COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION TO ADJUST ELECTRIC RATES	)))	CASE NO. 97-204

ORDER

IT IS ORDERED that the Big Rivers Electric Corporation ("Big Rivers") shall file an original and 15 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. When information requested herein, reference may be made to the specific location of said information in responding to this request. The information requested herein is due no later than March 6, 1998.

1. a. Did any of the financial exhibits in this case contain historic amounts for Big Rivers that were estimates based on the Harris Energy Management Systems, rather than actual amounts?

b. If yes, identify each financial exhibit and each estimated historic amount on that exhibit.

2. Are the documents filed on February 23, 1998, limited to a resolution of unforeseen environmental costs or do those documents also encompass unforeseen regulatory and legislative costs as referenced by the Commission at the November 24, 1997 hearing? Explain in detail the response.

3. Explain how the proposed resolution of the unforeseen cost issue will operate during Phase I.

4. Refer to the Supplemental Testimony of A. J. Robinson, Stephen Schaefer, and Mark A. Hite ("Supplemental Testimony"). Page 12 states that Big Rivers will pay the LG&E Parties $1.85 million annually for 25 years.

a. What does the dollar amount ($1.85 million) represent?

b. How was the dollar amount of this annual payment determined?

5. Refer to page 13 of the Supplemental Testimony. The testimony states that Big Rivers will compensate the LG&E Parties for "the remaining value of any capital assets which they have funded." Will capital expenditures still require the approval of Big Rivers over the lifetime of the lease?

6. Refer to page 13 of the Supplemental Testimony. It states that the "mortgage will be senior in part to the liens held by RUS." Has the Rural Utilities Service ("RUS") agreed to this provision? Explain.

7. Refer to Exhibit SUP-6. Explain the criteria for determining whether capital expenditures will qualify as "Ordinary Capital Sharing" or "Incremental Capital Cost."

8. Refer to the Supplemental Testimony, page 17. It states that Big Rivers' surplus cash from the LG&E Parties' funding of capital expenditures will be "pre-paid on the new RUS note." If Big Rivers uses its surplus cash to pay the RUS note, will Big Rivers

have the funds necessary to make a lump sum payment at the end of the lease for the remaining value of the LG&E Parties' capital expenditures? Explain.

9. Exhibit SUP-3 of the Supplemental Testimony, "BREC Base Case." shows a portion of the rural load is below the contract minimum in 2012. Explain.

10. Refer to the Supplemental Testimony, page 7, lines 16 through 25. Provide a detailed discussion of the claw back provision which clearly explains the manner in which the claw back provision will operate. The discussion should describe any limitation on Big Rivers' ability to claw back funds and should fully describe the procedure which will govern Big Rivers' application for claw back funds and the manner in which RUS will process Big Rivers' request.

11. Provide any legal document or written procedure that will govern the operation of the claw back provision. If such a document has already been provided, identify the document and section in which the reference to the claw back provision can be found.

12. Describe and clearly reference any changes relating specifically to the claw back provision that have been incorporated into Exhibit SUP-11, Supplemental Appendix L. If no changes have been incorporated, explain why not.

13. Given the assumptions that have been included in the testimony and Supplemental Testimony, provide a schedule which reflects the anticipated amount of funds that will be paid to the RUS each year that will be available for claw back. Using the same assumptions, provide a schedule which shows the funds which Big Rivers expects to request each year under the claw back provision.

14. Explain whether or not the RUS repayment schedule has been changed as a result of the claw back provision.

15. Given the assumptions provided in previous testimony and in the Supplemental Testimony, provide a schedule which reflects all the payments arising from the revisions to the transaction. Provide and discuss an economic analysis of the benefits to Big Rivers and its members resulting from the revised transaction.

16. Indicate whether the following have approved the proposed resolution of the unforeseen cost issue. If approved, state when approval was secured. If not approved, indicate when approval is expected.

a. Big Rivers' Board of Directors.

b. The Member Cooperatives' Board of Directors.

c. LG&E Energy Marketing, Inc. ("LEM").

d. LG&E Energy Corporation ("LG&E Energy").

e. Any LG&E Energy affiliates participating in the Big Rivers' transaction.

f. Alcan Aluminum Corporation ("Alcan").

g. Southwire Company ("Southwire").

17. Refer to the Supplemental Testimony, page 11. It is indicated that the guaranteed revenue stream Big Rivers will receive from the LG&E Parties associated with the LEM sales to Alcan and Southwire will be recognized on a straight-line basis through the life of the smelter contracts. This conclusion appears to be based on Statement of Financial Accounting Standard ("SFAS") No. 13, Accounting for Leases, and the assumption that this revenue stream is similar to an "adjusted" lease payment. Explain in

detail how Big Rivers concluded that the smelter revenues constituted an "adjusted" lease payment. Include any supporting citations to SFAS No. 13.

18. Refer to the Supplemental Testimony, page 12. The testimony states that the LG&E Parties will receive a mortgage in the Big Rivers assets to secure the $1.85 million annual payments, which will be senior to AMBAC and on an equal priority to the RUS liens. In the Executive Summary of the proposed resolution filed on February 20, 1998, paragraphs 5 and 10, it is stated that this security interest will be senior to the RUS but subordinate to AMBAC.

a. Indicate which statement is correct concerning the status of the mortgage.

b. Provide the specific reference to the document which establishes the status of this mortgage.

19. Refer to the Supplemental Testimony, page 16. It is indicated that Exhibit SUP-11, the Supplemental Appendix L, was based on Exhibit MH-5A, from the Rebuttal Testimony of Mark A. Hite, filed on November 11, 1997. Exhibit MH-5A is a version of Big Rivers' Appendix L financial model which reflects a possible Wilson Generating Station cost impairment. Explain why Exhibit SUP-11 was based on the Wilson impairment version of the financial model.

20. Compare Exhibit MH-5A and Exhibit SUP-11 and provide a schedule listing every change shown on Exhibit SUP-11. Identify the row and column where each change appears. Perform this comparison for the entire financial model.

21. Refer to Exhibit SUP-11. Identify the row where each of the following items are located on the financial model.

a. The Alcan and Southwire margin revenues.

b. The $1.85 million annual payments.

c. Prepayments on the RUS note generated from Big Rivers' surplus cash.

d. The LEM Advances and Big Rivers' repayments.

22. Refer to the Supplemental Testimony, page 16. It is stated that RUS has requested additional cash up front, and the smelter margin payments have been increased in the first two years and decreased for the following three years.

a. How much additional cash up front did RUS request?

b. Why was the additional cash requested?

c. Provide a schedule showing the smelter margin payments for the first five years, reflecting the original and revised payment amounts.

23. The February 20, 1998 Executive Summary states at paragraph 11 that the RUS repayment schedule shall not be changed as a result of the proposed resolution to the unforeseen cost issue. Page 17 of the Supplemental Testimony states that there have been "minor" adjustments to the RUS amortization schedule. A comparison of the Supplemental Testimony, Exhibit SUP-12 with the response to the Commission's November 13, 1997 Order, Item 4, the updated Exhibit AJR-13, shows that there have been several significant changes in the RUS repayment schedule.

a. Explain why the Executive Summary and the Supplemental Testimony have stated there would be little or no changes to the RUS repayment schedule.

b. Other than the repayment schedule beginning later and a change in the up-front payment, explain why the RUS repayment schedule shown in Exhibit SUP-12 was changed.

24. Refer to the Supplemental Testimony, page 19. It is stated that although the lease will be accounted for by Big Rivers as an operating lease, it will be required to record each generation facility at the lower of carrying amount or fair value if the criteria of SFAS No. 13, paragraphs 7(c) or 7(d) are met.

a. Explain how criteria used to determine whether a lease is to be classified as a capital or operating lease should be used to determine the recorded value of the asset leased.

b. Provide the citations to SFAS No. 13 which specifically support this position.

c. Explain how the referenced criteria from SFAS No. 13 are met by this lease transaction.

25. One of the revisions to the lease transaction related to the proposed resolution of the unforeseen cost issue discusses the possibility that Big Rivers may sell a generating facility prior to the completion of the lease term.

a. Has the inclusion of this possibility influenced Big Rivers' contention that the lease transaction is a master lease arrangement? Explain the response.

b. Does Big Rivers intend to request Commission approval prior to a sale of any generating facility?

26. Refer to the Supplemental Testimony, Exhibit SUP-4 and Schedule 2 of the February 20, 1998 Executive Summary. When these two documents are compared, the

maximum and minimum hourly and annual purchased power contract limits are not the same for the period from the beginning of the lease through 2010.

a. Indicate which set of contract limits are correct. Include references to the Power Purchase Agreement which support this determination.

b. Provide the reference in the Power Purchase Agreement which establishes the "Lower of Member Load or Minimum Hourly" limit.

27. Refer to the Supplemental Testimony, Exhibit SUP-6. For each of the sharing ratios shown, explain the basis used to determine the ratio and why it is reasonable for the particular type of cost, at the specific time period.

28. Refer to Volume I of the February 23, 1998 filing, Tab 2, the Amended and Restated Participation Agreement, Article 22. Explain the purpose for the LEM Advances.

29. Refer to Volume I of the February 23, 1998 filing, Tab 2, the Amended and Restated Participation Agreement, Article 25(e)(i) through 25(e)(v), the Residual Value Payment. In the February 20, 1998 Executive Summary, one formula for the calculation of the LG&E Residual Value Payment ("LG&E RVP") is presented. In Article 25(e), four additional formulas for the calculation of the LG&E RVP under different circumstances are presented.

a. Explain why the LG&E RVP formula presented in the February 20, 1998 Executive Summary is not listed in Article 25(e). Indicate where in the Amended and Restated Participation Agreement the formula in the Executive Summary is presented.

b. For each of the formulas presented in Article 25(e) and the Executive Summary, explain how the various values for the formula components are to be determined.

c. On page 68 of the Amended and Restated Participation Agreement, reference is made to another LG&E RVP formula, relating to the sale of subject assets during the term. Has this formula been designed and agreed to by the parties? If it has been provided in the record of this proceeding, provide the reference.

30. Refer to Volume I of the February 23, 1998 filing, Tab 2, the Amended and Restated Participation Agreement, page 69. Several sections of this document appear to be under development. Have the missing sections been finalized by the parties? If the missing language has been provided in the record of this proceeding, provide the reference.

31. Refer to Volume I of the February 23, 1998 filing, Tab 3, the Cost Sharing Agreement, Section 7.6. This section states that any capital assets funded by both Big Rivers and Western Kentucky Leasing Corporation ("Leaseco") shall be owned by Big Rivers and Leaseco in common on an undivided basis in the whole and in proportion with the total amounts funded for the purchase, addition, installation, or completion of the capital assets. Explain how Big Rivers will record these capital assets on its books.

32. Several of the agreements included in the February 23, 1998 filing have had a "Continuation of Agreement" provision added. This provision is usually made by Big Rivers and the other party to the particular agreement.

a. Explain why this provision has been added at this time.

b. Explain how this provision relates to the proposed resolution of the unforeseen cost issue.

33. Refer to Volume I of the February 23, 1998 filing, Tab 4, the Facilities Operating Agreement, Section 6.3. This section has been modified to state: "Unless the

Operating Committee unanimously approves a proposed modification, subject to the requirements of this paragraph, the Operating Committee must approve the Annual O&M Budget and the Annual Capital Budget without such modification if such unmodified budgets are consistent with Prudent Utility Practice and this Agreement."

a. Explain why this provision has been added at this time.

b. Explain how this provision relates to the proposed resolution of the unforeseen cost issue.

34. Refer to Volume I of the February 23, 1998 filing, Tabs 2 through 5. For each of the agreements presented, provide a schedule which summarizes the rights and responsibilities of the parties to each agreement. Include in these summaries revenue and expenditure amounts received or paid by each party.

35. Refer to Volume I of the February 23, 1998 filing, Tab 6, the Power Purchase Agreement, Section 17. The "Continuation of Agreement" provision is repeated in this section, both times referencing Big Rivers. Would it be correct that a "Continuation of Agreement" provision is needed for LEM? If no, explain the response.

36. Refer to Volume II of the February 23, 1998 filing, Tab 7, the Transmission Service and Interconnection Agreement. Included with the revisions to this agreement are Sections 8.1.1.12, 8.1.1.13, 8.1.1.14, 8.1.1.15, and 8.1.2.8.

a. Explain why these provisions have been added at this time.

b. Explain how these provisions relate to the proposed resolution of the unforeseen cost issue.

37. Refer to Volume II of the February 23, 1998 filing, Tab 8, the agreements related to Henderson Municipal Power and Light Station Two ("HMP&L Station Two").

Indicate when these agreements will be presented to the city of Henderson and the Henderson Utility Commission for approval. If known, when are the approvals expected?

38. Refer to Volume II of the February 23, 1998 filing, Tab 8, page 108. Concerning the "Two County Restriction" discussed in Section 10.5, provide the corresponding reference in the Henderson Union Electric Cooperative Corporation ("Henderson Union") Service Agreement relating to resales to Alcan.

39. Refer to Volume II of the February 23, 1998 filing, Tab 8, Exhibit B, "Additional Definitions to Station Two Agreement." Definition No. 14 states: "Capitalization Guidelines shall mean the guidelines attached to the Participation Agreement as Exhibit _." Have these guidelines been provided in record of this proceeding? If so, indicate the reference.

40. Refer to Volume II of the February 23, 1998 filing, Tab 8, "Station Two G&A Allocation Agreement." Provide a schedule summarizing the allocation of general and administrative expenses at the following period of time:

a. The cost allocation prior to Big Rivers' bankruptcy filing.

b. The cost allocation as of February 1, 1998.

c. Under the terms of the new "G&A Allocation Agreement."

41. Refer to Volume II of the February 23, 1998 filing, Tab 8, "Amendments to Contracts Among City of Henderson, Kentucky, City of Henderson Utility Commission, and Big Rivers Electric Corporation." Concerning payments to and receipts from the "Big Rivers Station Two Renewals and Replacements Fund" and the "Big Rivers Station Two O&M Fund," indicate the location of these payments and receipts in Exhibit SUP-11.

42. Refer to Volume II of the February 23, 1998 filing, Tab 8, "Amendments to Contracts Among City of Henderson, Kentucky, City of Henderson Utility Commission, and Big Rivers Electric Corporation," Exhibit 1. Does Big Rivers currently offer the city of Henderson economic development rates? If so, provide the current economic development rate schedule.

43. Refer to Volume II of the February 23, 1998 filing, Tab 8, "Amendments to Contracts Among City of Henderson, Kentucky, City of Henderson Utility Commission, and Big Rivers Electric Corporation," Exhibit 2.

a. Has the depreciation methodology for the Green Station FGD System Facilities been agreed upon?

b. Has this depreciation methodology been provided in the record of this proceeding? If so, provide the reference.

44. Refer to Volume III of the February 23, 1998 filing, Tab 9, Exhibit X - Definitions, No. 28. What is the purpose of the capital cost allocation percentage, and in what agreements is this percentage referenced?

45. Refer to Volume III of the February 23, 1998 filing, Tabs 15 and 16. Section 2 of the Green River ("Green River") Electric Corporation Wholesale Power Agreement and Section 2 of the Henderson Union Wholesale Power Agreement state that neither Green River, Southwire, Henderson Union, nor Alcan shall have any responsibility as a result of the revised wholesale power agreement for any stranded investment costs or exit fees of any kind whatsoever relating to the distribution cooperatives' service to the smelters.

a. Does this provision relate only to stranded costs the distribution cooperatives might be charged by Big Rivers? If not, explain.

b. If Green River or Henderson Union were charged a stranded investment cost by a third-party power supplier to Southwire or Alcan, under this provision, could that cost be recovered by the cooperative from the smelter? Explain the response.

46. Refer to Volume III of the February 23, 1998 filing, Tab 17, the New RUS Agreement, Section 5.6. Explain why this section of the agreement "remains subject to further discussion."

47. Refer to Volume III of the February 23, 1998 filing, Tab 18, the RUS Promissory Note.

a. Explain the purpose of the "Cap X Adjustment" and why this provision was added at this time.

b. Explain how the addition of the Cap X Adjustment is related to the proposed resolution of the unforeseen cost issue.

c. Is the definition of "Arbitrage Amount" the same as is used in any of the other transaction agreements? Explain the response.

d. Explain the purpose of the "Rate Reduction" provision and why this provision was added at this time.

e. Explain how the addition of the Rate Reduction provision is related to the proposed resolution of the unforeseen cost issue.

48. Refer to Volume III of the February 23, 1998 filing, Tab 20, the Restated Mortgage and Security Agreement, Section 13. Identify the subject that is addressed by this section of the agreement.

49. For each of the agreements listed, indicate how the revisions to the documents are related to the proposed resolution of the unforeseen cost issue.

a. Second Amendment to Financing and Loan Agreement between Big Rivers Electric Corporation and County of Ohio, Kentucky for 1983 Pollution Control Bonds, Volume III, Tab 21.

b. Fifth Supplemental Indenture for 1983 Pollution Control Bonds, Volume III, Tab 22.

c. Standby Bond Purchase Agreement among Big Rivers, First Trust National Association, as Trustee, and Credit Suisse First Boston relating to the 1983 Bonds, Volume III, Tab 23.

d. Reimbursement Agreement for Series 1983 Pollution Control Bonds, Volume IV, Tab 24.

e. First Supplemental Indenture for 1985 Pollution Control Bonds, Volume IV, Tab 25.

f. First Amendment to Financing and Loan Agreement between Big Rivers Electric Corporation and County of Ohio, Kentucky for 1985 Pollution Control Bonds, Volume IV, Tab 26.

g. Reimbursement Agreement for Series 1985 Pollution Control Bonds, Volume IV, Tab 27.

h. Standby Bond Purchase Agreement among Big Rivers, First Trust National Association, as Trustee, and Credit Suisse First Boston relating to the 1985 Bonds, Volume IV, Tab 28.

50. Refer to Volume IV of the February 23, 1998 filing, Tab 29, Big Rivers Transaction Tariff.

a. Is it correct that all users of Big Rivers' transmission system, including the smelters, will be charged whatever the appropriate rate is pursuant to Big Rivers' Open Access Transmission Service Tariff? If no, explain the response.

b. Describe the changes, if any, that have been made to Big Rivers' Large Industrial Customer Rate since the September 24, 1997 revisions.

Done at Frankfort, Kentucky, this 27th day of February, 1998.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Helen C. Helton

Executive Director