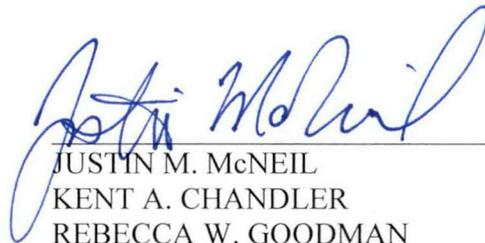
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<sup>40</sup> Big Rivers Response to Sierra Club 1-21, 2017 IRP.

member owned cooperative utility, Big Rivers must equitably balance its forward looking strategy against the needs of its members.

Respectfully submitted,

ANDY BESHEAR  
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Counsel certifies that an original and ten (10) photocopies of the foregoing were served and filed by hand delivery to Gwen R. Pinson, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

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This 12<sup>th</sup> day of October, 2018

  
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