

ORIGINAL



COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

ELECTRONIC APPLICATION OF)	
BIG RIVERS ELECTRIC CORPORATION)	Case No.
FOR ANNUAL REVIEW OF ITS MRSM)	2022-00028
CHARGE FOR CALENDAR YEAR 2021)	

**Big Rivers Electric Corporation's
Response to the Commission Staff's
First Request for Information
dated March 22, 2022**

FILED: March 31, 2022

ORIGINAL

BIG RIVERS ELECTRIC CORPORATION

**ELECTRONIC APPLICATION OF
BIG RIVERS ELECTRIC CORPORATION
FOR ANNUAL REVIEW OF ITS MRSM
CHARGE FOR CALENDAR YEAR 2021
CASE NO. 2022-00028**

VERIFICATION

I, Paul G. Smith, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Paul Smith

Paul G. Smith

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

31st SUBSCRIBED AND SWORN TO before me by Paul G. Smith on this the
day of March, 2022.

Kathleen Polley

Notary Public, Kentucky State at Large

Kentucky ID Number

K11NPI6841

My Commission Expires

October 31, 2024



BIG RIVERS ELECTRIC CORPORATION
ELECTRONIC APPLICATION OF
BIG RIVERS ELECTRIC CORPORATION
FOR ANNUAL REVIEW OF ITS MRSM CHARGE
FOR CALENDAR YEAR 2021
CASE NO. 2022-00028

Response to the Commission Staff's
First Request for Information
dated March 22, 2022

March 31, 2022

1 Item 1) *Refer to the Application, paragraph 26, and the Direct Testimony*
2 *of Paul G. Smith (Smith Testimony), pages 6, 9–10, and 14, requesting to*
3 *automatically utilize the regulatory liability amount in excess of \$9 million*
4 *minimum annually to reduce the balance of the smelter loss mitigation*
5 *(SLM) regulatory assets. Also refer to the Commission's June 25, 2020 Order*
6 *in Case No. 2020-00064,² which stated that an automatic annual adjustment*
7 *of the SLM regulatory asset's amortization expense without Commission*
8 *approval "is untenable and ultimately inappropriate," but stated that*
9 *"BREC may request to use any deferred amount" (emphasis added) over the*
10 *\$9 million balance to reduce the SLM regulatory assets to ensure that an*
11 *adequate balance is maintained to allow BREC to achieve a times interest*
12 *earned ratio (TIER) of 1.30. Provide in specific detail the reason why BREC*
13 *now seeks an automatic utilization of the regulatory liability amount to*

² Case No. 2020-00064, *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* (Ky. PSC June 25, 2020), Order at 17–18.

BIG RIVERS ELECTRIC CORPORATION
ELECTRONIC APPLICATION OF
BIG RIVERS ELECTRIC CORPORATION
FOR ANNUAL REVIEW OF ITS MRSM CHARGE
FOR CALENDAR YEAR 2021
CASE NO. 2022-00028

Response to the Commission Staff's
First Request for Information
dated March 22, 2022

March 31, 2022

1 *reduce the SLM regulatory asset balance given the Commission's findings in*
2 *the June 25, 2020 Order regarding automatic adjustments.*

3

4 **Response)** The Order's reference to "untenable" and "inappropriate" is in reference
5 to the Settlement's proposed adjustment mechanism, which included an automatic
6 reduction in amortization expense in any year in which Big Rivers' TIER would have
7 been below a 1.30 TIER. The Commission did not adopt the proposed mechanism,
8 stating that the proposed mechanism "merely reduces the likelihood the SLM
9 Regulatory Assets are not timely amortized." (June 25, 2020 Order at page 18).

10 The Commission's Order provides that "[t]his regulatory liability will only be
11 used to reduce the SLM Regulatory Assets or help BREC achieve a TIER of 1.30."
12 (June 25, 2020 Order at page 18). Because Big Rivers does not project having a TIER
13 of less than 1.30 in the foreseeable future, the annual delay of requiring a formal
14 request to utilize amounts in the regulatory liability account in excess of the
15 minimum serves only to postpone the reduction in SLM Regulatory assets being
16 recorded until the following calendar year. Further, in the event Big Rivers'

BIG RIVERS ELECTRIC CORPORATION
ELECTRONIC APPLICATION OF
BIG RIVERS ELECTRIC CORPORATION
FOR ANNUAL REVIEW OF ITS MRSM CHARGE
FOR CALENDAR YEAR 2021
CASE NO. 2022-00028

Response to the Commission Staff's
First Request for Information
dated March 22, 2022

March 31, 2022

1 projections of its financial condition change, the Commission's Order directs Big
2 Rivers to file a case if it "reasonably believes the likelihood that the regulatory
3 liability balance is insufficient for BREC to achieve a TEIR of 1.30 is probable." Big
4 Rivers believes that this requirement and the minimum \$9 million balance are
5 currently sufficient protection and that the Commission should approve allowing Big
6 Rivers to automatically accelerate amortization of the SLM Regulatory Assets in
7 years in which Big Rivers has surplus margins.

8

9

10

11 **Witness)** Paul G. Smith

BIG RIVERS ELECTRIC CORPORATION
ELECTRONIC APPLICATION OF
BIG RIVERS ELECTRIC CORPORATION
FOR ANNUAL REVIEW OF ITS MRSM CHARGE
FOR CALENDAR YEAR 2021
CASE NO. 2022-00028

Response to the Commission Staff's
First Request for Information
dated March 22, 2022

March 31, 2022

1 Item 2) *Refer to the final Order in Case No. 2020-00064, page 18. Here,*
2 *the Commission established a regulatory liability to be only used to reduce*
3 *the SML Regulatory Asset or help BREC to achieve a TIER of 1.30. The*
4 *Commission found that BREC should retain a minimum balance in this*
5 *regulatory liability of \$9.0 million, but BREC may request to reset this*
6 *amount as interest expense changes.*

7 a. *Refer to the Smith Testimony, page 11. Explain whether the savings*
8 *realized from S&P Global Ratings credit rating upgrade supports a*
9 *change in the \$9.0 million minimum balance.*

10 b. *Refer to Case No. 2021-00468.³ BREC applied for and received*
11 *approval to issue evidences of indebtedness for \$150.0 million.*
12 *Explain and provide support as to whether the additional*
13 *indebtedness supports a change in the \$9.0 million minimum*
14 *balance.*

³ Case No. 2021-00468, *Electric Application of Big Rivers Electric Corporation for Approval to Issue Evidences of Indebtedness* (Ky. PSC Mar. 16, 2022).

BIG RIVERS ELECTRIC CORPORATION
ELECTRONIC APPLICATION OF
BIG RIVERS ELECTRIC CORPORATION
FOR ANNUAL REVIEW OF ITS MRSM CHARGE
FOR CALENDAR YEAR 2021
CASE NO. 2022-00028

Response to the Commission Staff's
First Request for Information
dated March 22, 2022

March 31, 2022

1 c. *Refer to Case No. 2021-00026.⁴ BREC requested and received a*
2 *declaratory order from the Commission authorizing the issuance of*
3 *indebtedness of \$97.1 million. Explain and provide support as to*
4 *whether or not the additional indebtedness supports a change in the*
5 *\$9.0 million minimum balance.*

6
7 **Response)**

8 a. The annual savings realized following the S&P credit rating upgrade
9 equates to approximately \$165,000, or an increase in net margins of
10 approximately \$50,000 at a 1.30 TIER. Big Rivers does not believe the
11 \$50,000 increase in net margins warrants a corresponding increase in the
12 minimum regulatory liability account balance.

13 b. As the referenced debt has not been issued, and will only incur a partial
14 year interest expense in 2022, Big Rivers does not believe the minimum

⁴ Case No. 2021-00026, *Electronic Application of Big Rivers Electric Corporation for a Declaratory Order or an Order Authorizing the Issuance Evidences of Indebtedness* (Ky. PSC Mar. 26, 2021).

BIG RIVERS ELECTRIC CORPORATION
ELECTRONIC APPLICATION OF
BIG RIVERS ELECTRIC CORPORATION
FOR ANNUAL REVIEW OF ITS MRSM CHARGE
FOR CALENDAR YEAR 2021
CASE NO. 2022-00028

Response to the Commission Staff's
First Request for Information
dated March 22, 2022

March 31, 2022

1 regulatory liability account balance should be increased at this time.
2 However, the impact of this financing on the minimum regulatory liability
3 account balance will be re-evaluated when filing the Annual MRSM Review
4 in 2023.

5 c. The annual interest charge on the \$97.1 million debt issuance equates to
6 approximately \$1.8 million, or an increase in net margins of approximately
7 \$540,000 at a 1.30 TIER. Big Rivers does not believe the \$540,000 increase
8 in net margins warrants a corresponding increase in the minimum
9 regulatory liability account balance; however, the impact of this financing
10 on the minimum regulatory liability account balance will be re-evaluated
11 when filing the Annual MRSM Review in 2023.

12
13

14 **Witness)** Paul G. Smith

BIG RIVERS ELECTRIC CORPORATION
ELECTRONIC APPLICATION OF
BIG RIVERS ELECTRIC CORPORATION
FOR ANNUAL REVIEW OF ITS MRSM CHARGE
FOR CALENDAR YEAR 2021
CASE NO. 2022-00028

Response to the Commission Staff's
First Request for Information
dated March 22, 2022

March 31, 2022

1 **Item 3)** *Refer to the Application, the Smith Testimony, Exhibit Smith-2,*
2 *Exhibit Smith-3, Exhibit Smith-4, and Exhibit Smith-5. Provide these*
3 *exhibits in Excel spreadsheet format with all formulas, columns, and rows*
4 *unprotected and fully accessible.*

5

6 **Response)** Please see the three (3) attachments in Excel spreadsheet format filed
7 with this response, and the confidential attachment in Excel spreadsheet format,
8 Application Exhibit Smith-2, filed with Big Rivers' Motion for Confidential
9 Treatment.

10

11

12 **Witness)** Paul G. Smith

Attachments
Provided Separately
in Excel Format