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**NEWS RELEASE**

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# PSC Issues Management Audit of Big Rivers Electric Corp.

***Independent review suggests further efforts to offset loss of smelter loads***

**FRANKFORT, Ky. (Oct. 6, 2015)** – Big Rivers Electric Corp. will need to move more aggressively in coming years to mitigate the loss of its two largest customers, according to an independent review released today by the Kentucky Public Service Commission (PSC).

Big Rivers is relying on assumptions that may be overly optimistic and should give more consideration to measures such as selling off power plants that are no longer needed to serve the remaining customers, the review said. The review, known as a focused management audit, was conducted by Concentric Energy Advisors, Inc.

Chairman David Armstrong said the PSC appreciates the work done by Concentric.

"This report helps draw a road map for Big Rivers going forward," he said. "The PSC will work with Big Rivers to address the audit's findings and recommendations."

The PSC ordered the audit in April 2014, when it approved a rate increase requested by Big Rivers. The rate increase was the second of two requested by Big Rivers to maintain financial stability after Century Aluminum smelters in Hawesville and Sebree stopped purchasing power from the utility. Together, the two smelters accounted for about two-thirds of Big Rivers' load and revenue.

In ordering the audit, the PSC placed the focus "on the steps that Big Rivers has undertaken or should undertake to mitigate any further financial impact" from the loss of the smelters, as well as "the strategic planning, management and decision-making of Big Rivers relating to its mitigation efforts."

Under the audit process set forth in state law, the PSC selected Concentric Energy Advisors (www.ceadvisors.com) of Marlborough, Mass., as the independent consultant. Big Rivers is paying for the audit, which will cost no more than $336,700.

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Concentric reviewed the steps Big Rivers has taken thus far to mitigate the loss of load and revenue from the smelters. The auditors also examined Big Rivers' future mitigation plan and the forecasts and assumptions upon which they are based.

The auditors conducted interviews with the Big Rivers board and with top managers at both the utility and the three member cooperatives which own and purchase power from Big Rivers. The auditors also reviewed a number of documents and spoke with groups representing customers, employees and environmental interests, as well as with state lawmakers.

Concentric's report includes 23 findings. Key among them are:

- Operating generating facilities that produce more power than needed by Big Rivers' customers is not consistent with Big Rivers' mission of minimizing cost and risk for those customers, who also own the utility.
- Numerous risks in the power market could lead to more rate increases and require more action by Big Rivers to mitigate the effect of losing the smelter load.
- Big Rivers has adhered to its mitigation plan and has helped cushion the loss of the smelter load by selling power into the open market and by finding some new long-term customers.
- However, Big Rivers has been overly optimistic in its forecasts of future power prices, which has led it to lose potential customers by settings its prices too high when responding to bid solicitations.
- Big Rivers has overstated the future value of power generated by its two surplus power plants: the currently idled Coleman plant and the Wilson plant, which was to be idled last year but which remained open when Big Rivers found buyers for some of its output.
- A number of factors, principally competition from plants powered by natural gas and stricter and costly pollution controls required for coal-burning plants, would make any strategy to sell all excess capacity into the power market "risky and its success unlikely."
- Big Rivers is unlikely to eliminate its generation surplus by growth of demand in its service territory.
- The Coleman plant should remain idled and the future of the Wilson plant should be re-examined in the next two or three years. The sale of both plants, even at a loss, should be explored.
- Big Rivers should seek ways to add new members and consider merger with another cooperative or sale to another utility. Big Rivers also should explore refinancing its debt.

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Concentric distilled the 23 findings into five recommendations. They said Big Rivers should:

- Consider adding to its board a member with specific expertise in energy finance or merchant generation. This would likely require changing the cooperative's bylaws.
- Continue to develop in-house expertise in price forecasting and power market sales, but only in support of its core mission.
- Immediately begin a study of the sale, retirement or redevelopment of the Coleman plant and consider options for the Wilson plant in two or three years.
- Continue to pursue increased sales to existing customers and to new members.
- Begin discussions with its lenders and the PSC to address existing restrictions to the sale of the Coleman plant and study of financial options for such a sale.

With the completion of the audit report, the next step is for Concentric and Big Rivers to develop a set of action plans to address the audit's findings and recommendations. The action plans should be completed by the end of the year.

In conducting the audit, Concentric interviewed representatives of the Kentucky Office of Attorney General, the Kentucky Industrial Utility Customers Inc., the International Brotherhood of Electrical Workers, Century Aluminum, the Sierra Club, and the Smelter Legislative Caucus, a group of state lawmakers who represent the area.

The final audit report is available on the PSC website, psc.ky.gov.

Big Rivers is owned by the three distribution cooperatives – Jackson Purchase Energy Corp., Kenergy Corp. and Meade County Rural Electric Cooperative Corp. - to which it provides power. Together, the three cooperatives serve about 112,000 customers in 26 counties in western Kentucky. The customers include about 20 large industrial facilities.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 85 employees.

**-30-**

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**TIME LINE FOLLOWS**

# BIG RIVERS ELECTRIC CORP. TIME LINE

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| **1998** | As part of Big Rivers Electric Corp.'s bankruptcy reorganization, Big Rivers enters into a 25-year agreement with Western Kentucky Energy Corp. (a subsidiary of the former LG&E Energy Corp.) to lease its electric generating facilities, and those it operated under lease from Henderson Municipal Power and Light. Power from the plants is sold back to Big Rivers, directly to the aluminum smelters, or on the open market. Most of the power used by the smelters is at rates determined by market conditions. |
| **2003** | E.ON, which had purchased LG&E Energy in 2001, approaches Big Rivers about terminating ("unwinding") the lease agreement. |
| **2005** | Big Rivers, E.ON and Kenergy Corp., the distribution cooperative providing retail service to the smelters, sign a letter of intent to negotiate the unwind. Big Rivers and the smelters separately sign a memorandum of understanding regarding power supply arrangements to the smelters. |
| **March 2007** | Big Rivers and E.ON execute an agreement to terminate the lease. |
| **Dec. 2007** | Big Rivers and E.ON file an initial application with the PSC for approval of the unwind. The smelters support the unwinding of the lease, which will return them to buying power from Big Rivers at regulated rates. |
| **March 2009** | PSC approves the unwind, with conditions. The unwind includes payments and other benefits of about $800 million from E.ON to Big Rivers and payments of more than $90 million from E.ON and nearly $10 million from Big Rivers to the smelters. |
| **Nov. 2011** | PSC approves a 6% rate increase for Big Rivers, about two-thirds of the amount sought by the utility. |
| **Aug. 2012** | Century Aluminum gives Big Rivers one-year notice that it intends to close its smelter in Hawesville, costing Big Rivers about 40 percent of its total load and revenue. |
| **Oct. 2012** | PSC accepts a settlement in an environmental compliance and surcharge case for Big Rivers. The settlement cuts the cost of the compliance plan by 80% - to about $60 million - by removing projects no longer necessary for compliance because certain federal regulations were vacated in a court proceeding. |
| **Dec. 2012** | Big Rivers files an application to raise rates by about 19%, largely to offset the loss of revenue from the Hawesville smelter. |
| **Jan. 2013** | Alcan Aluminum gives one-year notice of its intent to close its smelter in Sebree. Century Aluminum purchases the Sebree smelter a few months later. |

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# BIG RIVERS ELECTRIC CORP. TIME LINE

**June 2013** Big Rivers files an application to raise rates by about $70 million to offset the loss of the Sebree smelter. If granted, residential electric bills would increase by $25 or $30 per month.

**June 2013** After months of negotiation, Big Rivers and Century Aluminum reach agreement on a contract that would allow the Hawesville smelter to exit the Big Rivers system and purchase power at rates set by market conditions.

**Aug. 2013** The PSC approves the contract for the Hawesville smelter. Big Rivers will provide transmission service to bring electric power to Hawesville.

**Oct. 2013** The PSC grants Big Rivers a rate increase tied to the loss of the Hawesville smelter. The increase allows about $20 million less in annual revenue than the nearly $75 million requested by Big Rivers. It raises the average monthly bill by about $17 for a typical residential customer.

**Jan. 2014** The PSC approves a contract setting the terms for the Sebree smelter to exit the Big Rivers system and purchase power at prices set by the open market.

**April 2014** The PSC grants Big Rivers a revenue increase of about $36 million – about half the requested amount – in the Sebree-related rate case. But the impact of the rate increase is deferred for at least a year because the PSC allows Big Rivers to draw on reserve funds to offset the increases. Once the reserve funds are exhausted, average residential bills will rise by about $15 per month.

In connection with the rate case, the PSC order a focused management audit to examine how Big Rivers has mitigated the effect of losing the smelter load and revenue and to evaluate the mitigation plan going forward.

**June 2014** Big Rivers idles its Coleman generating plant near Hawesville.

**Nov. 2014** Concentric Energy Advisors is selected to conduct the focused management audit of Big Rivers.

**July 2015** The PSC approves a contract under which Big Rivers will sell power to three utilities with a total of 11,000 customers, in Nebraska, beginning in 2018.

**Oct. 2015** Concentric completes its final report, which is made public by the PSC.