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JUL 01 2011

PUBLIC SERVICE
COMMISSION

Via Overnight Mail

June 30, 2011

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

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JUL 01 2011

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Re: Case No. 2011-00036

Dear Mr. Derouen:


Kentucky Industrial Utilities Customers, Inc. ("KIUC") moves the Commission for leave to amend the testimony of Charles King, Lane Kollen and Stephen Baron filed with the Commission on June 23, 2011. KIUC further seeks leave to substitute certain pages of the previously filed pages of these testimonies and exhibits.

These amendments correct a mistake affecting calculations in the testimonies and exhibits of Mr. King, Mr. Kollen and Mr. Baron. Please replace the following pages in the originally filed testimonies with the REVISED versions that are attached to this letter. I include an original and (10) copies of each of the following:

King – Exhibit __ (CWK-1), Schedule 1 and Exhibit __ (CWK)-1, Schedule 10
Kollen – Direct Testimony of Lane Kollen, p. 3 and Exhibit __ (LK-12)
Baron – Direct Testimony of Stephen J. Baron, pp. 27-33 and Baron Exhibit __ (SJB-6)

By copy of this letter, all parties listed on the Certificate of Service have been served. Please place these documents of file.

Very Truly Yours,


Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.

BOEHM, KURTZ & LOWRY

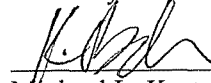
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Attachment

cc: Certificate of Service
David C. Brown, Esq.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by electronic mail (when available) or by mailing a true and correct copy by overnight mail, unless other noted, this 30th day of June, 2011 to the following



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Big Rivers Electric Corporaton
Annual Depreciation Expense Based on April 30, 2010 Plant in Service

Account	Description	April 30, 2010 Plant Balance	Recommended Depreciation Rate	Annual Depreciation Expense		
				KIUC Recommended	Existing BREC Rates	Proposed BREC Rates
		(1)	(2)	(3)	(4)	(5)
340	Land	475,968				
311	Structures	124,375,974	1.17%	1,456,976	2,126,829	1,717,828
312	Boiler Plant	667,206,536	1.54%	10,248,087	11,942,997	12,543,396
312 A-K	Boiler Plant - Env Compl	574,184,346	1.95%	11,206,160	10,852,084	13,074,185
312 L-P	Short-Life Production Plant -Environmental	3,208,938	19.31%	619,761	60,649	648,949
312 V-Z	Short-Life Production Plant -Other	868,755	19.31%	167,788	16,419	125,054
314	Turbine	225,272,354	1.54%	3,459,508	3,739,521	4,309,293
315	Electric Eqpt	60,355,721	1.08%	654,448	965,692	1,202,952
316	Misc Eqpt	3,014,912	3.77%	113,706	55,173	113,919
341	CT - Structures	154,233	1.17%	1,804	3,563	1,804
342	CT - Fuel Holders & Access.	1,436,912	9.10%	130,751	33,336	130,751
343	CT - Prime Movers	4,915,886	3.02%	148,408	121,422	148,408
344	CT - Generators	1,102,964	0.50%	5,511	24,596	5,511
345	CT - Access. Elec. Eqpt.	317,726	2.05%	6,510	7,085	6,510
	Subtotal	1,666,891,222		28,219,418	29,949,367	34,028,559

Difference from KUIC Recommendation**(1,729,949) (5,809,141)**

Sources

(1) AG 1-104 - "Deprec Summary 2010-12-16 FINAL.xls"

(2) Schedule 10

(3) Col (1)*Col (2)

(4) & (5) AG 1-104 - "Deprec Summary 2010-12-16 FINAL.xls"

Big Rivers Electric Corporation
Development of KIUC Recommended Depreciation Rates

Account	Net Salvage Factor (1)	Original Cost 4/30/2010 (2)	Accumulated Depreciation (3)	Total To Be Accrued (4)	Remaining Life (5)	Annual Accrual (6)	Rate (7)
<u>311 - Structures</u>	-4.50%	124,375,974	78,124,758	51,848,135	35.59	1,456,976	1.17%
<u>312 - Boiler Plant</u>	-5.03%	667,206,536	347,237,018	353,510,387	34.50	10,248,087	1.54%
<u>312 -Boiler Plant - Env Compl</u>	-1.96%	574,184,346	216,926,144	368,523,800	32.89	11,206,160	1.95%
<u>312 -Short-lived Boiler Plant</u>	0.00%	4,077,693	376,213	3,701,480	4.70	787,549	19.31%
<u>314 - Turbine</u>	-8.17%	225,272,354	124,744,924	118,942,644	34.38	3,459,508	1.54%
<u>315 - Electric Equipment</u>	2.98%	60,355,721	35,350,377	23,204,131	35.46	654,448	1.08%
<u>316 - Misc. Equipment</u>	0.55%	3,014,912	42,128	2,956,346	26.00	113,706	3.77%
<u>Reid Combustion Turbine</u>							
340 Land		475,968		38,467	21.32	1,804	1.17%
341 Structures	0.0%	154,233	115,766	2,808,983	21.48	130,751	9.10%
342 Fuel Holders & Access.	-134.8%	1,436,912	564,590	3,161,718	21.30	148,408	3.02%
343 Prime Mover	-38.3%	4,915,886	3,637,977	118,484	21.50	5,511	0.50%
344 Generators	0.0%	1,102,964	984,479	138,301	21.24	6,510	2.05%
345 Access Elec. Equipment	0.0%	317,726	179,425				
		<u>7,455,761</u>	<u>5,482,237</u>	<u>6,265,953</u>		<u>292,985</u>	

Sources:

- (1) Table ES-1
- (2) Response to Item KIUC 1-4, "Active Property Records.xls" and AG 1-104 - "Deprac Summary 2010-12-16 FINAL.xls"
- (3) Response to Item KIUC 1-4, "Acct 1089 Accum Depr by RUS Account at 04-30-10.xls"
- (4) ((2)-(3)) - ((1)x(2))
- (5) Schedules 4-8
- (6) (4)/(5)
- (7) (6)/(1)

1 recommendations made by various KIUC witnesses, and to address the retirement
2 of patronage capital to mitigate the effects of the rate increase.

3

4 **Q. Please summarize your testimony.**

5 A. I recommend that the Commission increase BREC's base rates by no more than
6 \$18.562 million, a reduction of at least \$21.391 million compared to the
7 Company's requested increase of \$39.953 million. This reduction is comprised of
8 numerous adjustments to the Company's revenue requirement as filed, which are
9 summarized on the following table.

**Summary of KIUC Adjustments to Big Rivers Revenue Requirement
\$ Million**

Big Rivers Requested Increase	39.953
KIUC Adjustments	
Increase Smelter Rates to Top of TIER Adjustment	(7.129)
Exclude Avoided Interest on RUS Series A Note	(2.046)
Exclude TIER on Avoided Interest on RUS Series A Note	(0.491)
Exclude Current Interest on CWIP	(0.516)
Exclude TIER on Current Interest on CWIP	(0.124)
Exclude MISO Rate Case Amortization Expense	(0.534)
Exclude Capitalized Labor and Labor Overheads	(1.034)
Exclude 2012-2014 Inflation on Non-Labor Non-Outage Maintenance	(1.324)
Exclude Non-Recurring MISO Expenses	(0.062)
Exclude Depreciation Expense on Retirements	(1.045)
Reduce Transmission Expense Consistent with BREC OSS Assumptions	(0.194)
Eliminate DSM Expenses	(1.000)
Adjust Depreciation Expense Based on KIUC Depreciation Rates	(5.892)
Total KIUC Adjustments	(21.391)
Big Rivers Increase after KIUC Adjustments	18.562

10

11

12 I address the substance of all the adjustments on the preceding table except

13 for those supported by KIUC witnesses Mr. Stephen Baron and Mr. Charles King.

1 customers, or some other drastic action. Continuing reliance on the Smelters to
2 subsidize the residential, farm, commercial and small industrial customers is a bad
3 public policy that could have severely negative consequences for the economy of
4 Western Kentucky, other ratepayers, the creditors of Big Rivers and Big Rivers
5 itself.⁶

6
7 **Q. Would you please discuss KIUC's recommended methodology to allocate the**
8 **Commission approved revenue increase in this case to the Rural, Large**
9 **Industrial and Smelter rate classes?**

10 A. Baron Exhibit__(SJB-6)-Revised contains KIUC's proposed revenue increase
11 allocation analysis. The first step in the analysis is to calculate the amount of the
12 subsidies at present rates paid by each rate class using the results of KIUC's
13 recommended 6 CP class cost of service study. This is shown on Line 4 of the
14 exhibit. As I discussed earlier, the subsidy payments made by the Smelters to the
15 Rural class is \$18.3 million, based on present rates. KIUC's proposal is to fully
16 eliminate this current subsidy by assigning the first \$18.3 million of KIUC's overall
17 proposed \$18.562 million revenue increase to the Rural class. This is shown on Line
18 6 of the exhibit.

19

⁶ As noted previously, even under the KIUC proposal, the Smelters will continue to pay substantial subsidies to the Rural class.

1 **Q. How is the remainder of the revenue increase (after eliminating the present**
2 **Rural subsidies) allocated to rate classes?**

3 A. This allocation is shown on Line 16 of the exhibit. The remaining increase of
4 \$0.243 million is allocated to the three rate classes on the basis of present base rate
5 demand/energy revenues for the Rural and Large Industrial Class and the Smelter
6 base energy charge revenues, reflecting the Large Industrial rate computed at a 98%
7 load factor. Using this relationship, I develop an allocator shown on Line 12 of my
8 exhibit. The resulting allocation of the remaining increase (after eliminating the
9 current Rural subsidy) is shown on Line 13 of my exhibit. Finally, Line 15 shows
10 KIUC's proposed increases to each rate class, before mitigation.

11
12 **Q. Would you please describe KIUC's rate mitigation proposal?**

13 A. KIUC is proposing two separate and distinct mitigation adjustments in this case.
14 The first adjustment utilizes the RER fund to mitigate the KIUC recommended
15 increase to the Rural class such that the resulting increase after mitigation will be
16 equal to the Rural revenue increase proposed by Big Rivers in this case. As shown
17 on Baron Exhibit__ (SJB-6) at Line 15, KIUC's recommended Rural increase, before
18 mitigation is \$18.4 million. Based on Mr. Seelye's Exhibit 6, page 1 of 3, Big
19 Rivers is proposing a base rate increase to the Rural class of \$14.172 million. To
20 fully mitigate KIUC's increase and bring it to the level proposed by Big Rivers in
21 this case, \$4.2 million of the RER fund would be required annually. This is shown

1 on Lines 16 and 17 of my exhibit. The resulting Rural base revenue increase is now
2 \$14.172 million, the amount proposed by the Company in this case.

3

4 **Q. What is the basis for your proposal to utilize the RER fund to mitigate the**
5 **Rural base rate increase in this case?**

6 A. As I discussed earlier, the Commission established the RER in its Order in Case No.
7 2007-00455 for the purpose of providing rate mitigation for Rural customers. While
8 the Commission Order intended that the fund be used to mitigate the impact of
9 future FAC and Environmental Surcharge increases, the intent of the Commission
10 established fund was to benefit Rural customers. The KIUC proposal continues to
11 apply the fund strictly for the benefit of Rural customers. KIUC believes that our
12 proposal provides a reasonable application of this fund to partially offset the test
13 year level of subsidies that are being paid by Smelter customers to the Rural rate
14 class, which includes not only residential and farm customers, but also small and
15 medium commercial customers and small industrial customers as well. Based on
16 Big Rivers' response to KIUC 1-64, the balance in the RER fund will be \$63 million
17 by the time new rates in this case become effective in September 2011. Based on
18 Big Rivers' projections, the RER would not be required to mitigate FAC and
19 Environmental Surcharge increases until mid-2015. The RER fund is projected to
20 be fully utilized by early 2018. Assuming that the KIUC proposal is adopted by the
21 Commission, the annual withdrawal beginning in late 2011 would be about \$4.2
22 million annually, resulting in a full utilization of the fund by late 2016 or early 2017.

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Q. Would you describe the second mitigation part of the KIUC mitigation proposal?

A. Yes. This proposal, which is addressed in KIUC witness Kollen's testimony, would utilize Big Rivers' patronage capital, to the maximum extent possible, to partially offset a portion of the remaining Rural increase, as well as KIUC proposed increases to the Large Industrial and Smelter classes. Based on Mr. Kollen's proposal, patronage capital distributions, to the maximum extent possible, would be used to offset the increases to each customer class. An illustration of the impact of this proposal is shown on Line 18 of Baron Exhibit __ (SJB-6). The net impact on each customer class is shown on Line 19 of the exhibit. Also shown in Exhibit (SJB-6) are the percentage increases, including the effect of the Non-FAC PPA Amortization and the effect of lowering the Non-FAC PPA base. These presentations correspond to the presentation shown in Mr. Seelye's Exhibit 6, page 1 of 3. A summary of the exhibit is shown in Table 3 below.

1

Table 3 - Revised				
KIUC Proposed Rate Increases				
	Total System	Rurals	Large Industrials	Smelters
Subsidy at Present Rates	-	(18,319,114)	(50,193)	18,369,307
KIUC Proposed Revenue Increase	18,562,000			
Eliminate Subsidy to Rurals	18,319,114	18,319,114	-	-
Spread of Increase Remainder	242,886	66,406	22,952	153,527
Step 1 Increase - Rurals Subsidy	18,319,114	18,319,114	-	-
Net Increase	<u>18,562,000</u>	<u>18,385,520</u>	<u>22,952</u>	<u>153,527</u>
Rural Mitigation from RER Fund	(4,213,517)	<u>(4,213,517)</u>	-	-
Net Increase after Mitigation		14,172,003	22,952	153,527
Patronage Capital Distribution	(2,708,000)	<u>(621,285)</u>	<u>(235,635)</u>	<u>(1,851,080)</u>
Final Effective Base Rate Increase		13,550,718	(212,682)	(1,697,553)
Present Revenue	432,165,302	110,513,089	39,260,372	282,391,841
Percent Increase		12.26%	-0.54%	-0.60%

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As can be seen in Table 3, depending on the actual amount of patronage capital actually distributed, KIUC is proposing slight decreases to the Smelter and Large Industrial class of about 0.5%, while the Rural class would receive an increase of about 12%, which is less than the Rural increase proposed by Big Rivers.

Q. Does the KIUC proposal fully eliminate subsidies in proposed rates?

A. No. While the KIUC proposal is designed to fully eliminate the \$18.3 million in present rate subsidies received by the Rural class and paid by the Smelters, substantial subsidies will continue to be received by Rural customers at proposed

1 rates. Baron Table 4 below shows the calculation of subsidies at proposed rates
2 based on the KIUC recommended revenue increases.

3

Table 4 - Revised				
Subsidies Remaining at Proposed Rates				
	Total		Large	
	System	Rurals	Industrials	Smelters
1 Rate Base - 6 CP	1,170,341,502	390,335,625	96,406,419	683,599,459
2 Net Utility Operating Margin	25,806,684	(9,711,995)	2,075,623	33,443,057
3 Return on Rate Base	2.21%	-2.49%	2.15%	4.89%
4 Subsidy at Present Rates	-	(18,319,114)	(50,193)	18,369,307
5 Adjusted Total Increase Required	18,562,000			
6 Eliminate Rural Subsidy	18,319,114	18,319,114		
7 Spread of Increase Remainder	<u>242,886</u>	<u>66,406</u>	<u>22,952</u>	<u>153,527</u>
Step 1 Increase - Rurals Subsidy	18,319,114	18,319,114	-	-
8 Net Increase	<u>18,562,000</u>	<u>18,385,520</u>	<u>22,952</u>	<u>153,527</u>
9 Income at Proposed Rates (line 2 + line 8)	44,368,684	8,673,525	2,098,575	33,596,584
10 ROR - Proposed Rates (line 9/line 1)	3.79%	2.22%	2.18%	4.91%
11 Net Utility Operating Margin at System ROR	44,368,684	14,797,970	3,654,853	25,915,862
12 Subsidy at Proposed Rates (line 11 - line 9)	-	6,124,445	1,556,278	(7,680,722)

4

5 **Q. Why do subsidies continue at proposed rates under the KIUC proposal?**

5

6 A. The subsidies will continue because the Smelters continued to pay \$18.369 million
7 of subsidies at present rates -- as shown on Line 4 of the table; only the Rural
8 subsidies received were eliminated in our proposal. Under normal circumstances,
9 subsidies for all rate classes would be eliminated on Line 4 -- in this case the
10 Smelters would have received an \$18.369 million rate reduction in the first step of
11 the revenue apportionment. Had this been done, the full \$18.562 million revenue
12 increase would then have been spread on adjusted base revenues on Line 7 and most

12

1 of the resulting subsidies at proposed rates would have been eliminated. The only
2 remaining subsidies would be due to the use of base revenues to spread the
3 “remaining increase” on Line 7; rather than rate base which is the basis for
4 computing rate of return.

5

6 **Q. Are you recommending that all subsidies be eliminated?**

7 A. No. The Smelter Agreement requires that Smelter rates be tied to Large Industrial
8 rates. As a result, the KIUC proposal reflects a continuation of some subsidies being
9 paid by the Smelters to the Rural rate class. However, to the extent that subsidies
10 remain, even after the KIUC proposals in this case, this result reflects a measure of
11 ratemaking gradualism that is further enhanced by the proposals to utilize the RER
12 fund and the use of a portion of patronage capital to offset the impact of the rate
13 increase.

14

Big Rivers Electric Corporation
KIUC Proposed Rate Increases

6 CP Cost of Service using Seelye model with TIER Adjustment at test year level of \$1.95

Line	Total System	Rurals	Large Industrials	Smelters	
1	Rate Base - 6 CP	1,170,341,502	390,335,625	96,406,419	683,599,459
2	Net Utility Operating Margin	25,806,684	(9,711,995)	2,075,623	33,443,057
3	Return on Rate Base	2.21%	-2.49%	2.15%	4.89%
4	Subsidy at Present Rates	-	(18,319,114)	(50,193)	18,369,307
5	KIUC Proposed Revenue Increase	18,562,000			
6	Eliminate Subsidy to Rurals	18,319,114	18,319,114	-	-
7	Remainder of Increase to be Allocated	242,886			
8	Demand/Energy Base Revenue - Current Rates	118,930,921	88,490,963	30,439,958	
9	Weather Normalization Adjustment	(421,610)	(421,610)	-	
10	Base Rate Revenue	322,119,734	88,069,353	30,439,958	203,610,423
11	Revenue Allocator using Smelter/Industrial Ratio	322,119,734	88,069,353	30,439,958	203,610,423
12	Percent Allocator	100.00%	27.34%	9.45%	63.21%
13	Spread of Increase Remainder	242,886	66,406	22,952	153,527
14	Step 1 Increase - Rurals Subsidy	18,319,114	18,319,114	-	-
15	Net Increase (before Rural Reserve or Capital Credits)	<u>18,562,000</u>	<u>18,385,520</u>	<u>22,952</u>	<u>153,527</u>
16	Rural Mitigation from Rural Economic Reserve Fund	(4,213,517)	(4,213,517)	-	-
17	Net Increase after Mitigation		14,172,003	22,952	153,527
18	Patronage Capital Distribution per kWh	(2,708,000)	(621,285)	(235,635)	(1,851,080)
19	Final Effective Base Rate Increase		13,550,718	(212,682)	(1,697,553)
20	Present Revenue	432,165,302	110,513,089	39,260,372	282,391,841
21	Percent Increase		12.26%	-0.54%	-0.60%
22	Amortization of Non-FAC PPA	(3,236,077)	(2,340,068)	(896,009)	-
23	Revenue Increase with Non-FAC PPA Amortization		11,210,650	(1,108,691)	(1,697,553)
24	Percent Increase		10.14%	-2.82%	-0.60%
25	Impact of Lowering the Non-FAC PPA Base	(2,959,158)	(2,145,453)	(813,705)	-
26	Adjusted Revenue Increase		9,065,197	(1,922,396)	(1,697,553)
27	Percent Increase		8.20%	-4.90%	-0.60%