

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION)
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF) CASE NO.
BIG RIVERS ELECTRIC CORPORATION AS BILLED FROM) 96-327
OCTOBER 1, 1995 TO MARCH 31, 1996)

ORDER

IT IS ORDERED that Kentucky Industrial Utility Customers ("KIUC") shall file an original and 10 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. The information requested herein is due no later than November 20, 1996.

1. Concerning the informal conference held on October 11, 1996:
 - a. Provide a list of all conference participants, identifying the party each individual represented.
 - b. Provide copies of all conference notes, memorandum, and any documentation distributed or exchanged at the conference. If the conference was transcribed, provide copies of the transcript.

2. Provide KIUC's determination of Big Rivers' over- or under-recovery of environmental surcharge for the review period as shown in ES Form 5.0, 5.1, and 5.2. Include all assumptions, calculations, and other supporting documentation used in determining the over- or under-recovery. Does KIUC propose to credit or charge Big Rivers' customers with the total over- or under-recovery over a six-month period?

Questions for Russell L. Klepper

3. Refer to Klepper Direct Testimony, Exhibit RLK-4. Explain how the amounts shown for "Total R&R Funds" and "Monthly Depreciation" were determined. Include all assumptions, calculations, and other supporting documentation which Mr. Klepper used to determine the amounts.

4. Refer to Klepper Direct Testimony, pages 8 and 9.

a. Mr. Klepper states that contractor retainages are costs that Big Rivers has not incurred. Is it a more accurate statement that Big Rivers has incurred the costs, but has not had to make payment? If not, explain.

b. Why is Mr. Klepper only proposing to remove the carrying charge impact of including the contractor retainages, rather than also proposing an adjustment to monthly depreciation? If he has included a depreciation impact, identify the location in his direct testimony.

c. Would Mr. Klepper agree that after a contractor retainage is paid, the additional amount should be recognized as part of the utility plant investment and included in rate base? If no, why not?

5. Refer to Klepper Direct Testimony, Exhibit RLK-5. Explain how the amounts shown for "Acct. 232.9 Contractor Retainage" were determined. Include all assumptions, calculations, and other supporting documentation used to determined the amounts.

6. Refer to Klepper Direct Testimony, pages 9 through 14.

a. Has Mr. Klepper performed any analysis comparing, on a monthly basis, Big Rivers' cost to purchase 2.6 lb./MMBTU coal from Costain Coal, Inc. ("Costain") with its cost to utilize emission allowances?

b. If yes, provide copies of the analysis, including all supporting documentation.

c. If no, why was such an analysis not performed?

7. a. During his review of Contract No. 814, what information did Mr. Klepper have available to indicate that Costain could supply Big Rivers with 2.6 lb./MMBTU coal in sufficient quantities for the January through May 1996 period?

b. If Costain could not have provided 2.6 lb./MMBTU coal, would Mr. Klepper's position remain the same? Explain.

8. What factors should a utility consider when deciding whether it should hold or sell emission allowances? For each factor listed, explain why it should be considered.

9. Provide the weighted-average inventory cost of the wasted allowances shown in Klepper Direct Testimony, Exhibit RLK-6.

10. Refer to Klepper Direct Testimony, page 15. What documentary evidence, if any, does Mr. Klepper possess which indicates that the City of Henderson's reimbursements to Big Rivers for the shared Green plant facilities were incorrectly

calculated or not recorded as reductions to Big Rivers' environmental expenses? Provide copies of the documentary evidence identified.

11. Identify the unapproved environmental investment Mr. Klepper refers to on page 15 of his direct testimony.

Questions for Alan S. Taylor

12. Provide the weighted-average inventory cost of the wasted allowances shown in Taylor Direct Testimony, Exhibit AST-4.

13. What factors should a utility consider when deciding whether it should hold or sell emission allowances? For each factor listed, explain why it should be considered.

14. a. In preparing his testimony, did Mr. Taylor review Big Rivers' "Sulfur Dioxide Emission Allowance Management Strategy Plan," which was filed in response to the Commission's July 12, 1996 Order, Item 9?

b. If not, had Mr. Taylor reviewed the study, would he still contend that Big Rivers could have sold the emission allowances that he describes as "wasted"? Why?

15. Why didn't Mr. Taylor propose the disallowance of emission allowance expenses that were included in the surcharge calculations associated with the wasted allowances?

16. Refer to Taylor Direct Testimony, page 17. Mr. Taylor proposes to refund the amounts reported on Big Rivers' July 1995 ES Form 3.0 associated with the amortization of the 1993 allowance sale proceeds, the amortization of the carrying charge on those sales proceeds, and the amortization of Environmental Protection Agency ("EPA") auction sales proceeds.

a. Concerning the amortization of the 1993 allowance sale proceeds and the related carrying charge, why didn't Mr. Taylor propose that the amortization of the proceeds and carrying charge be recalculated to reflect a 5-month period rather than a 6-month period?

b. What amount of interest, if any, should be paid with the refund of \$287,099? Indicate the interest rate, how the interest rate was determined, and explain why it is appropriate.

17. Refer to Taylor Direct Testimony, pages 18 and 19. Was Mr. Taylor aware that Big Rivers disclosed the selling costs associated with the 1993 allowance sales in its response to the Commission's March 21, 1994 Order, Item 24, in Case No. 94-032?¹

18. At page 21 of his direct testimony, Mr. Taylor states that "jurisdictional customers should be indifferent to Big Rivers' decisions regarding the purchase of low-sulfur coal or equivalently bundled higher-sulfur coal and allowances. However, this is not the case."

a. Has Mr. Taylor performed any analyses which compare jurisdictional customers' actual costs during the review period for the higher-sulfur coal and allowances with their costs if Big Rivers had purchased the low-sulfur coal which its prospective bidders offered?

b. If yes, provide these analyses and all accompanying workpapers. State all assumptions and show all calculations.

¹ Case No. 94-032, Application of Big Rivers Electric Corporation to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements of the Clean Air Act.

c. If no analyses have been performed, what is the basis for Mr. Taylor's statement?

19. At page 23 and Exhibit AST-7 of his direct testimony, Mr. Taylor sets forth his recommended adjustment for "misallocated allowance costs."

a. Would this adjustment refund all Coleman plant allowance costs charged to Big Rivers' jurisdictional customers during the review period?

b. Provide all analyses and studies which Mr. Taylor performed to determine that jurisdictional customers did not use any power generated from the Coleman plant during the review period. Include all workpapers, show all calculations, and state all assumptions used in these analyses.

c. If Mr. Taylor has not performed any analysis or study,
(1) Why not?
(2) Why should the proposed adjustment be considered in the absence of any study or analysis?

20. Refer to Taylor Direct Testimony, pages 21 through 25.

a. Provide specific references to the record of Case No. 94-458² which substantiate the statement that "most or all of the [Coleman] plant's generation is sold to off-system customers."

² Case No. 94-458, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 1992 to October 31, 1994.

b. Provide specific references to the Commission's Orders in Case No. 94-458 where the Commission found that "most or all of the [Coleman] plant's generation is sold to off-system customers."

21. If all Coleman plant sales are jurisdictional, how would Mr. Taylor's recommendation to discontinue the allocation of bundled coal and allowance transactions change?

22. Mr. Taylor states on page 23 of his direct testimony that discontinuing the allocation of bundled coal and allowance transactions would not conflict with the Commission's Fuel Adjustment Clause ("FAC") regulation. Explain the basis for this conclusion given that the FAC regulations specifically deal with the cost of fossil fuel and that Account No. 151 does not include emission allowances.

23. Refer to Taylor Direct Testimony, pages 28 and 29.

a. In preparing his testimony, did Mr. Taylor review Big Rivers' responses to the Commission's September 6, 1996 Order, Items 17 through 21?

b. After considering the responses to Items 17 through 21, does Mr. Taylor believe that any of these projects should be included in current surcharge calculations? Explain.

Questions for Lane Kollen

24. In its response to the Commission's September 6, 1996 Order, Item 14, Big Rivers contends that there are no differences between income tax and book accounting treatments prescribed for emission allowances. Does Mr. Kollen agree with Big Rivers' position? Why?

25. Refer to Kollen Direct Testimony, pages 6 through 12. Would Mr. Kollen agree that his proposals concerning the new depreciation rates do not result in an adjustment in the current review proceeding? If no, explain.

26. Refer to Kollen Direct Testimony, pages 13 through 16.

a. Provide copies of any documents which support the statement that Big Rivers accelerated the dredging of the Coleman plant ash pond due to projected cash flow reductions.

b. Identify all accounting pronouncements or rate-making decisions which would support the separate capitalization or deferral of the dredging costs.

c. Would Mr. Kollen agree that the dredging of the ash pond extends the life of an existing asset (the ash pond) rather than creating a new asset? If no, explain.

d. Why is it appropriate to amortize the dredging costs over a six-year period? Provide copies of any studies, analyses, and reports which support this proposal.

e. Why is it appropriate to include the unamortized dredging cost in rate base when determining the debt service component? Does Big Rivers' organizational structure as a cooperative affect Mr. Kollen's position?

f. Refer to Kollen Direct Testimony, Exhibit LK-6. Explain how the amounts shown for "Dredging Cost Removal" were determined. Include all assumptions, calculations, and other supporting documentation used to determine the amounts.

Done at Frankfort, Kentucky, this 6th day of November, 1996.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:



Executive Director

**BIG RIVERS ELECTRIC CORPORATION - ENVIRONMENTAL SURCHARGE
SIX MONTH AND TWO YEAR REVIEW
RECAP OF BILLING FACTORS AND REVENUE**

For the Period _____ through _____

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Current Expense Month	E(m) Gross Environ. Surcharge Revenue Requirement [Note 1]	Total Company Revenue [Incl. FAC Excl. ES]	Environ. Surcharge Billing Factor	Net Six Month & Environ. Surcharge Billing Factor [Note 2]	Member Sales Revenue [Incl. FAC Excl. ES]	Environ. Surcharge Revenue [Note 3]	Member Sales Over/(Under) Collection [Note 4]

For each Expense Month included in the 6 Month Review Period, list the appropriate billing factors and revenues. At the 2 Year Review, provide this information for the entire review period.
Do Not Include Base Period information on this schedule.
FAC is Fuel Adjustment Clause; ES is Environmental Surcharge.

- Note 1: E(m) = Net Current Period Monthly Environmental Revenue Requirement minus Average Monthly Base Period Environmental Revenue Requirement
- Note 2: Net of the month's Environmental Surcharge Factor and the appropriate Over/(Under) Collection adjustment. Show the calculation of the Over/(Under) Collection adjustment on a separately attached worksheet.
- Note 3: Column 5 times Column 6
- Note 4: Show the calculation of the Over/(Under) Collection amount on a separately attached worksheet.

**BIG RIVERS ELECTRIC CORPORATION - ENVIRONMENTAL SURCHARGE
SIX MONTH AND TWO YEAR REVIEW
RECAP OF ENVIRONMENTAL DEBT SERVICE COMPONENTS**

For the Period _____ through _____

(1)	(2)	(3)	(4)		(5)	(6)	(7)	(8)	(9)
			Deductions						
			Accum. Deprec. on Eligible Pollution Control Plant	Unamort. Bal. of Account No. 254 - 1993 Allowance Sale		Lime and Limestone	Spare Parts and Materials & Supplies	Emission Allowances	Environ. Debt Service Component [Col. (2) + (3) - (4) - (5) + (6) + (7) + (8)]
Current Expense Month	Eligible Pollution Control Plant	Eligible Pollution Control CWIP							

For each Expense Month included in the 6 Month Review Period, list the appropriate components of the Environmental Debt Service Components. At the 2 Year Review, provide this information for the entire review period. Do Not include Base Period information on this schedule.

**BIG RIVERS ELECTRIC CORPORATION - ENVIRONMENTAL SURCHARGE
SIX MONTH AND TWO YEAR REVIEW
RECAP OF POLLUTION CONTROL OPERATING EXPENSES AND AMORTIZATION OF ALLOWANCE SALE
PROCEEDS**

For the Period _____ through _____

POLLUTION CONTROL OPERATING EXPENSES

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Current Expense Month	Depreciation Expense	Insurance Expense	Taxes Other Than Income	Operation & Maintenance Expenses	Adminis- trative & General Expenses	Total Pollution Control Operating Expenses [Col. (2) thru (7)]

AMORTIZATION OF 1993 EMISSION ALLOWANCE SALE PROCEEDS

Current Expense Month	Monthly Amortization of Allowance Proceeds	Monthly Amortization of Carrying Charge

For each Expense Month included in either the 6 Month or 2 Year Review Period, list the information indicated. Do Not include Base Period information on these schedules.