ORIGINAL

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy® Cooperative

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

NOTICE OF TERMINATION OF CONTRACTS	)	
AND APPLICATION OF BIG RIVERS	)	
ELECTRIC CORPORATION FOR A	)	**Case No.**
DECLARATORY ORDER AND FOR	)	**2018-00146**
AUTHORITY TO ESTABLISH A REGULATORY	)	
ASSET	)	

Response to the Attorney General's
Supplemental Information Requests
dated July 16, 2018

FILED: **July 26, 2018**

ORIGINAL

BIG RIVERS ELECTRIC CORPORATION

NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146

Response to the Office of the Attorney General's Supplemental Request for Information dated July 16, 2018

July 26, 2018

Item 1) ***Refer to Big Rivers' response to PSC DR 1-10, wherein Big Rivers states, "[t]he Commission has previously exercised its jurisdiction over the contracts at issue by approving the contracts and amendments thereto." Provide citations to all cases where the Kentucky Public Service Commission ("Commission") approved the contracts at hand, or the amendments thereto.***

Response) Please see order in Case No. 5406 (October 22, 1970) approving the Station Two Contracts; order in Case No. 94-032 (March 31, 1995) approving the 1993 Amendments to the Station Two Contracts; order in Case No. 1998-00267 (July 14, 1998) approving the 1998 Amendments to the Station Two Contracts); and order in Case No. 2005-00532 (February 24, 2006) approving the 2005 amendments to the Station Two Contracts.

Witness) Robert W. Berry

BIG RIVERS ELECTRIC CORPORATION

NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET
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Item 2) ***Refer to the attachment to Big Rivers' response to AG DR 1-5.***

a. ***Did Big Rivers request Commission approval, certificates of public convenience and necessity, or declaratory orders that the same were not necessary for any of the assets listed in the attachment? If so, provide the case number where each were requested and approved.***

b. ***If the assets listed under plant GL acct. nos. 10103125, 1010312F, or 1010312K were not approved by the Commission, explain why not. If the assets did not receive Commission approval, explain why it is proper for the Commission to create a regulatory asset to later recover these amounts***

c. ***Explain why the accumulated depreciation for the asset under plant GL acct. no. 10103125 is positive.***

d. ***Provide the in-service date, estimated total life and estimated remaining life of the assets listed in the "SII Only Assets" category. For this response, assume the contracts at issue are not terminated.***

e. ***Confirm that for Big Rivers' $89.5M remaining net book value related to SII, Big Rivers is currently only recovering through rates $3,439,211, as noted in Big Rivers' response to PSC DR 1-4.***

i. If confirmed, further confirm this depreciation rate assumes an average remaining depreciable life of Big Rivers' portion of SII assets of approximately 26 years.

ii. If confirmed, further confirm that the only amortization period for the requested regulatory asset that Big Rivers mentions in its application and associated documents is 15 years.

Response)

a. The Commission has held that a certificate of public convenience and necessity was not required for construction of the sulfur dioxide scrubber on Station Two. See order in Case No. 93-065 (July 19, 1993) (the "Scrubber Order"), which was followed by the Commission in Case No. 2012-00063 (order dated October 1, 2012). The basis for the Commission's finding is that Station Two is wholly-owned by the City of Henderson, and municipal utilities are not required to obtain a certificate of public convenience and necessity before commencing construction of utility-related facilities. Scrubber Order, page 4. In the Scrubber Order, at page 9, the Commission stated:

> While a Certificate of Public Convenience and Necessity is not required in this instance, Commission approval of any amendments to the existing power sales contract is. This Commission intends to closely review any amendments to

ensure that Big Rivers' ratepayers are protected from unreasonable and imprudent management decisions.

The Commission has approved each contract and contract amendment that requires or authorizes construction of the assets referred to in the attachment to Big Rivers' response to Item 5 of the Attorney General's Initial Request for Information. Please see Big Rivers' response to Item 1 of the Attorney General's Supplemental Request for Information.

b. The assets listed in the referenced plant GL accounts were approved by the Commission to the extent required by law and the Commission's orders. Please see Big Rivers' response to subpart a, above.

c. Per RUS Uniform System of Accounts, Bulletin 1767B-1, Section 1767.16(j)(2)(ii), the book cost of a retired depreciable asset credited to electric plant shall be charged to accumulated depreciation. The cost of removal and the salvage is also charged to accumulated depreciation. General ledger account number 10103125 includes certain retired assets that were not fully depreciated, thereby creating a positive balance in that asset's related accumulated depreciation account.

d. Big Rivers has approximately 2,200 active and retired assets included in the SII Only Assets category listed in the attachment to Big Rivers' response to Item 5 of the Attorney General's Initial Request for Information. These assets have in-service dates ranging from 1979 through January 31, 2018. Based on the engineering study completed for Big Rivers' last approved depreciation study in 2012, the estimated remaining life of the SII assets, as of January 31, 2018, is 15 years. Based on the engineering study and estimated remaining life, the estimated total life for SII is 60 years.

e. Confirmed.

i. Not confirmed. The recovery through rates of $3,439,211 is based on a composite depreciation rate across all Big Rivers' generating plants. Notwithstanding that the composite depreciation rate does not assume an average remaining depreciable life of SII assets of approximately 26 years, the use of the existing composite rate would not result in the SII investment being fully depreciated until 2043, or 26 years.

ii. Confirmed.

Witnesses) Robert W. Berry (*a. and b. only*) and
Paul G. Smith (*c., d., and e. only*)