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From: Tyson Kamuf

Subject: Big Rivers Electric Corporation

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March 30, 2009

**Via Facsimile and
Federal Express**

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard, P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: In the Matter of: Notice and Application of
Big Rivers Electric Corporation for a General
Rate Adjustment in Rates, P.S.C. Case No. 2009-00040

Dear Mr. Derouen:

Enclosed on behalf of Big Rivers Electric Corporation are an original and seven (7) copies of Big Rivers' response to the data request from the March 26, 2009, hearing. I certify that a copy of this letter and a copy of the responses have been served on the attached service list.

Sincerely,



Tyson Kamuf

TAK/ej
Enclosures

cc: Mark A. Bailey
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BIG RIVERS ELECTRIC CORPORATION
PSC CASE NO. 2009-00040

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BIG RIVERS ELECTRIC CORPORATION'S RESPONSE TO THE INFORMATION
REQUESTED AT THE MARCH 26, 2009, HEARING
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1 Item 1) Please provide the test year other sales (arbitrage) amount from which Big
2 Rivers made its \$18,889,357 *pro forma* adjustment.
3
4 Response) At the March 26, 2009, hearing, during cross examination of C. William
5 Blackburn, Mr. Kurtz requested the actual number for Big Rivers' historical test
6 year other sales (arbitrage) from which Big Rivers had made its \$18,889,357 *pro*
7 *forma* adjustment contained in Exhibit Seelye-2 Schedule 1.11. Because Big Rivers
8 separately had stated that it had used a *pro forma* \$32,151,607 net arbitrage
9 margin in Exhibit Seelye-2 Schedule 1.11, Mr. Kurtz stated that Big Rivers should
10 present an approximately \$51,000,000 arbitrage amount for the historical test year.
11 However, as explained below, Exhibit Seelye-2 Schedule 1.11 also incorporates the
12 *pro forma* adjustments reflecting differences in the amounts of Big Rivers' off-
13 system power purchases for its native load. Accordingly, there is no \$51,000,000
14 figure and the below description and attached schedule reconciles other sales
15 (arbitrage) between the *pro forma* and the historical test year of December 1, 2007
16 through November 30, 2008
17
18 For purposes of clarification, the various *pro forma* adjustments as compared to the
19 historic test year are explained in line by line detail below.
20
21 Lines 1-17 present Big Rivers' Electric Energy Revenue – Non-Tariff Energy Sales
22 (Accounts 447.171 ~ 447.299). Line 17, the total electric energy revenue, tracks line
23 1 of Exhibit Seelye-2 Schedule 1.11. As shown, lines 3-7 reflect sales volumes to the
24 Smelters (as Tier 3) and to the general off-system market. Certain portions of the
25 sales to the Smelters in the test year and the *pro forma* were made as a Tier 3 pass-
26 through from Southern Illinois Power Cooperative ("SIPC"), and this is reflected on
27 line 5. The historical test year reflects a series of system sales that were made by
28 Big Rivers to the Smelters totaling 1,084,380 MWh. The *pro forma* reflects

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1 increased sales to the Smelters for a total of 1,252,680 MWh. These *pro forma*
2 Smelters sales, shown on line 4, include projected Tier 3 sales through the end of
3 August at a weighted average of three contractually specified firm prices (a
4 weekday 5-16 price, a weekend 2-16 price, and a 7-8 off-peak price). These sales
5 also include a 30 MW fully interruptible sale to the two Smelters at \$44/MWh.
6 Market sales were 777,382 MWh in the historical test year but are projected to
7 decline to 362,015 MWh in the *pro forma* adjustment as shown on line 6.

8

9 Big Rivers projects reduced off-system market sales on line 6 for two principal
10 reasons. The primary reason that off-system sales volumes are projected to decline
11 is a function of the forward power curve projections used in the *pro forma*
12 adjustment (the January 22, 2009 Forward Curve). During the historical test year,
13 Big Rivers was able to make a high volume of weekend and nighttime sales at times
14 when its price from E.ON was less than prevailing market prices. Due to lower
15 projected prices in the forward power curve projections (as discounted to reflect the
16 non-firm nature of those sales), Big Rivers' price from E.ON at times is projected to
17 be higher than market and thus the same level of weekend and nighttime volumes
18 are not projected to be made in the *pro forma*. Recent experience has reflected the
19 validity of these forward curves as Big Rivers currently is seeing non-firm prices
20 below \$20/MWh.

21

22 Second, as noted by Mr. Blackburn at the hearing, Big Rivers' power portfolio
23 includes its power purchases from E.ON and an existing allocation of power from
24 the Southeastern Power Administration ("SEPA"). Although in the past Big Rivers'
25 SEPA entitlement was firm, it has been non-firm "run-of-the-river" for several years
26 due to problems that have been experienced at SEPA's Wolf Creek facilities. The
27 amount of SEPA power that Big Rivers receives is a limitation on the amount of

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1 power Big Rivers can sell off system as well as being a limitation on what Big
2 Rivers can schedule during its peak demand. For purposes of the *pro forma*, Big
3 Rivers has included from SEPA the 30 year average run of the river amount it can
4 expect. While Big Rivers has used this 30 year average as the closest approximation
5 of the expected seasonal and yearly variation in river flow, the actual amount that
6 will flow in a particular summer will fluctuate depending upon how wet the
7 summer is.

8
9 Lines 8 through 12 reflect the weighted average prices per MWh experienced in the
10 historical test year as compared to the *pro forma*. As can be seen on line 9, the
11 Smelter prices for Big Rivers' power remain roughly comparable, and reflect the
12 differences between the terms actually incorporated in test year contracts as
13 compared to the prevailing terms in the 2009 contracts used in the *pro forma*. For
14 market sales, there is a decline in the weighted average price from \$50.40/MWh to
15 \$37.11/MWh as shown on line 11. This again is a function of the January 22, 2009
16 Forward Curve prices used, which generally show declining market prices as
17 discounted to reflect a view of hourly non-firm prices vs. forward curve pricing.
18 Although the *pro forma* was based on January 22 Forward Curves, as Mr.
19 Blackburn noted at the hearing the March projections now reflect an even lower
20 forward power curve.

21
22 Lines 13 through 17 display the projected arbitrage revenue (calculated as the sales
23 volumes in lines 4-7 multiplied by the weighted average prices in \$/MWh contained
24 in lines 9-12). As can be seen, Smelter revenues increase by \$4,035,826 in the *pro*
25 *forma* adjustment. This reflects the assumption that the Smelters will be served
26 with Tier 3 power at the 2009 contract prices through the end of August, 2009.
27 However, it is worth noting that the \$56,503,223 of Smelter revenues shown in line

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1 14 for the *pro forma* includes revenues from a total of 30 MW of fully interruptible
2 7x24 sales to Alcan and Century, neither one of which is now being taken due to
3 reductions in production at the two smelters. Further, should the unwind
4 transaction be abandoned earlier than the end of June, the Tier 3 sales can be
5 terminated 60 days thereafter, and thus sales at the contract price may not extend
6 through the end of August as included in this *pro forma*.

7
8 Line 16 shows that market sales revenues decline by \$25,747,975 in the *pro forma*
9 as compared to the test year. This is a function of both the lower projected prices
10 and the reduced volumes explained above. The combined effect of the increased
11 projected Smelter revenues and the decreased projected market revenues is a *pro*
12 *forma* revenue reduction of \$21,712,149, which amount was reflected on Exhibit
13 Seelye-2, Schedule 1.11.

14
15 Lines 18-22 present the derivation of Big Rivers' Other Operating Revenue and
16 Income (Account 456) and the amount shown on line 22 for Other Operating
17 Revenue and Income corresponds to Exhibit Seelye-2, Schedule 1.11.

18
19 Line 23 then totals line 17 Total Electric Energy Revenue and line 22 Total Other
20 Operating Revenue and Income to present the Total Revenue. As shown, the *pro*
21 *forma* adjustment in total revenue is \$16,265,055 and tracks the amount reflected
22 in line 4 of Exhibit Seelye-2, Schedule 1.11.

23
24 Lines 24-29 reflect the \$/MWh costs associated with making the sales to the
25 Smelters and the market and include purchased power cost, transmission payments,
26 and other costs associated with power supply such as the Aces Power Marketing
27 fees. These costs in terms of \$/MWh show a slight increase on a combined weighted

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1 average basis, from \$26.27/MWh to \$29.41/MWh. Lines 32-34 then apply this cost
2 to the MWh sales volumes in lines 4-6. Reduced market sales volumes mean
3 reduced costs of \$9,934,397, which offset the \$3,801,138 increase in costs to make
4 sales to the Smelters. Lines 35 and 36 also include purchased power costs from
5 SEPA and others for sales to the Members, and reflect *pro forma* increases of
6 \$197,515 from SEPA and \$3,768,525 from the other power purchases.
7
8 Big Rivers' total purchased power cost is reflected on line 37, and the \$2,167,219
9 adjustment corresponds with line 6 of Exhibit Seelye-2, Schedule 1.11.
10
11 Lines 38 through 42 reflect Big Rivers' Other Expenses (Account 557) for the
12 Smelters, market sales, and members. The \$5,194,427 adjustment shown on line 42
13 corresponds to line 7 of Exhibit Seelye-2 Schedule 1.11.
14
15 Lines 43 through 48 reflect Big Rivers' Transmission of Electricity by Others
16 (Account 565) for each of the Smelters, the market sales and the Members. The
17 positive \$402,906 adjustment shown on line 47 corresponds to line 8 of Exhibit
18 Seelye-2 Schedule 1.11.
19
20 Line 48 reflects the total expenses reflected in lines 37, 42, and 47, and the negative
21 \$2,624,302 shown on line 48 reflects the amount shown in Exhibit Seelye-2
22 Schedule 1.11 line 9.
23
24 The total *pro forma* adjustment of a negative \$18,889,357 is shown on line 49 and is
25 the sum of the adjustments in total revenues from line 23 and total expenses from
26 line 48. This corresponds to Exhibit Seelye-2 Schedule 1.11, line 10.
27

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1 Big Rivers' net arbitrage margins are only part of the amounts shown on line 49. In
2 order to calculate net arbitrage margins all adjustments relating to power
3 purchases made on behalf of the Members must be backed out of the \$18,889,357
4 negative *pro forma* adjustment shown on that line. This backing out is shown on
5 lines 50 through 54, which reflect the net margins for each of the Smelters, the
6 Smelters' SIPC pass through and the market. These numbers are calculated by
7 subtracting the expenses shown in lines 32-34, 39-40 and 44-45 from the
8 corresponding revenues shown in lines 14-16. As shown on line 51, Smelter
9 revenues remain fairly constant (\$655,169 difference) but market net margins
10 decline by \$15,649,852. Subtracting the calculated *pro forma* net arbitrage margin
11 of \$32,151,607 from the calculated historical test year net arbitrage margin of
12 \$47,146,290 indicates a \$14,994,683 negative *pro forma* adjustment relating to
13 arbitrage only.

14

15 One last calculation shows the portion of the \$18,889,357 negative *pro forma*
16 adjustment shown in Exhibit Seelye-2 Schedule 1.11 that is attributable to changes
17 in Big Rivers' purchased power expense for its Members. Big Rivers receives a fixed
18 quantity of power from E.ON and at times when its Members' power requirements
19 exceed the combined amount of power available from E.ON and SEPA Big Rivers
20 must purchase power in the market. Due to the previously described limitation on
21 Big Rivers' SEPA entitlements, Big Rivers projects increased power purchase costs
22 in the market to meet its Members' needs. As shown on line 55, Big Rivers projects
23 an increase of \$3,894,674 in its power purchases as compared to the historical test
24 year levels of those purchases. Adding this \$3,894,674 negative *pro forma*
25 adjustment for power purchase costs to the \$14,994,683 negative *pro forma*
26 adjustment for net arbitrage revenues yields the \$18,889,357 negative *pro forma*
27 adjustment used in Exhibit Seelye-2 Schedule 1.11.

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1

2 Witness) C. William Blackburn

Other Sales (Arbitrage) - Pro forma vs. Test Year*

	<u>Pro forma</u>	<u>Test Year</u>	<u>Difference - Proforma</u> <u>Mora/(Loss)</u>
1 Revenue			
Electric Energy Revenue - Non-Tariff Energy Sales			
2 (Accounts 447.171 - 447.299)			
3 MWh Sales			
4 Smelters	1,252,860	1,084,380	168,300
5 Smelters-SIPC pass-thru	70,800	74,880	(4,180)
6 Market	362,015	777,362	(415,367)
7 Total	1,685,495	1,936,742	(251,247)
8 Revenue - \$/MWh			
9 Smelters	45.11	48.33	(3.22)
10 Smelters-SIPC pass-thru	55.50	53.25	2.25
11 Market	37.11	50.40	(13.29)
12 Total	43.83	48.35	(6.53)
13 Revenue - \$			
14 Smelters	58,503,223	52,409,841	4,099,382
15 Smelters-SIPC pass-thru	3,928,400	3,992,956	(63,556)
16 Market	13,435,843	39,183,818	(25,747,975)
17 Total Electric Energy Revenue	73,868,466	95,586,615	(21,712,149)
18 Other Operating Revenue and Income			
19 Smelters	0	0	0
20 Market	7,855,560	2,438,571	5,418,989
21 Member Tariff Revenue	7,525,172	7,497,067	28,105
22 Total Other Operating Revenue and Income	15,380,732	9,933,638	5,447,094
23 Total Revenue	89,249,198	105,514,253	(16,265,055)
24 Other Power Supply and Transmission			
25 Power Supply and Transmission Cost - \$/MWh			
26 Smelters	20.50	20.68	(0.18)
27 Smelters-SIPC pass-thru	54.26	49.53	4.72
28 Market	55.40	31.82	23.58
29 Total	29.41	26.27	3.14
30 Power Supply and Transmission Cost - \$			
31 Purchased Power			
32 Smelters	(25,674,735)	(22,142,840)	(3,531,887)
33 Smelters-SIPC pass-thru	(3,840,900)	(3,571,649)	(269,251)
34 Market (includes Dolar Reservation Fee & Energy Imbalance)	(8,816,309)	(18,548,708)	9,734,399
35 SEPA-Member	(5,933,911)	(5,736,396)	(197,515)
36 Other-Member	(88,230,116)	(62,461,591)	(3,768,525)
37 Total Purchased Power	(110,294,971)	(112,482,190)	2,187,219
Other Expenses (Account 557) - Operating Expense - Other			
38 Power Supply			
39 Smelters - pass-thru	0	(142,011)	142,011
40 Market	(8,878,475)	(3,489,777)	(5,379,698)
41 Member (LEM Ancillary)	0	(43,260)	43,260
42 Total Other Expenses-Power Supply	(8,878,475)	(3,685,048)	(5,194,427)
Transmission of Electricity by Others (Account 586) - Operating Expense Transmission			
43 Smelters - pass-thru	0	(278,470)	278,470
45 Market	(2,582,000)	(2,886,436)	124,436
46 Member	0	0	0
47 Total Transmission of Electricity by Others	(2,582,000)	(2,964,908)	402,908
48 Total Expense	(121,736,446)	(119,112,144)	(2,624,302)
49 Pro forma Adjustment to Increase Revenue Requirement	(32,487,248)	(13,697,891)	(18,889,357)
60 Net Arbitrage Margin - \$			
61 Smelters	30,828,488	30,260,893	567,495
62 Smelters-SIPC pass-thru	88,500	828	87,674
63 Market	1,234,619	16,984,471	(15,649,852)
64 Net Arbitrage Margin >>>	32,151,607	47,148,290	(14,994,683)
65 Member Tariff Revenue, Power Supply and Transmission Cost - \$	(64,638,854)	(60,744,180)	(3,894,674)
66 Exhibit Sealye-2 Schedule 1.11 - \$	(32,487,247)	(13,597,890)	(18,889,357)

* The Test Year is the 12-month period ended November 30, 2008.