COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION, LOUISVILLE GAS AND ELECTRIC COMPANY, WESTERN KENTUCKY ENERGY CORP., WESTERN KENTUCKY LEASING CORP., AND LG&E STATION TWO INC. FOR APPROVAL OF WHOLESALE RATE ADJUSTMENT FOR BIG RIVERS ELECTRIC CORPORATION AND FOR APPROVAL OF TRANSACTION	) CASE NO. 97-204

O R D E R

IT IS ORDERED that Big Rivers Electric Corporation ("Big Rivers") shall file the original and 12 copies of the following information with the Commission no later than September 17, 1997, 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.

1. Provide a listing of each agreement (including each contract) that must be finalized to consummate the Big Rivers plan of reorganization. For each agreement listed, provide the following information: 1) the names of the parties to the agreement; 2) the regulatory agency, if any, with jurisdiction over the agreement; 3) whether the agreement is needed to consummate Phase I or Phase II of the lease transaction; and

4) the specific location in the case record where the agreement is filed or a statement that the agreement is not filed in the record.

2. For each agreement listed in response to Item 1 which is not filed in the case record, either provide an original and two copies of the agreement (or the current draft) or a statement explaining why a draft agreement does not exist and the date by which a draft agreement will be filed.

3. For each agreement listed in response to Item 1, state whether the joint applicants are requesting the Commission to: 1) approve the agreement in this case; 2) approve the agreement in some other case, in which event the other case should be described in detail; or 3) not approve the agreement because no Commission approval is necessary.

4. In response to Item 1 and Item 3 of the Commission's August 12, 1997 Order, Big Rivers stated that the employment level for the reorganized Big Rivers is expected to be 98 for Phase I and 95 for Phase II, rather than 112 as stated in the application. The reduction of 14 employees for Phase I represents a 12.5 percent change from projected employee levels.

a. Provide a complete set of organization charts which reflect all employee positions in all functional areas. Clearly indicate which employees are required to support the Western Kentucky Energy Corporation ("WKEC") transaction.

b. Provide a complete description of the duties and responsibilities of each employee, or each employee group where several employees are performing the same functions. Clearly indicate the duties required to support the WKEC transaction.

c. Provide a complete detailed discussion of how Big Rivers determined the need for each employee.

d. Provide a complete explanation of how Big Rivers determined that it could reduce the number of employees by 14 since the time it filed its application.

e. Provide a complete list of the services that will be provided to the member systems. For each service, explain how Big Rivers' costs will be recovered from the member systems.

5. In response to Item 26 of the Commission's August 12, 1997 Order, Big Rivers stated that the financial restructuring with respect to rates and ratepayers has not changed from the arrangement with PacifiCorp and that the enhanced value from Louisville Gas and Electric Company ("LG&E") did not result in further rate benefits.

a. Explain why Big Rivers reflects $25.657 million (on a present value basis) as a Big Rivers Rate Benefit in the enhancement worksheet included as page 2 of 2 in response to Item 17 of PacifiCorp Power Marketing's First Information Request.

b. Explain in detail what is meant by "Big Rivers Rate Benefit" on the enhancement worksheet.

c. If Big Rivers does not reduce member rates to reflect the $25.657 million benefit, who ultimately receives this benefit?

d. How much of the $25.657 million will be paid to Big Rivers' creditors?

e. Explain why Big Rivers' response to Item 26, that the enhanced value did not result in further rate benefits, is not in conflict with the Bankruptcy Court's

February 21, 1997 Memorandum-Opinion and Order that 50 percent of the enhanced value shall be paid to the Co-ops and Smelters in the form of annual rate reductions.

6. Refer to the response to Item 39 of the Commission's August 12, 1997 Order.

a. Provide a detailed explanation of the manner in which Big Rivers was able to customize the provisions of the contract to minimize the potential for stranded costs if the smelters left the Big Rivers' system. Cite each such provision included in the contract.

b. Provide Big Rivers' estimate of anticipated stranded costs if retail customers are eventually allowed to choose their power supplier.

c. Explain what portion of the anticipated stranded costs will be paid by the smelters.

d. Explain what portion of the anticipated stranded costs will be paid by the rural customers.

7. Refer to the response to Item 40 of the Commission's August 12, 1997 Order.

a. Are the Other Sales reflected in Appendix L sales of unused LPM power?

b. Are Other Sales arbitrage sales? If no, why not?

8. Refer to the response to Item 88 of the Commission's August 12, 1997 Order.

a. Define the term "members'" as used on line 11, page 50 of Mr. Graves' testimony.

b. Define the term "member" as used in the second line of the response to Item 88.

c. If "member" as used in the response does not refer to the ratepaying customers but to the distribution cooperatives, explain the use of "he or she" on the next line of the response.

d. If "member" as used in the response refers to the ratepaying customers, explain how they are acknowledging their satisfaction with the settlement.

e. If "member" as used in the response refers to the distribution cooperatives, explain what choice the ratepaying customers have regarding the settlement.

9. Refer to the response to Item 93 of the Commission's August 12, 1997 Order.

a. Define the term "members" as used in line 13 of the response.

b. Explain how the "members" have always chosen their power supply options.

c. When was the last time either the ratepaying customers or the distribution cooperatives chose their power supply options?

d. Explain how the distribution cooperatives reviewed their power supply options in connection with their decision to agree to this settlement. Was any lower cost power available?

e. Without retail wheeling, explain what power supply options will be available to the "members" during the term of this contract with Big Rivers.

10. Refer to the response to Item 16 of the Attorney General's ("AG") August 12, 1997 Information Request. Assume that a rate increase is necessary in 2004 due to an increase in base power cost or for labor or coal related costs. Explain why it would not be reasonable to expect the smelters to bear a portion of the rate increase.

11. Refer to the response to Item 20 of the AG's August 12, 1997 Information Request. Provide a schedule showing on a year-by-year basis the additional up-front revenue Big Rivers will receive from the smelters. Carefully explain the derivation of the calculation.

12. Refer to the response to Item 51 of the AG's August 12, 1997 Information Request. Explain in detail why cross subsidies may be acceptable in the context of achieving other public policy goals. Provide some examples.

13. Refer to the response to the Commission's August 12, 1997 Order, Item 33. Big Rivers has indicated that the expected employment level during Phase I is now 98 employees, reducing to 95 employees in Phase II. The proposed adjustment to employee pensions and benefits was based on 112.

a. Provide two revised versions of Exhibit 6, Entry 14, one reflecting 98 employees and the other reflecting 95.

b. For any other adjustment proposed by Big Rivers which is based on the estimated level of 112 employees, provide revised versions of those adjustments, one reflecting 98 employees and the other 95. Include a cross reference to the location in the application where the original adjustment was presented.

14. Refer to the response to the Commission's August 12, 1997 Order, Item 35. For the events listed below, provide the accounting entries Big Rivers made on its books, including the date the entry was made. Explain how each entry is in conformity with the requirements of the Rural Utilities Service Uniform System of Accounts ("RUS USoA"), REA Bulletin 1767B-1.

a. The establishment of the three regulatory liabilities.

b. The closing of the three regulatory liabilities to extraordinary income.

15. Refer to the response to the Commission's August 12, 1997 Order, Item 35. Big Rivers has stated that it was required to discontinue the accounting prescribed by Statement of Financial Accounting Standard ("SFAS") No. 71[1] due to its filing of a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Section 1767.13(d) of the RUS USoA states that borrowers like Big Rivers will not implement the provisions of SFAS No. 71 without the prior written approval of RUS.

a. Did Big Rivers have prior written approval from RUS to implement the provisions of SFAS No. 71?

b. Did the decision to discontinue the application of SFAS No. 71 also require prior written approval from RUS?

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[1] SFAS No. 71 - Accounting for the Effects of Certain Types of Regulation, effective for fiscal years beginning after December 15, 1983.

(1) If yes, provide copies of Big Rivers' request to RUS and the RUS response.

(2) If no, explain why prior written approval was not required.

16. Refer to the response to the Commission's August 12, 1997 Order, Item 37(a). The response does not fully answer the question. Explain why it is reasonable for Big Rivers to transfer allowances <u>purchased</u> in the current year to Western Kentucky Leasing Corporation at no cost.

17. Refer to the response to the Commission's August 12, 1997 Order, Item 38. When recording either a regulatory asset or regulatory liability:

a. Does Big Rivers place more importance on complying with SFAS No. 71 rather than the RUS USoA? Explain the response.

b. Would Big Rivers agree that its compliance with the RUS USoA should be as important as complying with SFAS No. 71? Explain the response.

18. Refer to the response to the Commission's August 12, 1997 Order, Item 39. On page 3 of 4 in this response, Big Rivers states, "No other customer offered to assure Big Rivers that it would have no obligation to sell power to that customer after a date certain prior to the time Big Rivers negotiated the contract limits for Base Power with the LG&E Parties."

a. When do the full requirements contracts between Big Rivers and the member distribution cooperatives expire?

b. Given the nature of the member distribution cooperatives' full requirements contracts, explain how this group of customers could have offered Big Rivers the assurances that the smelters apparently have made.

19. Is Big Rivers obligated to enter into transactions with third-parties to obtain power to sell to either smelter?

a. If yes, does this obligation expire on a date certain?

b. If the response to (a) is yes, what is the date?

20. Refer to the response to the Commission's August 12, 1997 Order, Item 40(b). The response states that the extent to which Big Rivers can take advantage of arbitrage opportunities is limited by the terms of the Power Purchase Agreement. Given the terms of that agreement, and the current and expected purchased power market conditions, what is the likelihood that Big Rivers will be making arbitrage power purchases? In other words, is this arbitrage option a realistic one? Explain the responses.

21. Refer to the response to the Commission's August 12, 1997 Order, Item 42(a).

a. Has Big Rivers previously indicated that the enhanced value of the WKEC proposal was $74.2 million? Provide all citations in the record prior to August 26, 1997.

b. Indicate when it was determined the enhanced value was $74.2 million rather than the reported $58.0 million.

c. Explain in detail the items included in the category "BREC Cost & Timing Changes" shown on page 2 of 2.

d. For the five groups of recipients shown on page 2 of 2, indicate how much of the $16.2 million in BREC Cost & Timing Changes each group received. Explain how this distribution was determined.

22. Refer to the response to the Commission's August 12, 1997 Order, Item 47(c). The response does not fully answer the question. If Big Rivers can meet all of the statutory tests to qualify for tax exempt status, could qualification for exempt status occur under either Phase I or Phase II? Explain the response.

23. Refer to the response to the Commission's August 12, 1997 Order, Item 48(b). Big Rivers has stated, "This minimal TIER reflects Big Rivers' desire to maximize the benefits of the proposed reorganization to its ratepayers while achieving a minimal contribution to equity improvement."

a. For each month of 1997, provide the total margins and equity for Big Rivers.

b. Explain how Big Rivers determined that a "minimal contribution to equity improvement" was desirable or reasonable.

24. Refer to the response to the Commission's August 12, 1997 Order, Item 55(b). The response needs further clarification.

a. Is it correct that all the amounts shown on line 338 of Appendix L are related exclusively to the GRCC Settlement? If no, provide the correct amounts.

b. Is it correct that the net between the amounts shown on 503 and 388 equal the amortization of the AMBAC Premium? If no, provide the correct amounts for the premium amortization and explain what other amounts are included on line 503.

25. Refer to the response to the Commission's August 12, 1997 Order, Item 57.

a. Under the terms of the Power Purchase Agreement, is Big Rivers required to purchase the maximum hourly or annual amounts, or are these "up to" amounts?

b. For each year covered in Appendix L, provide the annual percentage of load growth included for the rural customers and other large industrial customers.

c. Are "Other Sales" in 2011 any more predictable than arbitrage sales beginning in 1998? Explain the response.

d. When were the IREMM forecasted prices referenced on page 2 of 7 developed?

e. Explain in detail why the exclusion of Other Sales prior to 2011 in Big Rivers financial model is a conservative assumption.

26. Rerun the financial model in Appendix L based on the assumption that the formula used to determine the levels of Other Sales from 2011 through 2022 is applied to 1997 through 2010. Provide the following information concerning the impact of this assumption change:

a. The level of MWH sales for each year from 1997 to 2010.

b. The additional net revenues generated, including transmission, generated from the sales, for each year from 1997 to 2010.

c. A printout of lines 363 through 411 for the period of 1997 through 2010.

27. Big Rivers appears to be making the assumption that increased economic development, after the smelters leave its system, will allow it to meet the projected revenues shown as Other Sales in the financial model.

a. Does Big Rivers consider this assumption to be "conservative"? Explain the response.

b. Does Big Rivers believe it will not experience the benefits of increased economic development prior to 2011? Explain the response.

28. Refer to the response to the Commission's August 12, 1997 Order, Item 58(a). Big Rivers was requested to provide copies of any studies, written analyses, or other documentation that supports its conclusion that Big Rivers will be able to market the power represented by Other Sales in the future. Big Rivers identified a study by IREMM, Inc., but did not file it. Provide copies of the study as originally requested, subject to a petition for confidentiality if the requirements of 807 KAR 5:001, Section 7, are satisfied.

29. Refer to the response to the Commission's August 12, 1997 Order, Item 58(a). Big Rivers has cited the April 25, 1995 "Bulk Power Market Study for Western Kentucky" by IREMM, Inc. as the analysis it performed concerning Big Rivers' ability to market the power represented by Other Sales in the future.

a. Who commissioned this study?

b. Did this study evaluate the bulk power market in western Kentucky based on conditions existing in 1994? If no, identify the time period the study reviewed.

c. This study was issued prior to the issuance of the Federal Energy Regulatory Commission's ("FERC") Order Nos. 888 and 889. Describe the impact FERC Order Nos. 888 and 889 could have on the bulk power market in western Kentucky. If no impact could be expected, explain why.

d. Has this study been updated to reflect changing conditions in the bulk power market which occurred since April 25, 1995?

(1) If yes, provide copies of the updates.

(2) If no, explain why it is reasonable to base the Other Sales on assumptions that are over two years old, given the changing conditions in the electric industry.

30. Refer to the response to the Commission's August 12, 1997 Order, Item 58(b).

a. Has Big Rivers entered into any agreements with the LG&E parties which would impact Big Rivers' ability to compete with the LG&E parties when attempting to sell off-system power?

b. If yes, provide copies of the agreements and explain why this fact has not been previously disclosed in this case.

c. If no, is Big Rivers free to compete in the competitive energy market against the LG&E parties? Explain the response.

31. Refer to the response to the Commission's August 12, 1997 Order, Item 58(b). Big Rivers stated in this response that it expects to work with an experienced power marketer to make sure it can take advantage of opportunities to make off-system sales. Is Big Rivers currently working with a power marketer to make off-system sales? If yes, identify the power marketer.

32. Refer to the response to the Commission's August 12, 1997 Order, Item 62. On page 2 of 3, lines 19-26, Big Rivers expresses the hope and expectation that it will generate additional net revenues from several sources.

a. Are all three of the cited examples forms of arbitrage sales?

b. Are these the same arbitrage sales which Big Rivers characterized as being "not predictable" in its response to the Commission's August 12, 1997 Order, Item 56, page 1 of 2, lines 18-19?

33. Refer to the response to the Commission's August 12, 1997 Order, Item 76. Provide an update of this information. Include the same information as was provided in this response. In addition, provide an additional update of this information when Big Rivers files its rebuttal testimony on November 11, 1997.

34. Refer to the response to the AG's First Information Request, Item 11(c). Big Rivers states that as the system demand grows and increases beyond the maximum take from WKEC, it will have to rely on purchased power to meet customer demands. What analysis has Big Rivers provided in this case which shows it is likely that the system demand will grow or increase beyond the maximum take from WKEC? Provide the appropriate cross-references or copies of the analysis.

35. Explain why the Big Rivers Henderson Union Smelter Rate is available to Alcan for its primary aluminum smelter, whereas the Big Rivers Green River Smelter Rate is available to both NSA for its primary aluminum smelter as well as to Southwire for its Rod and Cable Mill.

36. Confirm that the Big Rivers Variable Aluminum Smelter Tariff, which was in effect from 1987 to 1997, was not available for power consumed by the Southwire Rod and Cable Mill. If yes, state the Big Rivers' tariff and Green River tariff used to serve the Southwire Rod and Cable Mill from 1987 to 1997.

37. Is the Southwire Rod and Cable Mill separately metered from the NSA primary aluminum smelter? If no, since what date have the two facilities been metered together?

38. Commission regulation 807 KAR 5:041, Section 9(2), requires a utility to "regard each point of delivery as an independent customer," and prohibits combined meter readings taken at separate points of delivery. Explain in detail how serving NSA and the Southwire Rod and Cable Mill under the Big Rivers Green River Smelter Rate is not a violation of the aforementioned regulation.

Questions 39 and 40 are directed to Big Rivers' witness Burns Mercer.

39. Refer to the response to the Commission's August 12,1997 Order, Item 39, page 3 of 4, lines 16-21. Did any of the member distribution cooperatives seek the ability to purchase any portion of its power supply from a supplier other than Big Rivers? If yes, explain when and the reasons why the member did not obtain that ability. If no, explain why no member sought that ability.

40. Explain why no member distribution cooperative raised an objection to allocating 100 percent of the LG&E enhanced value to Big Rivers' creditors, rather than allocating a portion to the members in accordance with the Bankruptcy Court's February 21, 1997 Order.

Done at Frankfort, Kentucky, this 9th day of September, 1997.

PUBLIC SERVICE COMMISSION

Linda K Breathitt

For the Commission

ATTEST:

Don Mills

Executive Director