

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC)	
CORPORATION FOR A GENERAL)	CASE NO. 2009-00040
ADJUSTMENT IN RATES)	

FIRST DATA REQUEST OF COMMISSION STAFF
TO KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Kentucky Industrial Utility Customers, Inc. ("KIUC"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than July 13, 2009. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

KIUC shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which KIUC fails or refuses to furnish all or part of the requested information, it shall provide a written

explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Lane Kollen's Testimony filed on June 15, 2009 at page 12. Mr. Kollen recommends that a 1.35 Time Interest Earned Ratio ("TIER") be used to determine Big Rivers' revenue requirement. In support of this position, Mr. Kollen notes that the Commission awarded East Kentucky Power Cooperative, Inc. ("EKPC") rates that would generate a 1.35 TIER in two previous cases.

In their 2008 annual report, Big Rivers reported total proprietary capital at a negative (\$154.601) million, while EKPC reported a positive \$190.370 million.

a. Discuss whether or not Mr. Kollen is of the opinion that it is important for Big Rivers to obtain and maintain a positive equity balance. Include in this discussion the importance of Big Rivers' ability to issue debt and how a negative equity balance impacts Big Rivers' ability to issue debt.

b. State the equity-to-total-capital ratio that Mr. Kollen believes is appropriate for Big Rivers. Provide the basis for this ratio.

c. State how long it would take Big Rivers to obtain the equity-to-total-capital ratio thought reasonable by Mr. Kollen if Big Rivers realizes a 1.35 TIER for all future annual periods.

d. Given Big Rivers' current negative equity position and EKPC's positive equity position, explain whether Mr. Kollen would agree that a TIER approved for Big Rivers should be higher than the TIER awarded to EKPC so that Big Rivers can accumulate earnings at a more rapid pace, at least until such time as Big Rivers improves its negative equity position to a positive equity position.

e. On page 12, Mr. Kollen states that he would normally have recommended a TIER of 1.15 percent or less for Big Rivers but instead recommended a 1.35 TIER, given Big Rivers' current financial circumstances. The Commission has recently been awarding distribution cooperatives a 2.0 TIER. Identify and explain the differences between a generation and transmission cooperative and a distribution cooperative that warrant such a large difference in the TIER Mr. Kollen would normally recommend for a generation and transmission cooperative and those approved by the Commission for distribution cooperatives.

f. Explain why it would not be appropriate to award Big Rivers a 2.0 TIER to allow Big Rivers to accelerate the replenishment of its depleted cash reserves and the reversal of its negative equity position.

2. Refer to Lane Kollen's Testimony at page 5, page 12 and pages 20 through 22. At page 12, Mr. Kollen recommends that Big Rivers' revenue requirement be calculated using a 1.35 TIER which, as stated on page 5, requires a \$3.579 million revenue increase. On pages 20 through 22, Mr. Kollen recommends that the \$4 million amortization expense of the \$76.673 million loss on the Philip Morris Credit Corporation ("PMCC") leveraged lease buy out be disallowed for rate-making purposes.

a. Explain whether Mr. Kollen is of the opinion that Big Rivers' decision to buy out the PMCC leveraged lease was a prudent business decision.

b. Does Mr. Kollen agree that amortization of this loss is required by the Uniform System of Accounts ("USoA") and that the USoA precludes Big Rivers from recognizing the entire loss in a single accounting period?

c. Mr. Kollen determined that a revenue increase in the amount of \$3.579 million is required for Big Rivers to realize a 1.35 TIER; however, these amounts do not include the \$4 million amortization expense. Recognizing that Big Rivers is required to recognize the \$4 million amortization expense on an annual basis, does Mr. Kollen agree that, if all of Mr. Kollen's pro forma projections hold true, Big Rivers will not achieve a 1.35 TIER if the Commission were to approve a \$3.579 million revenue increase?

d. Is Mr. Kollen aware that the Commission has, in previous cases, recognized the amortization of losses on the early extinguishment of debt as a component of the cost of debt for rate-making purposes?

e. Does Mr. Kollen agree that recovery of this amortization expense would help replenish Big Rivers' depleted cash reserves and improve Big Rivers' equity position?



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cc: All Parties

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