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Via Overnight Mail

June 7, 2013

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

Re: Case No. 2012-00535

Dear Mr. Derouen:

Please find enclosed the original and ten (10) copies each of 1) KIUC's RESPONSES TO BIG RIVERS FIRST REQUEST FOR INFORMATION; 2) KIUC RESPONSES TO COMMISSION STAFF's FIRST REQUEST FOR INFORMATION; and 3) KIUC's PETITION FOR CONFIDENTIAL TREATMENT for filing in the above-referenced matter. I also enclose a copy of the CONFIDENTIAL pages to be filed under seal.

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

MLKkew
Attachment
cc: Certificate of Service
Quang Nyugen, Esq.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by electronic mail (when available) and by overnight mail, unless other noted, this 7th day of June, 2013 to the following:

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

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Big Rivers Electric Corporation
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Henderson, KY 42419-0024

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Lexington, KY 40507

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED

JUN 10 2013

PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES) Case No. 2012-00535

KIUC'S RESPONSE TO BIG RIVERS ELECTRIC CORPORATION'S FIRST REQUEST FOR INFORMATION

1. **Please identify, by name and address, all entities and individuals that KIUC purports to represent in this proceeding.**

RESPONSE:

As stated in the KIUC intervention, the members of KIUC participating in this intervention are Aleris, Domtar and Kimberly Clark. KIUC is not representing either Alcan or Century.

Answer provided by Counsel.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

<u>KIUC'S RESPONSE TO</u>
<u>BIG RIVERS ELECTRIC CORPORATION'S</u>
<u>FIRST REQUEST FOR INFORMATION</u>

2. **For the period from January 1, 2012, forward, please provide a copy of all correspondence related to this case or to other Big Rivers' rate changes between (i) KIUC, Aleris, Domtar, Kimberly Clark, or any other entity or person identified in the response to Item 1 above and (ii) any other entity.**

<u>RESPONSE:</u>

See attached CD. Due to the extremely large volume of e-mails and correspondence, there may be additional correspondence that have not been identified as of this filing. This response may be supplemented accordingly.

Answer provided by Counsel.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

3. **Please produce all documents, including without limitation correspondence and calculations, in the possession, custody, or control of any entity identified in the response to Item 1 above that pertain to KIUC's (or its members', witnesses', consultants' and advisors') analysis regarding Tab 59 of Big Rivers' application in the proceeding.**

RESPONSE:

Please refer to the electronic spreadsheets provided by KIUC in response to Staff 1-6. In addition, Mr. Kollen reviewed the Company's Corporate Financial Model that it provided response to Staff 2-36.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

4. **For all entities and individuals identified in the response to Item 1 above, and for Domtar, Aleris, and Kimberly Clark:**

    a. **Please designate—by name, position, and contact information—a witness or witnesses who consent to testify on each entity's behalf on all matters related to this proceeding.**

    b. **Of each such entity's total operating expenses for its facilities served indirectly by Big Rivers, please state what percentage of those expenses constitute electricity costs for each of the past three calendar years. Electricity procured from sources other than Kenergy Corp. should be excluded from this calculation. Provide this data separately for each entity's facilities, by facility and by total entity.**

RESPONSE:

a. As indicated in their respective direct testimonies, the witnesses are: Aleris: Kelly Thomas; Domtar Steve Henry: Kimberly Clark: Bill Cummings.

[redacted]

[redacted]

Aleris: See response to Q. 48.

Answer provided by Counsel, Kelly Thomas, Steve Henry and Bill Cummings.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

5. **The Fair Rates Kentucky "About Us" webpage located at http://www.fairratesky.com/about-us.html describes Fair Rates Kentucky as "a new coalition of Western Kentucky utility consumers, both businesses and individual customers ...." Please identify all referenced businesses and individuals, and identify the relationship of any such individuals to any member of KIUC.**

RESPONSE:

Fair Rates Kentucky was founded by Aleris, Domtar and Kimberly Clark. Over 500 persons have signed the Fair rates Kentucky Petition. Please see the web site for their names. Aleris, Domtar and Kimberly Clark are also participating in the instant rate case through KIUC. But Fair Rates Kentucky and KIUC are separate organizations established for different purposes.

Answer provided by Kelly Thomas, Bill Cummings and Steve Henry.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

6. Refer to the Direct Testimony of Lane Kollen at page 8, lines 11-12. Please quantify the specific impact you attribute to each of the alleged FAC and ECR "related increases." Provide all calculations in electronic format with formulas intact.

RESPONSE:

Mr. Kollen relied on the Company's quantification of the Century base, ECR, FAC, and other increases provided on Tab 59. Mr. Kollen developed an independent quantification of the Alcan base increase, but was not able to develop a quantification of the Alcan ECR and FAC increases due to the Company's failure to provide the necessary information in response to discovery. Please refer to the KIUC response to Staff 1-6 for the electronic spreadsheet used to develop the Alcan base increase.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

7. Refer to the Direct Testimony of Lane Kollen at page 9, lines 3-6. Provide all calculations for the purported rate increases described therein in electronic format with formulas intact.

RESPONSE:

Please refer to the KIUC responses to BREC 1-6 and Staff 1-6.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

8. Refer to the Direct Testimony of Lane Kollen at page 9, lines 7-8, where Mr. Kollen references "the Company's proposal to use additional amounts from the Economic Reserve." Provide a citation to Big Rivers' application where Mr. Kollen claims Big Rivers makes such a proposal.

RESPONSE:

Please refer to Tab 59 where the MRSM surcredit for the test year compared to the base year is increased by $9.048 million for the Rural class and decreased by $1.462 million for the LI class.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

9. **Refer to the Direct Testimony of Lane Kollen at page 9, lines 11-13, where Mr. Kollen alleges, "If this Century rate increase is approved in its entirety, then the residential customers served by Kenergy, Meade County and Jackson Purchase will have the highest rates in Kentucky." Please provide a comparison of the rates of Kenergy, Meade County, and Jackson Purchase to all other retail electric service providers in Kentucky, and for each rate in the comparison:**
    a. **Identify the basis, applicable time period, and the source of information for the rate.**
    b. **Identify the date of each rate became effective, state whether the rate is still effective, and if not still effective, provide the date that the rate was no longer in effect and the current rate for that electric service provider.**
    c. **Provide the current, corresponding demand charge; provide the current, corresponding energy charge; provide every other current rider or other charge applicable to the rate; provide a notation as to whether the electric service provider is currently seeking or has given notice of its intent to seek a change in any of those charges, along with an indication of what the proposed new charge would be; and provide a reference to each such proceeding where such permission is being (or is intended to be) sought.**
    d. **Explain in detail your methodology and assumptions used in determining the rate, provide all workpapers and related documents, and provide all calculations in electronic format with formulas intact.**

RESPONSE:

KIUC has not performed the requested analysis or researched the other information requested. Nevertheless, please refer to the table on page 51 of Mr. Kollen's Direct Testimony. Mr. Kollen relied on the assumption used by Mr. Wolfram on his Ex Wolfram-5 for the \$0.033/kWh Member Cooperative charge for the average residential customer in addition to the Big Rivers' charges to develop the average residential rate for Kenergy, Meade County, and Jackson Purchase in the aggregate. The sources of the data used in the table on page 51 are set forth in the testimony on page 51, the subtitle on the table shown on page 51, and in Ex Wolfram-5 for the additional \$0.033/kWh distribution charges to residential customers served by Kenergy, Meade County, and Jackson Purchase. Please refer to the KIUC response to Staff 1-6 for the calculations in electronic format with formulas intact.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC	)	
CORPORATION FOR A GENERAL	)	Case No. 2012-00535
ADJUSTMENT IN RATES	)	

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

10. Refer to the Direct Testimony of Lane Kollen at page 10, lines 1-3. Please provide the basis for the percentages listed, explain in detail the methodology and assumptions used in developing the percentages, and provide all calculations in electronic format with formulas intact.

RESPONSE:

Please refer to the KIUC response to BREC 1-9 and the electronic files provided in response to Staff 1-6 as well as the electronic file provided in response to this Item on the attached CD.

Answer provided by Lane Kollen.

Kentucky Residential Rate Comparison
For Residential Customer Using 1300 Kwh per Month
Using Tab 59 As Source for Big Rivers and 2012 FERC Form 1s As Source for Others

	Big Rivers Before Rate Increases	Big Rivers After Century Increase	Big Rivers After Alcan Increase	Big Rivers After Reserve Increase
Rural Class Electric Revenue ($)	$ 109,896,030	154,550,222	$ 227,317,400	$ 251,960,737
Rural Class Electricity Sold (MWh)	2,436,557	2,436,557	2,436,557	2,436,557
Rural Revenue per MWh	$ 45.10	$ 63.43	$ 93.29	$ 103.41
Distribution Charge per MWh	$ 33.00	$ 33.00	$ 33.00	$ 33.00
Rural Revenue (Incl Distr) per KWh	$ 0.0781	$ 0.0964	$ 0.1263	$ 0.1364
Average Monthly Residential Bill at 1300 KWh	$ 101.53	$ 125.36	$ 164.18	$ 177.33

	Kentucky Power Company	LG&E Company	Kentucky Utilities Company	Duke Energy Kentucky, Inc.
Residential Electric Revenue ($)	$ 205,798,905	$ 383,159,861	$ 523,091,322	$ 127,926,561
Residential Electricity Sold (MWh)	2,240,727	4,259,211	6,307,896	1,459,567
Residential Revenue per MWh	$ 91.84	$ 89.96	$ 82.93	$ 87.65
Residential Revenue per KWh	$ 0.0918	$ 0.0900	$ 0.0829	$ 0.0876
Average Monthly Residential Bill at 1300 KWh	$ 119.40	$ 116.95	$ 107.80	$ 113.94

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

11. Refer to the Direct Testimony of Lane Kollen at page 10, line 8. Please explain how the Alcan termination causes the Economic Reserve to be depleted earlier than it otherwise would.

RESPONSE:

The MRSM will increase to offset increases in the ECR and FAC rates, the loss of the Unwind Surcredit, and from any proposed increases in the EMF and EMA.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC	)	
CORPORATION FOR A GENERAL	)	Case No. 2012-00535
ADJUSTMENT IN RATES	)	

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

12. Refer to the Direct Testimony of Lane Kollen at page 10, line 12. Please provide the basis for Mr. Kollen's conclusion that the Rural Economic Reserve could be depleted in 2016, provide all workpapers and assumptions, and provide all calculations in electronic format with formulas intact.

RESPONSE:

Mr. Kollen made an informed estimate that the RER "may occur as early as 2016." Mr. Kollen did not attempt to determine when the RER actually will be fully depleted because it is presently unknowable for numerous reasons. First, the Company's projections in its Corporate Financial Model provided in response to Staff 2-36 extend only through 2016. The Company refused to provide projections beyond that date in response to discovery this proceeding.

Second, there were significant errors in the Company's filing and in the Corporate Financial Model provided in response to Staff 2-36, including the assumption that Alcan would continue to take service even after it terminates service.

Third, Mr. Kollen cannot accurately predict the outcome of the Century increase or the Alcan increase or the Reserve increases. Mr. Kollen cannot predict whether the Commission will require an equitable sharing of the costs of excess capacity. Mr. Kollen cannot predict whether the Commission will disallow depreciation expense on the Wilson plant for ratemaking purposes.

Fourth, Mr. Kollen cannot accurately predict the Company's responses, the creditors' responses, or the customers' responses to the Century and Alcan increases.

Fifth, Mr. Kollen cannot accurately predict the transmission or other revenues that will be available from Century, including the specific contractual arrangements that Big Rivers, Kenergy, and Century will present to the Commission when it seeks approval of those contracts, or whether the Commission will approve or reject the contracts as filed or require changes to those arrangements.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

13. Refer to the Direct Testimony of Lane Kollen at page 10, lines 13-15. Please provide each citation to the record in Case No. 2007-00455 supporting Mr. Kollen's claim that "Big Rivers repeatedly assured the Commission that if one or both Smelters terminated their contracts, the remaining customers would not be harmed."

RESPONSE:

Mr. Kollen's testimony provides supporting citations to the Unwind proceeding. Additionally, see the attached documents. These are the documents that Mr. Kollen and KIUC counsel have identified. However, there may be additional documents.

Answer provided by Lane Kollen.

BIG RIVERS ELECTRIC CORPORATION'S RESPONSE TO THE
COMMISSION STAFF'S FIRST DATA REQUEST
PSC CASE NO. 2007-00455
February 14, 2008

Item 10) Provide alternative versions of the Unwind Model reflecting the following scenarios. For each alternative version, provide hard copy printouts of the Unwind Model and copies in electronic format with all formulae and calculations intact.

a. Scenario One – Assume the cancellation of the Century retail and wholesale contracts and the loss of the entire Century load. Assume cancellation at the earliest possible date provided in the retail and wholesale power contracts. Note in the Unwind Model results the operation of the Transition Reserve Account.

b. Scenario Two – Assume the cancellation of both the Century and Alcan retail and wholesale power contracts and the loss of the entire load of both Century and Alcan. Assume cancellation at the earliest possible date provided in the retail and wholesale power contracts, with Century providing the first notice. Note in the Unwind Model results the operation of the Transition Reserve Account.

Response) a. The results of Scenario One and Scenario One (a) are attached. Scenario One shows that revenues lost as a result of Century's departure are more than recovered by alternative sales into the market. Scenario One (a) demonstrates that revenues lost as a result of Century's departure, with a ten percent reduction in market prices, are more than recovered by alternative sales into the market. Thus, the Transition Reserve Account is not drawn upon.

b. The results of Scenario Two and Scenario Two (a) are attached. Scenario Two shows that revenues lost as a result of both Smelters' departure are more than recovered by alternative sales into the market. Scenario Two (a) demonstrates that revenues lost as a result of both Smelters' departure, with a ten percent reduction in market prices, are more than recovered by alternative sales into the market. Thus, the Transition Reserve Account is not drawn upon.

Witness) C. William Blackburn

Summary Data (2011 – 2023) - Market Rates as Projected: Revenue and TIER Analysis

In Scenario Two, Excess Margin generated by no rebates allowed to accumulate for potential future application

		SCENARIO ONE			SCENARIO TWO			
		Base Case	Delta	Century Leaves	Base Case	Delta	Both Smelters Leave	
1	**Energy Balance (TWh)**							
2	*Sales*							
3	Members	54.9		54.9	54.9		54.9	
4	Smelters	94.9	(54.0)	40.9	94.9	(94.9)	-	<< Load reduced @ 98% LF for 13 years
5	Offsystem	12.5	46.5	58.8	12.5	86.3	98.8	<< Load increased @ 85% LF for 13 years
6	Total	162.3	(7.8)	154.6	162.3	(8.6)	153.7	
7		-		-				
8	*Production, Purchases & Losses*	- -		-				
9	Production	153.4	(1.7)	151.8	153.4	(2.7)	150.8	<< Production and Purchases reduced
10	Purchases	10.4	(6.6)	3.8	10.4	(6.9)	3.6	
11	Losses	(1.5)	0.5	(1.0)	(1.5)	0.9	(0.6)	
12	Net	162.3	(7.8)	154.6	162.3	(8.6)	153.7	
13								
14	**Incremental Revenue Requirement ($M)**							
15	Departing Smelter		2,649			4,652		<< Lost smelter revenues @ average $49/ MWh
16	Offsystem Sales		(2,486)			(4,658)		<< Market revenues average $54/ MWh
17	Production		(51)			(80)		<< Production and Purchase Costs reduced.
18	Purchases		(297)			(327)		
19	Interest Earnings		(18)			(205)		
20	Other		(4)			(7)		
21	Net		(208)			(625)		<< Overall Revenue Requirement reduced
22								
23	**Incremental Revenue Sources**							
24	Member Revenues		13			70		<< Lower rates offset by loss of Surcharge
25	MRSM Offset		(0)			(1)		
26	Remaining Smelter Revenues		(220)					<< Lower base, PPA, TIER Adjust. + Rebate
27	Subtotal		(208)			69		
28	Excess Margin					(693)		
29	Net		(208)			(625)		<< Rev. net of excess margin matches requirements
30								
31	**Average TIER (Conventional)**	1.28		1.28	1.28		2.04	

Summary Data (2011 – 2023) - Market Rates as Projected: Rate Analysis

In Scenario Two, Excess Margin allowed to accumulate for potential future application

		SCENARIO ONE			SCENARIO TWO			
		Base Case	Delta	Century Leaves	Base Case	Delta	Both Smelters Leave	
32								
33	**Weighted Average Rate Analysis ($/ MWh)**							
34								
35	*Offsystem*	53.65	0.04	53.69	53.65	0.28	53.94	
36								
37	*Member*							
38	Base + MDA	37.41	0.31	37.73	37.41	(3.05)	34.37	<< Costs spread over lower sales
39	FAC + ES	13.37	0.88	14.25	13.37	0.81	14.18	<< Power purchases reduced
40	Regulatory Account	0.60	(1.32)	(0.71)	0.60	(0.65)	(0.04)	<< Departing Smelters surcharge is not paid
41	Surcredits	(4.13)	2.35	(1.78)	(4.13)	4.13	-	
42	Rebate - Realized	(0.06)	(1.89)	(1.95)	(0.06)	(0.00)	(0.06)	
43	Subtotal: Riders + Rebate Realized	9.18	1.34	10.51	9.18	4.95	14.12	
44	MRSM	(0.89)	0.01	(0.89)	(0.89)	0.01	(0.88)	
45	Rate - Realized	46.30	0.34	46.64	46.30	1.27	47.57	
46								
47	Reconciliation to Accrued Rate	0.06	(0.11)	(0.05)	0.06	0.00	0.06	
48	Rate - Accrued	46.36	0.23	46.59	46.36	1.27	47.63	
49	Excess Margin	-		-	-	(12.64)	(12.64)	<< Potential Application of Excess Margin
50	Net per MWh	46.36	0.23	46.59	46.36	(11.37)	34.99	
51								
52	*Smelters*							<< Base Rate increases moderated
53	Base	29.75	0.23	29.98	29.75			<< Costs spread over lower sales
54	FAC + ES	13.24	0.86	14.10	13.24			<< Power purchases reduced, with negative PPA
55	PPA	1.06	(2.05)	(0.99)	1.06			<< Surcharge unchanged in $/ MWh
56	Surcharges	2.39	-	2.39	2.39			<< TIER Adjustment Charge reduced
57	TIER Adjustment Charge	2.57	(2.32)	0.25	2.57			<< More rebates
58	Rebate - Realized	(0.07)	(2.09)	(2.16)	(0.07)			
59	Rate - Realized	48.94	(5.38)	43.56	48.94			
60		-		-				
61	Reconciliation to Accrued Rate	0.07	(0.00)	0.07	0.07			
62	Rate - Accrued	49.01	(5.38)	43.63	49.01			

Summary Data (2011 – 2023) - Market Rates Discounted 10%: Revenue and TIER Analysis

In Scenario Two, Excess Margin generated by no rebates allowed to accumulate for potential future application *

		SCENARIO ONE			SCENARIO TWO			
		Base Case	Delta	Century Leaves	Base Case	Delta	Both Smelters Leave	
1	**Energy Balance (TWh)**							
2	*Sales*							
3	Members	54.9		54.9	54.9		54.9	
4	Smelters	94.9	(54.0)	40.9	94.9	(94.9)	-	<< Load reduced @ 98% LF for 13 years
5	Offsystem	12.5	46.3	58.8	12.5	86.3	98.8	<< Load increased @ 85% LF for 13 years
6	Total	162.3	(7.8)	154.6	162.3	(8.6)	153.7	
7								
8	*Production, Purchases & Losses*							
9	Production	153.4	(1.7)	151.8	153.4	(2.7)	150.8	<< Production and Purchases reduced
10	Purchases	10.4	(6.6)	3.8	10.4	(6.9)	3.6	
11	Losses	(1.5)	0.5	(1.0)	(1.5)	0.9	(0.6)	
12	Net	162.3	(7.8)	154.6	162.3	(8.6)	153.7	
13								
14	**Incremental Revenue Requirement ($M)**							
15	Departing Smelter		2,649			4,652		<< Lost smelter revenues @ average $49/ MWh
16	Offsystem Sales		(2,170)			(4,124)		<< Market revenues average $48/ MWh
17	Production		(51)			(80)		<< Production and Purchase Costs reduced
18	Purchases		(297)			(327)		
19	Interest Earnings		(13)			(88)		
20	Other		(4)			(2)		
21	Net		113			31		<< Overall Revenue Requirement Increased
22								
23	**Incremental Revenue Sources**							
24	Member Revenues		194			342		
25	MRSM Offset		(1)			(1)		
26	Remaining Smelter Revenues		(80)					
27	Subtotal		113			342		
28	Excess Margin					(311)		
29	Net		113			31		<< Rev. net of excess margin matches requirements
30								
31	**Average TIER (Conventional)**	1.28		1.28	1.28		1.62	

* Note that in 10% market rate discount scenario, a significant member rate increase occurs in 2017, leading to subsequent over recovery.

Summary Data (2011 – 2023) - Market Rates Discounted 10%: Rate Analysis

*In Scenario Two, Excess Margin generated by no rebates allowed to accumulate for potential future application **

		SCENARIO ONE			SCENARIO TWO			
		Base Case	Delta	Century Leaves	Base Case	Delta	Both Smelters Leave	
32								
33	**Weighted Average Rate Analysis ($/ MWh)**							
34								
35	*Offsystem*	53.65	(5.33)	48.32	53.65	(5.11)	48.54	
36					-		-	
37	*Member*				-		-	
38	Base + MDA	37.41	2.43	39.84	37.41	1.92	39.33	<< Base Rate increases
39	FAC + ES	13.37	0.88	14.25	13.37	0.81	14.18	<< Costs spread over lower sales
40	Regulatory Account	0.60	(1.32)	(0.71)	0.60	(0.65)	(0.04)	<< Power purchases reduced
41	Surcredits	(4.13)	2.35	(1.78)	(4.13)	4.13	-	<< Departing Smelters surcharge is not paid
42	Rebate - Realized	(0.06)	(0.71)	(0.77)	(0.06)	(0.00)	(0.06)	
43	Subtotal: Riders + Rebate Realized	9.18	2.52	11.70	9.18	4.95	14.12	
44	MRSM	(0.89)	0.01	(0.88)	(0.89)	0.01	(0.88)	
45	Rate - Realized	46.30	3.64	49.94	46.30	6.24	52.54	
46					-		-	
47	Reconciliation to Accrued Rate	0.06	(0.11)	(0.05)	0.06	0.00	0.06	
48	Rate - Accrued	46.36	3.53	49.89	46.36	6.24	52.60	
49	Excess Margin	-		-	-	(5.66)	(5.66)	<< Potential Application of Excess Margin
50	Net per MWh	46.36	3.53	49.89	46.36	0.57	46.93	
51								
52	*Smelters*							
53	Base	29.75	1.82	31.57	29.75			
54	FAC + ES	13.24	0.86	14.10	13.24			
55	PPA	1.06	(2.05)	(0.99)	1.06			
56	Surcharges	2.39		2.39	2.39			
57	TIER Adjustment Charge	2.57	(1.78)	0.79	2.57			
58	Rebate - Realized	(0.07)	(0.79)	(0.86)	(0.07)			
59	Rate - Realized	48.94	(1.95)	46.99	48.94			
60		-		-				
61	Reconciliation to Accrued Rate	0.07	(0.00)	0.07	0.07			
62	Rate - Accrued	49.01	(1.95)	47.06	49.01			

* Note that in 10% market rate discount scenario, a significant member rate increase occurs in 2017, leading to subsequent over recovery.

Item 33) Refer to the Blackburn Testimony, page 74 of 130.

a. Provide Schedule 3.15 to the Coordination Agreements with the Smelters.

b. Explain in detail why the Coordination Agreements address how Big Rivers will account for and capitalize the assets received from the E. ON-U.S. Parties.

c. Would Big Rivers agree that the accounting for assets and capitalization requirements should conform to the provisions of the RUS USoA and CAAP? Explain the response.

d. Explain in detail how Big Rivers concluded that it was premature to perform a new depreciation study in conjunction with the Unwind Transaction and why it is reasonable to perform the new depreciation study at the time of the 2010 general rate case.

Response) Big Rivers supplements this data request response and its rebuttal testimony to address in more detail the concerns expressed at the May 15, 2008, Informal Conference (i) that the Smelter Agreements unreasonably shift risks to Big Rivers and 'front-end load' benefits for the Smelters (see Draft Settlement Concept No. 4 presented at the May 15, 2008, Informal Conference); (ii) relating to Big Rivers' agreement with the Smelters regarding depreciation (see Draft Settlement Concept No. 4 presented at the May 15, 2008, Informal Conference); and (iii) relating to the prohibition in the Smelter Agreements on rate adjustments that become effective prior to January 1, 2010 (see Draft Settlement Concept No. 7 presented at the May 15, 2008, Informal Conference).

Risk-Shifting

Big Rivers does not believe that the Smelter Agreements unreasonably shift risks to Big Rivers. In fact, the Smelter Agreements significantly buffer Big Rivers and its Members against costs they would otherwise bear in an Unwind. Big Rivers acknowledges that the chief risks of the Unwind Transaction include load concentration in serving the Smelter load and fuel risks, and that its Members will be exposed to those risks under the Unwind Transaction. *See* Big Rivers' Responses to the Attorney General's Initial Request for Information, Item 32(b). But the Smelters assume a disproportionate share of that risk exposure, while mitigating those risks to the Members. *Id.*

The Smelters assume a disproportionate share of the risk exposure through the various rate mechanisms contained in the Smelter Agreements. It should be noted that "the Smelter rates are higher than a traditional cost-based tariff." Direct Testimony of Henry W. Fayne at 13. In the aggregate, Smelter rates in excess of comparable large industrial rates increase the present value of the Unwind Transaction to Big Rivers by approximately $327 million,[1] which additional value offsets the risks Big Rivers will assume in operating the plants. *See* Application, Ex. 14, Direct Testimony of Michael H. Core at 7; Big Rivers' Responses to the Attorney General's Initial Request for Information, Item 67; Direct Testimony of Henry W. Fayne at 12-13.

The Smelters' Base Energy Charge is equivalent to $0.25/MWh above the large industrial rate (assuming a 98% load factor). Direct Testimony of Henry W. Fayne at 6-7; Application ¶ 43; Application, Ex. 9, Direct Testimony of Robert S. Mudge, Application at 19. In addition to their base rates, the "Smelters will also pay, among other amounts, the fuel adjustment clause charges and environmental surcharge amounts applicable to all Big Rivers' Member sales, the TIER Adjustment Charge… and the Smelter Surcharges."

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[1] The numbers used in this response are based on the April 22, 2008, version of the Unwind Financial Model.

Application P 43; *see also* Application, Ex. 9, Direct Testimony of Robert S. Mudge, at 19. Unlike the non-Smelter Members, the Smelters will pay Big Rivers for additional purchased power costs not covered by the fuel adjustment clause. Application, Ex. 10, Direct Testimony of C. William Blackburn, at 57, 80-81; Application ¶ 48.

The TIER Adjustment Charge can move the Smelter's payments upward within a contractually specified bandwidth. Application ¶ 46. Within that bandwidth, the Smelters pay 100% of the additional amounts required to enable Big Rivers to maintain a 1.24 TIER as defined." Application ¶ 46. So, under the TIER Adjustment Charge, "the Smelters support Big Rivers' earnings by paying an amount above base rates in order to cover 100% of Big Rivers' cost increases, under certain circumstances and within certain limitations." Application ¶ 44; *see also* Application, Ex. 10, Direct Testimony of C. William Blackburn, at 51-57. While there is an upper bound on the amount that the Smelters are required to pay as part of the TIER Adjustment Charge, if Big Rivers chose to collect additional revenue through an increase in Member Base Rates, there would be a corresponding increase in the Smelter Base Rates because the Smelter Base Rates are explicitly tied to Big Rivers' Large Industrial Customer rate. Rebuttal Testimony of C. William Blackburn at 17; Rebuttal Testimony of Henry W. Fayne at 4.

The Smelters have also agreed to pay a Smelter Surcharge. Application, Ex. 10, Direct Testimony of C. William Blackburn, at 58. Through the Smelter Surcharge, the Smelters pay additional amounts to help offset fuel and environmental charges the non-Smelter Members would otherwise have to pay. *Id.* at 58-61; Application ¶ 47; Direct Testimony of Henry W. Fayne at 6-7. The "Smelter Surcharges are meant to offset Member payments dollar for dollar." Big Rivers' Responses to the Commission Staff's First Data Request, Item 12. The "monthly Surcharge is flowed back to the Members through the Unwind Surcredit." The Smelter Surcharge will preserve the Economic Reserve and will reduce Member rates for service to non-Smelter customers. *See* Application, Ex. 10, Direct Testimony of C. William Blackburn, at 79-80.

The amount that the Smelters pay under the Smelter Agreements is in excess of what other large industrial customers with a similar load factor would pay, and is summarized in the attached Figure 1 for the periods 2008 – 2012 and 2013 – 2023.

Equally important, the Smelters are bearing additional risk not shown in the Base Case numbers above. Year-to-year, should there be costs in excess of budget not covered under the fuel adjustment clause, the environmental surcharge, or the PPA, those costs may be absorbed by the Smelters in the form of lost Rebates or additional TIER Adjustment Charges, prior to any rate increases for the non-Smelter Members. Contingent cost coverage by the Smelters is shown in the attached Figure 2.

Note that, for the period 2008 – 2012, the Smelter Agreements provide that the Smelters provide $1.47/MWh in contingent price coverage for a total potential contribution of $4.52/MWh in excess of comparable large industrial rates.

Of course, the above-described payments are dependent upon the Smelters remaining on the Big Rivers system, and Big Rivers has taken numerous steps to mitigate against the risk of the Smelters leaving the Big Rivers system. *See* Application ¶ 53. A Smelter is only allowed "to terminate its retail agreement following the commencement of service thereunder in two circumstances: (1) the termination and cessation of all aluminum smelting operations at its smelting facilities, and (2) following the occurrence of an event of default by Kenergy." Big Rivers' Responses to the Attorney General's Initial Request for Information, Item 78; Application, Ex. 10, Direct Testimony of C. William Blackburn at 66; Application, Ex. 19, Summary of New Smelter Service Arrangements, at 7. But even if it is assumed that both Smelters cancel their contracts at the earliest possible date allowed, alternative sales into the market are more than adequate to replace the lost revenues associated with the loss of the Smelter load. Big Rivers' Responses to the Commission Staff's First Data Request, Item 10. This is true even if a ten percent reduction in market prices is assumed. *Id.*

Front-End Loading

Big Rivers likewise does not believe that the benefits to the Smelters are unreasonably "front-end loaded." Big Rivers' believes that the Smelters' rationale for entering into the Smelter Agreements is to obtain benefits that occur primarily after 2012, not before. This is because a large portion of the Smelter load is served by E.On affiliates at an average rate below $25/MWh into 2011. As shown in the attached Figure 3, all-in costs to the Smelters after 2012 are projected to be significantly less in the Unwind than in the existing arrangement.[2]

Moreover, while it is true that the premia paid by the Smelters under the Smelter Agreements grow over time, this does not diminish the absolute level of Smelter contribution from 2008 - 2012, averaging $3.05 per MWh in excess of comparable large industrial rates. *See* Figure 1, attached. Also, as noted in the rebuttal testimony of C. William Blackburn, the backloading of the Smelter premia is not extreme, with approximately 26% of the present value benefit being achieved by the end of 2012, a similar proportion of the overall Unwind period (2008 – 2023). Rebuttal Testimony of C. William Blackburn at 18. So, while more of the benefits fall in the early years, it is not a dramatic difference. *Id.*

Although Big Rivers has agreed not to propose an increase in its depreciation rates through 2016, that does not change the fact that the benefits to the Smelters are not unreasonably front-end loaded. In exchange for the risks and rates that the Smelters agreed to, Big Rivers agreed not to seek a change in depreciation rates through 2016 or an increase in base rates through 2009 to give the Smelters some assurance that their costs for energy in the early years of the Unwind will not be significantly different than they expected during the negotiations. Application, Ex. 19, Summary of New Smelter Service Arrangements, at 7. These measures were aimed at providing some certainty,

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[2] Assumes market electricity prices available to the Smelters at $47/MWh in 2008, escalating approximately at inflation.

because changes in those values in the first years of the Unwind would have a significant effect on the economics of the transaction for each party. Rebuttal Testimony of Michael H. Core at 8-9. However, Big Rivers was careful to include specific exceptions to the covenant not to propose a change in depreciation rates to make sure its depreciation rates were able to change if necessary. *Id.* at 9. The depreciation rates projected in the Unwind Financial Model constitute an increase over the status quo. *Id.* And they intended to represent a plausible outcome of a depreciation study, based on the results of an approved 1994 depreciation study performed for Big Rivers. Application, Ex. 9, Direct Testimony of Robert S. Mudge, at 15-16.

One item that indicates both how the benefits to the Smelters are not unreasonably front-end loaded and how Big Rivers' is mitigating the risk of serving the Smelters is the Transition Reserve Account. Big Rivers will segregate at least $35 million of the consideration it is receiving under the Unwind Transaction to hold in this account to be available to offset any temporary revenue shortfalls that could arguably occur if one or both Smelters cease operations and terminate their contracts. Application ¶ 53. This money could have been used to provide additional front-end benefits. Instead, Big Rivers will set it aside as a risk mitigation measure, and the Smelters will receive no benefit from the account. *Id.*; Application, Ex. 10, Direct Testimony of C. William Blackburn, at 85-88.

Finally, Big Rivers is formulating a proposed schedule for selling SO_2 allowances that will further reduce the perceived front-end loading of benefits. *See* Big Rivers' updated response to Item 43 of the Commission Staff's Supplemental Data Request (filed with this updated response).

Depreciation

Big Rivers has considered the concerns expressed regarding the need for a review of its depreciation rates, and related to the need for a depreciation study. Big Rivers' position on this issue has not changed from its original position in filed testimony. In the testimony of Robert S. Mudge, he states, "[T]he depreciation rates are intended to represent a plausible outcome of such a depreciation study." Application, Exhibit 9, at 16. Big Rivers believes that it has sufficient depreciation rates in the financial model to recover cost. Big Rivers does intend to prepare a new depreciation study and submit it to the RUS and this Commission in late 2015 or early 2016.

As stated in Big Rivers' response to Commission Staff's First Data Request Item 19, "Big Rivers has agreed with the Smelters that, through 2016, it will not affirmatively seek an increase in depreciation rates beyond depreciation rates agreed by the parties prior to finalization of the Financial Model (Section 3.10 of the Coordination Agreement)." This is a material term of the agreement with the Smelters. Changes in depreciation rates obviously directly impact rates, and the depreciation rates adopted by Big Rivers are intended to maintain the rate levels contemplated in the Unwind Financial Model.

Effects of Franklin Circuit Court Order Appeal

Several concerns were expressed at the May 15, 2008, informal conference regarding the potential effect on the Smelter Agreements of the possibility that the August 1, 2007, opinion and order of the Franklin Circuit Court in *Commonwealth of Kentucky ex rel. Gregory D. Stumbo, Attorney General v. Public Service Comm'n and Union Light, Heat and Power Co.*, Franklin Circuit Court, C.A. No. 06-CI-269 (the "Franklin Circuit Court Order") could be affirmed on appeal. For example, the Smelter Retail Agreements state that no increase in the Non-Smelter Member Rates will take effect before January 1, 2010. See, for example, Section 13.1.1 of the Alcan Retail Agreement, Application Exhibit 20. During the informal conference, members of the Commission Staff expressed concern that this restriction could have devastating consequences for Big Rivers if an earlier need for revenue arises, or if the final disposition of the appeal of the Franklin Circuit Court Order requires curative rate action before January 1, 2010.

Big Rivers and the Smelters have agreed to attempt to allay those concerns by amending the Smelter Agreements to provide that if any provision of the agreements is found illegal or unenforceable as a result of that appeal, the parties will negotiate in good faith to revise the agreements to preserve the rights, benefits and economics of the parties. They have also agreed that the prohibition on a rate increase that becomes effective before January 1, 2010, will not apply to any rate increase that is required as a result of the disposition of the Franklin Circuit Court Order. These concepts are being incorporated into the Smelter Agreements and will be filed with the Commission in the next few days.

In addition, the proposed Smelter contracts are valid, even assuming that the Franklin Circuit Court order is affirmed in its entirety on appeal. First, even assuming the Smelters had an interest in attacking the Smelter Agreements (which is counter-intuitive considering the motivations of the parties), they have expressly agreed that they will not do so. The proposed Smelter Retail Electric Service Agreements provide:

> Neither Kenergy nor [Alcan/Century] will support or seek, directly or indirectly, from any Governmental Authority, including the KPSC, any challenge to or change in the rate formula set forth in this Agreement or other terms and conditions set forth herein, including the relationship of the Large Industrial Rate to amounts payable by [Alcan/Century] pursuant hereto, except that any Party may initiate or intervene in a proceeding to (i) clarify, interpret or enforce this Agreement, or (ii) challenge the applicable rate for Transmission Services should those services be unbundled for purposed of calculating the Large Industrial Rate.

Smelter Retail Electric Service Agreement § 13.1. Similarly, the proposed coordination agreements provide:

> [Alcan/Century] shall…(v) not terminate or repudiate the [Alcan/Century] Retail Agreement (including by rejection or similar termination in a bankruptcy proceeding involving [Alcan/Century]) other than in accordance with the provisions thereof without the prior written consent of Big Rivers;…(vii) not take any action or support any action by others that in any manner would impede [Alcan's/Century's] ability to fulfill its obligations to Kenergy or Big Rivers under the [Alcan/Century] Retail Agreement or this Agreement or act in any manner that could reasonably be expected to materially adversely affect it ability to perform or discharge its obligations under this Agreement. Neither Big Rivers nor [Alcan/Century] will support or seek, directly or indirectly, from any Governmental Authority, including the KPSC, any challenge to or change in the rate formula set forth in the [Alcan/Century] Wholesale Agreement or the [Alcan/Century] Retail Agreement or other terms and conditions set forth therein, including the relationship of the Large Industrial Rate to amounts payable by [Alcan/Century] pursuant the [Alcan/Century] Retail Agreement, except that any Party may initiate or intervene in a proceeding to (a) clarify, interpret or enforce the [Alcan/Century] Wholesale Agreement or the [Alcan/Century] Retail Agreement, or (b) challenge the applicable rate for Transmission Services should those services be unbundled for purposed of calculating the Large Industrial Rate.
>
> [Alcan/Century] hereby represents and warrants to Big Rivers as follows:
>
> (b) This Agreement, the [Alcan/Century] Retail Agreement and other agreements entered into by [Alcan/Century] in connection therewith constitute [Alcan's/Century's] valid and binding obligation enforceable against it in accordance with their terms, except as enforceability may be affected by bankruptcy, insolvency or other similar laws affecting creditors' rights generally and by general equitable principles.

Coordination Agreements §§ 3.1, 3.8, 6.2. By agreeing to this language, the Smelters have clearly waived any right they would have had to challenge the contracts. *See Kraus* *v. Kentucky State Senate*, 872 S.W.2d 433, 438 (Ky. 1993) ("The right to object to a defect in a contract may be waived"); *Weil v. B.E. Buffaloe & Co.*, 251 Ky. 673, 65 S.W.2d 704, 710 (Ky. App. 1933).

Second, the Smelters are unlikely to challenge the contracts. Even if they were able to get over the waiver hurdle, the Smelters have agreed to enter into the contracts to ensure a long-term source of wholesale power at non-market rates. If they were to challenge the contracts, they would face the prospect of relying on prohibitively-priced market power, which is what they were trying to avoid through their participating in the Unwind Transaction.

Third, the Franklin Circuit Court order should not affect the Smelter contracts. The Franklin Circuit Court Order concerned a tariff rate, and it should not be extended to limit the ability of a utility and a customer to agree to a variable rate in a special contract. In the Franklin Circuit Court case, the Court was concerned with a utility passing on an expense to all customers through a surcharge without the Commission having the information or opportunity to judge the reasonableness of that expense in the context of the utility's overall financial picture. The charges contained in the Smelter contracts do not present such a concern because in the Unwind Transaction case, the Commission has virtually Big Rivers' entire financial picture before it, and the Commission is able to review the Smelter contracts in context. Further, the charges in question are contracted for by two individual, highly sophisticated customers who have expressly negotiated for those charges, and are not imposed on tens of thousands of customers who have not individually agreed to the rates.

Moreover, the variable rate in the Smelter contracts is analogous to the variable rates for the Smelters that were approved in *National-Southwire Aluminum Co. v. Big Rivers Elec. Corp.*, 785 S.W.2d 503 (Ky. App. 1990). In that case (the "*NSA Case*"), the Commission approved, and the Court of Appeals affirmed (both over the Smelters' objections), variable rates for the Smelters that were tied to the market price of aluminum. *NSA Case* at 514. The Court held that those rates did not violate Kentucky statutes. *See id.* ("NSA and Alcan next attack the imposition of a variable rate. They argue that it violates Kentucky statutes and that it discriminates against them. We conclude that there is no statutory violation and that any discrimination is either too uncertain or that it is within acceptable limits").

The Franklin Circuit Court broadly concluded that the Commission could not approve a system-wide tariff surcharge even in a general rate case without specific statutory authority. But the circumstance in the present case is more like the NSA Case, where rates were applicable only to the two Smelters, rather than the Franklin Circuit Court case, where the surcharge rates were applicable to all tariff customers. In fact, in the present case the charges are not being imposed on the Smelters, as in the NSA Case, but are being accepted with the agreement of the Smelters, making an even stronger case for enforceability.

Finally, the Kentucky Revised Statutes specifically recognize that utilities and customers enter into special contracts, and that the rates in special contracts can be different than tariff rates, like those that are the subject of the Franklin Circuit Court appeal. *See, e.g.,* KRS 278.160(3) ("The provisions of this section do not require disclosure or publication of a provision of a special contract that contains rates and conditions of service not filed in a utility's general schedule if such provision would otherwise be entitled to be excluded from the application of KRS 61.870 to 61.884 under the provisions of KRS 61.878(1)(c)"). If special contract rates were legally required to be the same as general published tariff rates, there would be no need (or basis) for confidential treatment of those rates, as is provided for in KRS 278.160(3). The fact that special contracts are recognized by the KRS Chapter 278, and the fact that the statutes do not prevent utilities and their customers from agreeing to surcharges in their special contracts (so long as they are fair, just, reasonable, not unduly discriminatory, and otherwise comply with the requirements of KRS Chapter 278), are further indications that the Franklin Circuit Court opinion's general prohibition of surcharges should not be applied to special contracts.

Witness) C. William Blackburn
Counsel

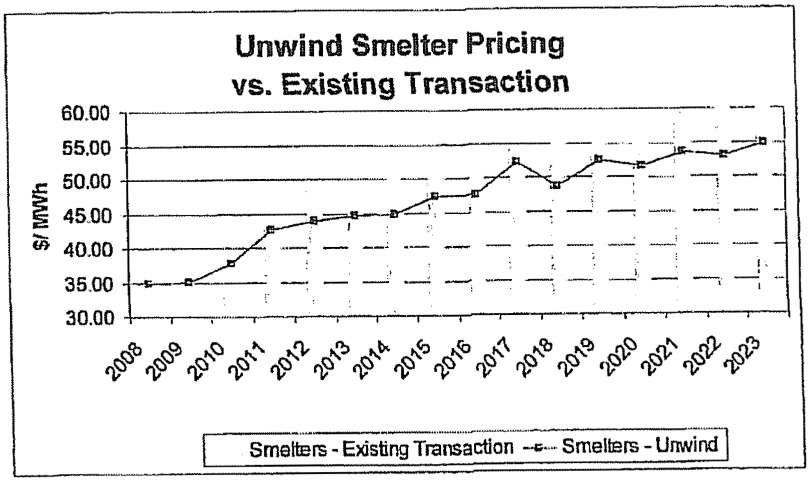
Figure 1

	Avg. $/ MWh	
	2008 - 2012	2013 - 2023
Large Industrial Rate @ 98% LF+FAC+PPA+ES-Rebate	36.17	44.89
Base Case Contribution:		
Margin	0.25	0.25
TIER Adjustment Charge	0.94	2.55
Surcharge 1	0.76	1.25
Surcharge 2	1.10	1.20
Total	3.05	5.25
Effective Smelter Rate - Base Case	39.22	50.15

Figure 2

	Avg. $/ MWh	
	2008 - 2012	2013 - 2023
Effective Smelter Rate - Base Case	39.22	50.15
Contingent Contribution:		
Rebate	0.25	-
TIER Adjustment Charge	1.22	1.38
Total	1.47	1.38
Max Smelter Rate - Within Bandwidth	40.69	51.53

Figure 3


Unwind Smelter Pricing
vs. Existing Transaction
60.00
55.00
50.00
45.00
40.00
35.00
30.00
$/ MWh
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
Smelters - Existing Transaction
Smelters - Unwind

BIG RIVERS ELECTRIC CORPORATION'S
RESPONSE TO THE COMMISSION STAFF'S OCTOBER 24, 2008
SUPPLEMENTAL DATA REQUEST TO BIG RIVERS ELECTRIC CORPORATION
PSC CASE NO. 2007-00455
November 7, 2008

Item 13) Refer to the 10/08 Application, Exhibit 78, pages 60-62. Provide a detailed discussion of Big Rivers' ability to market excess capacity in the quantities and at the prices set forth in the October Unwind Financial Model. Provide any sensitivity analysis which supports these projected quantities and prices.

Response) Big Rivers' 10/08 Application, Exhibit 78 (Third Supplemental Testimony of C. William Blackburn), pages 60-62 presents additional support for Big Rivers' position that an adequate market exists for off-system resale of wholesale power sales transactions now devoted to the Smelters should the Smelters depart Big Rivers' system. As part of that support, Big Rivers presented two principal pieces of information. First, in Exhibit CWB-18, Big Rivers presented information regarding the size of the neighboring wholesale power markets to demonstrate that a robust wholesale market exists in which any excess Smelter energy could be resold. Second, Big Rivers presented Exhibit CWB-19, containing Platt's 2008 *Power Sales Analysis'* projections of the forward price of 7x24 blocks of power at the CinHub over the term of the transaction. The purpose of this Exhibit CWB-19 was to supplement the information already contained in Big Rivers' Unwind Financial Model to provide a second demonstration that wholesale market prices would in all years be in excess of the rate projected to be charged to the Smelters.

As noted in Exhibit 78 at page 62, "Big Rivers' Unwind Financial Model already indicates that in each future year the projected market prices in neighboring markets will be in excess of the rate charged to the Smelters." To be clear, Big Rivers did not intend for Exhibit CWB-19 to serve as its justification for the level of off-system sales incorporated in the Unwind Financial Model or even to have any bearing on that issue. It was provided simply as a second demonstration that forecasted market prices appear uniformly to be in excess of the power price being offered to the Smelters such that if they were to shutdown Big Rivers would have an ability to remarket that energy. Exhibit CWB-19 presents a power price projection that is limited to a single market node, the CinHub, whereas the Unwind Financial Model contains a more comprehensive regional pricing analysis using a regional variable cost dispatch forecast from ACES Power Marketing ("APM") that projects likely dispatches of regional units based on the modeled fuel price forecasts used in the Unwind Financial Model. *See* Exhibit 10, Direct Testimony of C. William Blackburn at page 28. Big Rivers believes that the information contained in the Unwind Financial Model presents its best available evidence regarding both the quantity to be sold and the price to be received for Big Rivers' off-system sales of excess energy, and that remains the case whether or not the Smelters remain on the system.

The quantity of excess energy projected to be sold in the wholesale markets in the Unwind Financial Model is simply a reflection of the units' availability less the sum of the Non-Smelter and Smelter loads to be served. In the Production Cost Model, Application Exhibit 97, Big Rivers has presented the support that it has the ability to produce the level of energy necessary to achieve the projected off-system sales. Mr. Bob Berry, who will be Big Rivers Vice President and Chief Production Officer at the Unwind Closing, has reviewed the Production Cost Model and is in agreement with the availability level of the generating units included therein.

After availability has determined the amount of excess energy available to be sold, the issue becomes whether Big Rivers can effect a sale and at what price. Since 1998 Big Rivers has been extremely successful in selling its excess energy in the wholesale markets. *See* Response to PSC Item 35 dated February 14, 2008 in which I present Big Rivers' marketing of off-system power over the past ten years. Even during the Enron troubles, Big Rivers did not lose any revenues from the collapse of counterparties in the wholesale market. Big Rivers has also demonstrated its ability to move its excess energy into the wholesale markets at an extremely high utilization level on peak as well as off peak. At the closing of the Unwind Transaction, Big Rivers will have sufficient transmission available to move all of its excess energy to its border for delivery into the MISO, KU/LGE and TVA interconnected systems.

Big Rivers also has a firm 100 MW transmission reservation across the TVA system which allows Big Rivers to reach the SOCO and PJM markets. The TVA firm transmission provides Big Rivers the diversity to reach markets that may be trading at a premium due to localized weather or generating conditions.

Obviously, actual market conditions will determine the price received when Big Rivers markets excess energy off-system, but Big Rivers believes the pricing underlying its Unwind Financial Model remains the best information available of these future pricing trends and Big Rivers is confident that it will be able effectively to remarket all excess quantities of energy. Other than the latest version of the Unwind Financial Model presented as Application Exhibit 79, Big Rivers has performed no sensitivity analyses in specific support of the projected quantities and prices reflected therein.

Witness) C. William Blackburn

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC	)	
CORPORATION FOR A GENERAL	)	Case No. 2012-00535
ADJUSTMENT IN RATES	)	

<u>KIUC'S RESPONSE TO</u>
<u>BIG RIVERS ELECTRIC CORPORATION'S</u>
<u>FIRST REQUEST FOR INFORMATION</u>

14. Refer to the Direct Testimony of Lane Kollen beginning at page 15, line 11, through page 16, line 2. Please provide all supporting documents for the assertion that the FAC rate increases are due largely to increases in average fuel cost per kWh resulting from the layup of Wilson. Provide the amount of FAC rate increases Mr. Kollen claims are due largely to increases in average fuel costs resulting from the layup of Wilson. Provide all workpapers and supporting documents. Provide all calculations in electronic format with formulas intact.

<u>RESPONSE:</u>

The fuel costs for the Company's various generating units were inputs into the Company's Corporate Financial Model used for purposes of developing the rates and revenues reflected on Tab 59. Wilson is the most efficient of the Company's generating plants. With Wilson laid up during the test year and to the extent that the Company's other less-efficient generating plants provided the generation in lieu of the Wilson plant in the base year, then the Wilson layup will result in an increase in the average fuel cost per kWh, all else equal. Mr. Kollen has not performed and cannot perform the quantifications sought by the Company. Further, Mr. Kollen and KIUC do not have access to the ACES production cost model.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

15. Refer to the Direct Testimony of Lane Kollen at page 31, lines 13-14. Mr. Kollen states that "the stranded costs resulting from market changes typically are shared among impacted parties." Please provide the basis for this statement and any relevant Kentucky statutes, regulations, or Commission orders that support this assertion.

RESPONSE:

See Mr. Kollen's testimony p. 6, line 15 thru p. 7, line 14.

Answer provided by Counsel.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

16. Refer to the Direct Testimony of Lane Kollen at page 42. Please provide all assumptions, workpapers, and supporting documents for the rates listed on this page. Provide all calculations in electronic format with formulas intact.

RESPONSE:

Please refer to Exhibit___(LK-2) and to the electronic spreadsheets provided in response to Staff 1-6.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

17. Refer to the chart on page 51 of Mr. Kollen's testimony. Please provide a chart including similar rates for the East Kentucky Power Cooperative member cooperatives and the cooperatives in Kentucky served by the Tennessee Valley Authority. Also provide a similar chart comparing the large industrial rates of Big Rivers and all other utilities in the Commonwealth of Kentucky, including the large industrial rates for the East Kentucky Power Cooperative member cooperatives and the cooperatives in Kentucky served by the Tennessee Valley Authority at present and at August 21, 2013.

RESPONSE:

Mr. Kollen has not performed the requested comparison.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

18. Refer to the Direct Testimony of Lane Kollen at page 51. Please provide the referenced SNL financial database. Please provide this information updated to reflect rates to be in effect for the annualized period of Sept 2013 through Aug 2014.

RESPONSE:

The SNL database is a proprietary, subscription-based service that was entered into by KIUC counsel. The KIUC cannot provide a copy of the database or provide access to the database under the terms of its subscription. The Company would need to enter into its own subscription in order to access the database.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

<u>KIUC'S RESPONSE TO</u>
<u>BIG RIVERS ELECTRIC CORPORATION'S</u>
<u>FIRST REQUEST FOR INFORMATION</u>

19. Refer to the Direct Testimony of Lane Kollen at page 63, line 11. Please provide all depreciation manuals or policies and similar documents upon which Mr. Kollen bases his conclusion that it would be appropriate for Big Rivers to cease depreciation on Wilson.

<u>RESPONSE:</u>

Mr. Kollen believes that the ratemaking controls the accounting for depreciation expense and that the Commission could and should direct the Company to discontinue depreciation expense for ratemaking purposes. In the case of depreciation expense, the Commission first must approve depreciation rates. Then, the accounting follows when the utility uses the approved depreciation rates to calculate depreciation expense. In this case, Mr. Kollen proposes that the Commission approve a 0% depreciation rate for the Wilson plant until it is returned to service at a later date. This will result in $0 in depreciation expense for the Wilson plant in the revenue requirement and for accounting purposes during the period in which it is laid up.

In addition to the basic premise that ratemaking controls the accounting, Mr. Kollen believes that the accounting set forth in the RUS Uniform System of Accounts ("USOA") supports the temporary cessation of depreciation expense when a plant, such as the Wilson plant, is laid up for an extended period of time.

The USOA requires that the original cost of electric plant included in account 101 *Electric Plant in Service* and the subsidiary plant accounts must be "used by the utility in its electric utility operations." Once the Wilson plant is laid up, it no longer will be in-service; it no longer will be "used by the utility" and thus, it no longer will qualify as electric plant in service. Once the cost of the Wilson plant is removed from account 101, there no longer will be any plant in service to depreciate, and thus, there no longer will be any related depreciation expense recorded in account 403 *Depreciation Expense*. The Company has no specific plans to use the Wilson plant in its electric utility operations until 2019, when the Company plans to return the unit to service. The USOA states for account 101:

> 101 Electric Plant in Service
>
> A. This account shall include the original cost of electric plant, included in Accounts 301 to 399, prescribed herein, owned and used by the utility in its electric utility operations, and having an

> expectation of life in service of more than one year from date of installation, including such property owned by the utility but held by nominees.

Once the original cost of the plant that no longer is used by the utility is removed from account 101, the USOA directs that the original cost of the plant, net of accumulated depreciation, be recorded in account 105 *Electric Plant Held for Future Use* as long as the utility has a definite plan to use the plant in the future. The Company has a definite plan to use the plant in the future. The USOA states for account 105:

> 105 Electric Plant Held for Future Use
>
> A. This account shall include the original cost of electric plant (except land and land rights) owned and held for future use in electric service under a definite plan for such use, to include: (1) Property acquired (except land and land rights) but never used by the utility in electric service, but held for such service in the future under a definite plan, and (2) property (except land and land rights) previously used by the utility in service but retired from such service and held pending its reuse in the future, under a definite plan, in electric service.

Once the original cost of the plant is transferred from account 101 to account 105, depreciation ceases for accounting purposes. Depreciation expense again will commence when the plant is returned to service and the original cost of the plant is transferred from account 105 back to account 101. The USOA states for account 403:

> 403 Depreciation Expense
>
> A. This account shall include the amount of depreciation expense for all classes of depreciable electric plant in service except such depreciation expense as is chargeable to clearing accounts or to Account 416, Costs and Expenses of Merchandising, Jobbing and Contract Work.

The USOA defines depreciation as follows:

> *Depreciation,* as applied to depreciable electric plant, is the loss in service value, not restored by current maintenance, incurred in connection with the consumption or prospective retirement of electric plant in the course of service from causes which are known to be in current operation and

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

> against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities.

The temporary cessation of depreciation during the Wilson plant layup is consistent with the fact that during the layup, there no longer will be a "loss in service value" or "wear or tear" because the plant will not be operated. During the layup, there will be no operating hours and, to the extent operating hours are a relevant indicator of expected service life, then the Wilson plant will have the same remaining operating hours of depreciable life left after it is returned to service than if it had remained in service; however, the probable retirement date would be extended for 6 years, assuming a return to service in 2019.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

20. Refer to the Direct Testimony of Lane Kollen at page 68, line 6. Please provide the referenced SNL Energy Regional Reserve Margin Outlook.

RESPONSE:

Refer to the KIUC response to BREC 1-18.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

21. Please provide Exhibit LK-2 and Exhibit LK-3 in electronic format with formulas intact.

RESPONSE:

Refer to the electronic spreadsheets provided in response to Staff 1-6.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

22. Identify each outside professional, including legal counsel and consultants, you have retained related to this case. Please produce a copy of the engagement letter or other document(s) describing the scope, terms, and fees applicable your engagement of any outside professionals, including all legal counsel and consultants, related to this case.

RESPONSE:

KIUC has retained Lane Kollen and the firm Kennedy and Associates to provide expert testimony in this case. No engagement letter exists. KIUC had also retained the services of Russell Klepper and Michael Fontham, Esq. to provided expert testimony, but did not actually utilize their services.

Answer provided by Counsel.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO BIG RIVERS ELECTRIC CORPORATION'S FIRST REQUEST FOR INFORMATION

23. Provide all costs related to this case incurred to date for each outside professional identified in your response to the previous Item of these requests, and provide an estimate of the total costs related to this case that you will incur for each such outside professional.

RESPONSE:

Objection. This data request seeks information which is not relevant. KIUC is not a regulated entity and does not seek cost recovery from ratepayers for the consulting services it incurs.

Answer provided by Counsel.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

24. Please provide a copy of all documents showing communications between you and any representative of another intervenor regarding, arising out of, or related to this case.

RESPONSE:

See response to Q.2.

Answer provided by Counsel.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC	)	
CORPORATION FOR A GENERAL	)	Case No. 2012-00535
ADJUSTMENT IN RATES	)	

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

25. Please provide a copy of all documents showing communications between or among any of KIUC, Aleris, Domtar, Kimberly Clark, and your witnesses regarding, arising out of, or related to this case.

RESPONSE:

Objection. The information sought is subject to the Attorney-Client privilege.

Answer provided by Counsel.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

26. Please provide a copy of all documents showing communications between or among you, your witnesses, and any person not a party to this case regarding, arising out of, or related to this case.

RESPONSE:

Objection. The information sought is subject to the work-product privilege. See response to Q. 2 for non-privileged communications.

Answer provided by Counsel

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

27. Refer to the Direct Testimony of Kelly Thomas. Does Ms. Thomas believe forcing Big Rivers to file for bankruptcy protection will guarantee low cost, stable electricity rates? Please explain the response in detail.

RESPONSE:

I am not advocating or proposing that Big Rivers file for bankruptcy protection, nor have I testified that bankruptcy protection will guarantee low cost, stable electricity rates. My testimony is that Aleris competes in a highly competitive, increasingly global industry. In order to remain competitive, we are continually required to reduce costs, improve service levels and introduce new, innovative products. This requires safe, reliable electric service provided at low cost, stable and predictable rates. We cannot absorb or pass on to our customers inefficiencies in our suppliers' systems or subsidize other industries. We certainly cannot pay for excess capacity from which we derive no benefit or which adds no value to our products. Therefore, I am asking that the Commission carry out its duty to set fair, just and reasonable rates by excluding excess capacity costs. If Big Rivers is unable to prosper charging its customers fair, just and reasonable rates for the service its provides to those customers, then there is an inherent flaw in the financial structure of Big Rivers for which Big Rivers itself and its creditors must be responsible.

Answer provided by Kelly Thomas.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

28. Refer to the Direct Testimony of Kelly Thomas. Does Ms. Thomas believe forcing Big Rivers to file for bankruptcy protection provides predictability in Aleris' electricity rates? Please explain the response in detail.

RESPONSE:

Yes. Compared to the current course Big Rivers is on of rate increase, piled on top of rate increase piled on top of more rate increases, bankruptcy protection would provide more predictable rates. Big Rivers' business model appears to rest largely on the assumption that remaining customers can and should pay for the power plants that were built to serve the smelters, no matter the cost. This model provides very little rate predictability and may result in a Western Kentucky death spiral. By contrast, bankruptcy protection would give Big Rivers breathing room to restructure its operations to fit its non-smelter load. I am advised by counsel that during bankruptcy the Kentucky Public Service Commission would retain ratemaking authority and I trust that the Commission would maintain fair, just and reasonable rates that do not include the costs of excess capacity during the bankruptcy process.

Answer provided by Kelly Thomas.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC	)	
CORPORATION FOR A GENERAL	)	Case No. 2012-00535
ADJUSTMENT IN RATES	)	

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

29. Refer to the Direct Testimony of Kelly Thomas at page 3, line 13. Please provide all studies and other documents that support the claims that Aleris' rates are not competitive.

RESPONSE:

No such studies exist.

Answer provided by Kelly Thomas.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

30. Refer to the Direct Testimony of Kelly Thomas at page 4, lines 1-3 and 17-18. Please describe the investment options and new lines of business Aleris is considering. Has Aleris made a determination to deny any investment options or new lines of business at the Aleris Hawesville facility as a result of the rates Big Rivers is proposing in this case? Provide all communications and other documents evidencing all such determinations.

RESPONSE:

As part of Aleris' strategic planning process, Aleris is continually investigating, analyzing and debating ways in which to make its Lewisport facility more profitable. Those opportunities may include improvements to equipment and processes, the development and introduction of new and improved product offerings and the fostering of new customer relationships. In particular, industry experts believe that the transportation and automotive industries, among others, will utilize significantly more aluminum in the coming years than in years past. Aleris is actively considering its role in this expected growth in demand for the types of aluminum produced at mills such as Aleris' Lewisport mill. At this time, Aleris has neither denied or approved any investment options at the Lewisport facility due in large part to the uncertainty surrounding this and anticipated future rate cases.

Answer provided by Kelly Thomas.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

31. Provide the effective, all-in power rate, by electric service provider, of each Aleris facility for each of the last three calendar years.

RESPONSE:

[redacted]

[redacted]

[redacted]

[redacted]

Answer provided by Kelly Thomas.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

**KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION**

32. Refer to the Direct Testimony of Kelly Thomas at page 5, lines 10-12. Provide supporting workpapers, assumptions, calculations, and related documents for the claimed 30% increase.

RESPONSE:

See Mr. Kollen's Testimony, p. 13.

Answer provided by Kelly Thomas.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

33. Refer to the Direct Testimony of Kelly Thomas testimony at page 6, lines 17-18, where Ms. Thomas claims, "Aleris is unable to assess the viability of capital expenditures and other budgeting considerations at the Lewisport plant." Provide a list of capital expenditures that have been delayed because Big Rivers did not quantify the amount of the Alcan rate increase. Provide all communications and other documents evidencing such delay.

   a. Is it Ms. Thomas' position that Aleris will be able to assess the viability of capital expenditures if Big Rivers is forced into bankruptcy? If so, when in the bankruptcy process will Aleris be comfortable making such assessment?

RESPONSE:

Yes. If Big Rivers reorganizes its operations in bankruptcy such that the power generation it owns fits the non-smelter load, then Aleris will have better confidence that its rates will be stable and competitive. This will allow investment decisions to be made with a greater degree of certainty.

Answer provided by Kelly Thomas.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO BIG RIVERS ELECTRIC CORPORATION'S FIRST REQUEST FOR INFORMATION

34. Refer to the Direct Testimony of Kelly Thomas, at page 6, lines 7-11. Ms. Thomas asserts that Big Rivers has proposed that its "remaining customers . . . pay for 100% of the capacity that was built to provide service to other customers." Please provide all documents and information that form the basis for the assertion that such capacity was built to provide service to other customers.

RESPONSE:

Please see the testimony of KIUC witness Mr. Kollen at page 29. Big Rivers' generating capacity is 1,819 mw. With the smelters its native load is 1,478 mw. Without the smelters its native load is 628 mw. The fixed costs of all 1,819 mw of capacity are included in this rate case.

Answer provided by Kelly Thomas.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC	)	
CORPORATION FOR A GENERAL	)	Case No. 2012-00535
ADJUSTMENT IN RATES	)	

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

35. Refer to the Direct Testimony of Kelly Thomas, at page 7, lines 11-12. Ms. Thomas testifies that "[r]emaining customers cannot afford to pay for the excess generating capacity that was built to serve the smelters."

a. Please provide all communications, documents, and other information that form the basis for Ms. Thomas' assertion.

b. Please state whether Aleris will be unable to pay its power bill to Kenergy Corp. if the Commission approves the rates proposed by Big Rivers in this proceeding.

RESPONSE:

a. Please see the testimony of KIUC witness Mr. Kollen at page 50. It is my belief based upon my general business experience that a 130.75% increase on the Rural customers and a 114.47% increase on the Large Industrial customers over the next several years is not affordable.

b. Aleris' ability to pay a proposed rate increase is irrelevant to the question of whether the proposed increase is fair, just and reasonable. Paying for excess capacity to satisfy Big Rivers' creditors reduces capital that could otherwise be used productively.

Answer provided by Kelly Thomas.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

36. Refer to the Direct Testimony of Bill Cummings at page 3, lines 7-9, where he says that "[w]hen all rate elements are taken into account the impact of Big Rivers' rate case filing would result in a nearly 30% rate increase to Large Industrial customers such as Kimberly Clark." Please provide all workpapers, assumptions, calculations, and related documents that form the basis or support this assertion.

RESPONSE:

See Mr. Kollen's Testimony, p. 13.

Answer provided by Bill Cummings.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

37. Please refer to page 4, lines 8-9 of Mr. Cummings's testimony regarding potential future rate changes. Mr. Cummings testifies that "[a]ccording to Mr. Kollen's calculations this increase may be in the range of an additional 48% to 62% to Large Industrial customers . . . ."

a. Please explain in detail the basis for this estimate.

b. Please provide all workpapers, calculations, documents, and information that form the basis for this estimate.

RESPONSE:

a.b. Refer to Mr. Kollen's testimony and the KIUC response to Staff 1-6.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

38. Refer to the Direct Testimony of Bill Cummings at page 4, lines 12-13. Please provide all workpapers, assumptions, calculations, and supporting documents for the claimed 90% rate increase.

RESPONSE:

See response to Q. 37 a.

Answer provided by Bill Cummings.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC	)	
CORPORATION FOR A GENERAL	)	Case No. 2012-00535
ADJUSTMENT IN RATES	)	

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

39. Refer to the Direct Testimony of Bill Cummings at page 4, lines 21-23, where he says that large industrial ratepayers will consider both cases when making investment decisions. List all investment decisions that Kimberly Clark has changed because of the rate increase proposed by Big Rivers in this case. Provide all communications and other documents evidencing such decisions.

RESPONSE:

At this point no investment decisions have bypassed K-C Owensboro Mill.. K-C leadership is aware of this 30% rate increase filing and the second rate increase up to 89.9% by January 2014.

Answer provided by Bill Cummings.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

40. Refer to the Direct Testimony of Bill Cummings at page 5, lines 21-22, where he says that capital investments could bypass the Owensboro mill. List all such investment decisions that have bypassed the Owensboro mill as a result of Big Rivers' proposed increase. Provide all communications and other documents evidencing that investment decisions have bypassed the Owensboro mill as a result of Big Rivers' proposed increase.

RESPONSE:

See response to Q.39.

Answer provided by Bill Cummings.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

41. Refer to the Direct Testimony of Bill Cummings at page 6, line 23. Please provide all assumptions, calculations, workpapers, and related documents supporting the claim that the Rural increase will be 108%.

RESPONSE:

Refer to Mr. Kollen's testimony and the KIUC response to Staff 1-6.

Answer provided by Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

42. For Kimberly Clark, please state the costs it (or its subsidiary or affiliate) incurred to install the generation facilities described on page 6 of Mr. Cummings' testimony. Describe all issues considered and provide all analyses performed in determining whether to install a generation facility at its Owensboro plant.

RESPONSE:

No detailed analyses of installing cogeneration have been performed for Owensboro. As with the cogeneration facilities K-C has installed at other sites, K-C will consider forecasted electricity and natural gas prices to the K-C Owensboro site along with the capital costs for the required equipment and expected business conditions to determine if the financial payback is attractive.

Answer provided by Bill Cummings.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

43. Refer to the Direct Testimony of Bill Cummings at page 5, lines 8-9. Mr. Cummings testifies that "[r]ate increases of this magnitude will result in uncompetitive power rates for Owensboro Mill." Please provide all documents and information that form the basis for this assertion, identify the utilities that serve other Kimberly Clark's facilities, and provide all-in rates paid by those facilities.

RESPONSE:

Mr. Lane Kollen's testimony states on page 49 that delivered electricity prices to Large Industrial Customers of Big Rivers could increase by 89.9% by January 2014 as a result of this first rate case and the next rate case due to Alcan's leaving Big Rivers. Low cost power is one reason the Owensboro site was built and why the plant remains viable. A 30% price increase in this first rate case will take away that advantage and an 89.9% increase after the second rate case will make the situation worse.

Answer provided by Bill Cummings.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

44. Refer to the Direct Testimony of Steve Henry at page 3, line 10. Provide all assumptions, workpapers, and related documents that form the basis for the alleged 32% increase. Provide all supporting calculations in electronic format with formulas intact.

RESPONSE:

Please refer to the spread sheet attached to this response which was prepared internally by Domtar. Domtar applied the rate case data provided by Big Rivers in its Application against actual Domtar billing to determine the full impact of the proposed changes including changes to credits and surcharges. Using Big River's analysis of the impact for Domtar, we calculate the following increases over our current electric bill:

- Wholesale Rate: 32% increase
- Retail Rate: 30% increase
- Revenue: 35% increase
- Revenue (excluding Economic Reserve): 32% increase

Answer provided by Steve Henry.

Domtar	Actual 2012	Proposed Rates w/ constant energy	Increase	Rates in Sep-13 w/o base increase	Estimated Rates Sep-13	Increase	% Increase Estimated Sept-13 vs Actual 2012	
Demand (kW) Rate $/kW	10.5	12.41	18%	10.5	12.41	18%	18%	
Energy (kWh) $/kWh	0.024505	0.03	22%	0.024505	0.03	22%	22%	
Demand (kW)	197000	197000		197000	197000			
Energy (kWh)	138,503,802	138,503,802		138,503,802	138,503,802			
Base Rate ($/kWh)	0.03944	0.047651	21%	0.03944	0.047651	21%	21%	
Non-smelter Non-FAC PPA	(0.001141)	(0.001141)		(0.000781)	(0.000781)		-32%	decrease in credit
FAC	0.002909	0.002909		0.004701	0.004701		62%	increase in charge
Environmental Surcharge	0.002113	0.002113		0.003329	0.003329		58%	increase in charge
Surcredit	(0.004204)	(0.004204)		(0.001910)	(0.001910)		-55%	decrease in credit
Economic Reserve	(0.006032)	(0.006032)		(0.009332)	(0.009332)		55%	increase in credit
Wholesale Rate	0.033085	0.041297	25%	0.035446	0.043652	23%	32%	
Retail Rate	0.035085	0.043297	23%	0.037446	0.045658		30%	
Revenue	$5,417,830.17	$6,555,178.55	21%	$6,201,917.25	$7,339,265.63	18%	35%	
Billing (excluding Econ Res)	$4,582,382.92	$5,719,731.30	25%	$4,909,460.66	$6,046,809.04	23%	32%	

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

45. Please provide the amount of power in MWh that Domtar cogenerated for each month in 2012 and 2013, excluding Backup Power. Provide the monthly cost of such cogenerated power for each month in 2012 and 2013, excluding Backup Power. Provide the amount of power in MWh that Domtar purchased from Kenergy Corp. for each month in 2012 and 2013, excluding Backup Power. Provide the monthly cost of such purchased power for each month in 2012 and 2013, excluding Backup Power. Provide the amount of Backup Power in MWh that Domtar purchased for each month in 2012 and 2013. Provide the monthly cost of such Backup Power for each month in 2012 and 2013. Provide all supporting documents, workpapers, assumptions, and calculations.

RESPONSE:

[redacted]

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

[redacted]

Answer provided by Steve Henry.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

46. Refer to the Direct Testimony of Steve Henry at page 6. Please explain how "buy all/sell all" agreements affect the calculation of power rate costs and identify the states in which these facilities are located. Indicate if these states have mandatory Renewables Standards.

RESPONSE:

[redacted]

Answer provided by Steve Henry.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

47. Please produce the following information regarding each of the company affiliates whose power costs are discussed in the testimonies of the testifying representatives of Aleris, Domtar, and Kimberly Clark:

a. Location of each facility.

b. Power supplier to each facility.

c. Effective date of the rates for electric service identified in the representative's testimony.

d. Any proposed electric rate increases by the electric utility serving each facility and the estimated percentage of the increase being sought.

RESPONSE:

a-d Kimberly Clark: This information is not available for Kimberly Clark affiliates.

a-d Domtar:

a. Location of each facility. Johnsonburg, PA; Kingsport, TN; Plymouth, NC; Ashdown, AK and Marlboro, SC.

b. Power supplier to each facility. FirstEnergy Solutions through Western Penn Power, American Electric Power (AEP), Dominion North Carolina Power, Southwestern Electric Power Company (AEP) and Marlboro Electric Cooperative, respectively.

c. Effective date of the rates for electric service identified in the representative's testimony. All rate information given is from currently applicable rates.

d. Any proposed electric rate increases by the electric utility serving each facility and the estimated percentage of the increase being sought. Domtar is not aware of any pending rate cases that would affect these facilities.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

a-d Aleris: The Testimony submitted by Ms. Thomas does not reference other Aleris affiliates or facilities.

Answer provided by Bill Cummings, Steve Henry and Kelly Thomas.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC	)	
CORPORATION FOR A GENERAL	)	Case No. 2012-00535
ADJUSTMENT IN RATES	)	

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

48. Please provide the percentage of the production cost of the Aleris Hawesville facility that is represented by the cost of retail electric service from Kenergy Corp. in each month of the years 2012 and 2013.

RESPONSE:

[redacted]

Answer provided by Kelly Thomas.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC	)	
CORPORATION FOR A GENERAL	)	Case No. 2012-00535
ADJUSTMENT IN RATES	)	

**KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION**

49. Please provide the percentage of the production cost of the Domtar Hawesville facility that is represented by the cost of retail electric service from Kenergy Corp. in each month of the years 2012 and 2013.

RESPONSE:

See attached confidential document filed under seal.

Answer provided by Steve Henry.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

50. Please provide the percentage of the production cost of the Kimberly Clark Owensboro mill that is represented by the cost of retail electric service from Kenergy Corp. in each month of the years 2012 and 2013.

RESPONSE:

See response to Q.4.

Answer provided by Bill Cummings.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC	)	
CORPORATION FOR A GENERAL	)	Case No. 2012-00535
ADJUSTMENT IN RATES	)	

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

51. For each of Aleris, Domtar, and Kimberly Clark, please provide the "all-in" effective electrical rates each paid during each year 2010, 2011, and 2012 at their respective plants in the United States that are comparable to those described in their testimonies.

RESPONSE:

See responses to Q. 31, 43 and 47.

Answer provided by Counsel.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

52. **Please refer to the Direct Testimony of Steve Henry at page 7, lines 12-14. Mr. Henry testifies that "[a]ny increase in the cost of production at Hawesville increases the likelihood that we may be asked to temporarily halt production."**

   a. **Has Domtar developed any plans to temporarily halt production as a result of the rate change Big Rivers is proposing in this proceeding?**

   b. **If the response to subpart [a] above is affirmative, please explain that decision in detail and provide all communications, documents, and other information that form the basis for or describe that decision and the date on which the plan was established.**

   c. **How many times since January 1, 2010, has Domtar instructed that the Hawesville facility temporarily halt production?**

   d. **If the response to subpart [c] above is greater than zero, for each temporary halt of production, please explain why production was temporarily halted.**

   e. **Does Domtar currently have any planned or scheduled temporary halts to production at the Hawesville facility unrelated to the rate change at issue in this proceeding?**

   f. **If the response to subpart [e] above is affirmative, please explain why each identified temporary halt to production at the Hawesville facility has been planned or scheduled.**

   g. **Does Domtar cease depreciation expense, loan principal payments, interest expenses and property taxes on a plant when that plant is directed to temporarily halt production? If not, please explain why not.**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

RESPONSE:

a. No.

b. Not applicable.

c. Domtar's Hawesville facility is a 24 hour, 365 day operation with the exception of the schedule annual outage which is typically 8 days in duration. Domtar's Hawesville facility has taken 24.6 production days (or 590 hours) worth of market downtime since January 1, 2010. One production day is 24 hours of production on one of our two paper machines. This excludes scheduled annual outage downtime which is not market related.

d. Production was temporarily curtailed in an effort to match Domtar's production capacity with customer orders.

e. No.

f. Not applicable.

g. No. Loan principal payments and interest expenses are handled at the corporate level by Domtar. Depreciation expenses and property taxes are paid during temporary market curtailments. In the event of a permanent production line or facility closure, such as the 2002 permanent closure of the corrugating medium mill at Domtar's Hawesville plant, Domtar makes the appropriate depreciation write off in accordance with GAAP. In the case of a permanent closure, property taxes are re-evaluated with local government.

Answer provided by Steve Henry.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

53. **Please refer to the Direct Testimony of Steve Henry at page 7, lines 14-16. Mr. Henry testifies that "these increases jeopardize access to what should be Hawesville's share of corporate capital funding for projects needed to keep our manufacturing processes both modem and competitive."**

    a. **Please provide all communications and other documents that support this statement.**

    b. **Please clarify whether the referenced "increases" refers to only the rate changes sought in Big Rivers' application in this matter.**

    c. **Has Domtar reduced, planned to reduce, or announced a reduction in "Hawesville's share of corporate capital funding" as a result of the rate changes at issue in this proceeding?**

    d. **Please quantify the amount that "should be Hawesville's share of corporate capital funding for projects needed to keep our manufacturing processes both modern and competitive," and please explain whether the cost of electricity is the sole determinant in that decision. If electricity cost is but one component, please identify all other components that are considered in that decision-making process.**

RESPONSE:

a. No documents exist.

b. The referenced "these increases" refers to the current electric rate case and the anticipated follow up rate case due to the Alcan smelter contract termination. In addition, there will be an automatic rate increase once the economic reserve is depleted and the MSRM credit ends.

c. Domtar has not announced any changes in capital funding changes for the pending rate case. Increased costs of any kind, electric or otherwise, makes it more difficult to compete for future capital investment.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

d. Domtar's Hawesville capital needs vary year to year based on asset integrity, safety, regulatory, quality, and other capital needs. The cost of electricity is not the sole determinant in capital decisions. Domtar takes a multifaceted look at capital requests based on regulatory needs, criticality, return on investment, and strategic value of facility. Increased electricity costs weaken the value proposition for future capital, but it is not the sole determinant.

Answer provided by Steve Henry.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

54. Please provide all employee newsletters and similar documents related to the Domtar Hawesville facility since January 1, 2010.

RESPONSE:

Objection. The information sought is not relevant.

Answer provided by Counsel.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

55. Please provide a comparison of all budgeted and actual Operating and Maintenance and Capital expenditures for the Domtar Hawesville facility for the past three calendar years.

RESPONSE:

Objection. The information sought is not relevant.

Answer provided by Counsel.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES	)))	Case No. 2012-00535

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

56. Please refer to the Direct Testimony of Steve Henry at page 8, lines 10-11. Mr. Henry testifies that Domtar "cannot afford to pay for 100% of the costs incurred to serve other customers while Big Rivers' creditors recoup 100% of their investments."

a. Please provide all communications, documents, and other information that form the basis for Mr. Henry's assertion.

b. Please state whether Domtar will be unable to pay its power bill to Kenergy Corp. if the Commission approves the rates proposed by Big Rivers in this proceeding.

c. Please state whether Domtar has asked or plans to ask its creditors to make concessions to Domtar to offset increased costs if Big Rivers' proposed rate increase is approved. If not, fully explain why not.

RESPONSE:

a. No documents exist.

b. No. But paying for excess capacity to satisfy Big Rivers' creditors reduces capital that could otherwise be used productively.

c. No.

Answer provided by Steve Henry.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC	)	
CORPORATION FOR A GENERAL	)	Case No. 2012-00535
ADJUSTMENT IN RATES	)	

KIUC'S RESPONSE TO
BIG RIVERS ELECTRIC CORPORATION'S
FIRST REQUEST FOR INFORMATION

57. Provide the analysis performed by any and all parties to justify the recently announced capital investment by Domtar. Did such analyses include and/or consider the rate increase being requested in this rate case? If not, why not? If so, what impact did the anticipated rate increase have on the final decision?

RESPONSE:

The recently announced Barge Unloading project was approved by Domtar's Board of Directors in August 2011 well before the current electric rate case.

Answer provided by Steve Henry.