COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL TO MODIFY ITS MRSM TARIFF, CEASE DEFERRING DEPRECIATION EXPENSES, ESTABLISH REGULATORY ASSETS, AMORTIZE REGULATORY ASSETS, AND OTHER APPROPRIATE RELIEF	)))))))	CASE NO. 2020-00064

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. RESPONSES TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

1. Refer to the Direct Testimony of Stephen J. Baron (Baron Testimony), page 27.

a. Explain why KIUC recommends that Big Rivers Electric Corporation (BREC) file quarterly reports if the New Times Interest Earned Ratio (TIER) Credit will be updated annually.

RESPONSE:

This was a request for additional transparency in the reporting process. During the course of settlement negotiations, Big Rivers explained why annual reports would be sufficient. KIUC is satisfied with BREC filing annual reports.

b. Explain the advantage of prioritizing the amortization of the Smelter Loss Mitigation Regulatory Assets over a pro rata amortization.

RESPONSE:

The regulatory asset balance for the Focused Management Audit and deferred depreciation for Wilson and Coleman will be known amounts. As such it makes sense to write these balances off first. The regulatory asset balances for the generation assets (Reid, Coleman and Big Rivers' share of Station Two) will be the remaining net book cost of the plants plus decommissioning less net salvage. Decommissioning costs less net salvage are not now known with certainty. Therefore, because the final amount of the generation regulatory assets will not be known until many years in the future, writing these balances down last would permit a more precise determination of the final costs.

2. Refer to the Barron Testimony, page 27. Mr. Barron suggests the BREC continue to explore ways to reasonably reduce the amortization expense through methods such securitization.

a. Explain how securitization can reduce the amortization expense.

RESPONSE:

Though securitization is a complex and expensive financing tool that may require legislation to implement, it could provide benefits to Big River's customers because the interest rate used to finance the securitized assets would likely be lower than Big Rivers' debt cost. If Big Rivers does not achieve an investment grade credit rating, then the interest rate spread might warrant consideration of securitization. Notwithstanding this, securitization was only mentioned in my testimony as an illustration.

b. Provide any other methods that KIUC suggests and how the method can reduce the amortization expense.

RESPONSE:

At this point in time, KIUC is not proposing other methods that could be used to reduce the amortization expense on the retail load of the Members.

3. Refer to the Baron Testimony, page 28, regarding BREC's Member Equity cushion, which is the difference between the actual Member Equity balance and the minimum Member Equity balance that BREC must maintain under its loan agreements.

a. Explain why a 20 percent Member Equity cushion is the ideal level for BREC.

RESPONSE:

Big Rivers made the decision to maintain a 20% equity cushion to provide future flexibility. Mr. Baron has made no independent analysis of the optimal equity cushion. Notwithstanding this, there is likely no single correct amount. For the purposes of his testimony, Mr. Baron adopted Big Rivers' business judgment on this issue.

b. Confirm that, under KIUC's proposal, BREC's Member Equity cushion as a percentage of its required Member Equity will decrease each year.

RESPONSE:

Confirmed.

c. Confirm that any unused Member Equity cushion would remain available to BREC's customer absent KIUC's proposal.

RESPONSE:

Confirmed.

4. Refer to the Barron Testimony, page 28. Under BREC's loan agreements, 50 percent of annual net margins must be added to the minimum Member Equity balance. Mr. Barron recommends that the 50 percent of future net margins not required for the minimum Member Equity balance be used to annually reduce the Smelter Loss Mitigation Regulatory Assets. Explain KIUC's position if the Commission were to either place a cap on or establish an annual review of the Member Equity cushion, and when warranted, use the Member Equity cushion to reduce the Smelter Loss Mitigation Regulatory Assets similar to BREC's proposal in this proceeding.

RESPONSE:

KIUC would support that approach. During settlement discussions, Big Rivers explained that using Member Equity cannot be automatic or required because, in that event, the reduction to margins would not be deemed to be an extraordinary event. This would cause the 1.30 TIER to be routinely missed, which would be negative from a credit ratings perspective.

Respectfully submitted,

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