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May 20, 2015

Via Federal Express

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

RECEIVED

MAY 21 2015

PUBLIC SERVICE
COMMISSION

*Also Licensed in Indiana

Re: *In the Matter of: an Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Big Rivers Electric Corporation for the Six-Month Billing Period Ending July 31, 2015 and the Pass Through Mechanism of its Three Member Distribution Cooperatives,*
PSC Case No. 2015-00124

Dear Mr. Derouen:

Enclosed for filing in the above-referenced matter are an original and seven (7) copies of Big Rivers Electric Corporation's responses to the Public Service Commission Staff's First Request for Information and an original and seven (7) copies of the Direct Testimony of Nicholas R. Castlen in support of the reasonableness of the environmental surcharge mechanisms of Big Rivers Electric Corporation, Jackson Purchase Energy Corporation, Kenergy Corp., and Meade County Rural Electric Cooperative Corporation. I certify that on this date, copies of this letter, the testimony, and the responses were served on all parties of record by first-class mail.

Sincerely,



Tyson Kamuf

TAK/lm
Enclosures

Telephone (270) 926-4000
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cc: DeAnna Speed
Gregory J. Starheim
Dennis L. Cannon
Burns E. Mercer

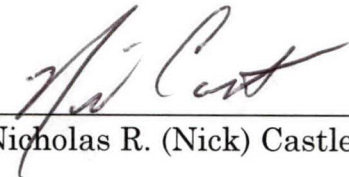
100 St. Ann Building
PO Box 727
Owensboro, Kentucky
42302-0727

BIG RIVERS ELECTRIC CORPORATION

**AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM
OF BIG RIVERS ELECTRIC CORPORATION
FOR THE SIX-MONTH BILLING PERIOD ENDING JANUARY 31, 2015
AND THE PASS THROUGH MECHANISM
OF ITS THREE MEMBER DISTRIBUTION COOPERATIVES
CASE NO. 2015-00124**

VERIFICATION

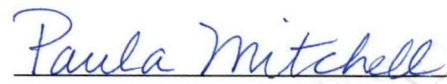
I, Nicholas R. (Nick) Castlen, verify, state, and affirm that that the Direct Testimony and data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.



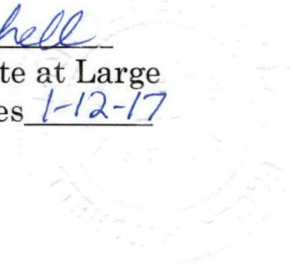
Nicholas R. (Nick) Castlen

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Nicholas R. (Nick) Castlen on
this the 4th day of May, 2015.



Notary Public, Ky. State at Large
My Commission Expires 1-12-17




BIG RIVERS ELECTRIC CORPORATION

**AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM
OF BIG RIVERS ELECTRIC CORPORATION
FOR THE SIX-MONTH BILLING PERIOD ENDING JANUARY 31, 2015
AND THE PASS THROUGH MECHANISM
OF ITS THREE MEMBER DISTRIBUTION COOPERATIVES
CASE NO. 2015-00124**


VERIFICATION

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


Lawrence V. (Larry) Baronowsky

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Lawrence V. (Larry) Baronowsky on this the 4th day of May, 2015.


Notary Public, Ky. State at Large
My Commission Expires 1-12-17

BIG RIVERS ELECTRIC CORPORATION

**AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM
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AND THE PASS THROUGH MECHANISM
OF ITS THREE MEMBER DISTRIBUTION COOPERATIVES
CASE NO. 2015-00124**

VERIFICATION

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



Eric M. Robeson

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Eric M. Robeson on this the 4th day of May, 2015.


Notary Public, Ky. State at Large
My Commission Expires 1-12-17

ORIGINAL

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED

MAY 21 2015

PUBLIC SERVICE
COMMISSION

In the Matter of:

AN EXAMINATION)
BY THE PUBLIC SERVICE COMMISSION)
OF THE ENVIRONMENTAL SURCHARGE)
MECHANISM OF BIG RIVERS ELECTRIC)
CORPORATION FOR THE)
SIX-MONTH BILLING PERIOD ENDING)
JANUARY 31, 2015)
AND THE PASS THROUGH MECHANISM)
OF ITS THREE MEMBER DISTRIBUTION)
COOPERATIVES)

Case No.
2015-00124

DIRECT TESTIMONY

OF

NICHOLAS R. (NICK) CASTLEN

ON BEHALF OF

BIG RIVERS ELECTRIC CORPORATION,
JACKSON PURCHASE ENERGY CORPORATION,
KENERGY CORP., AND
MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

FILED: May 21, 2015

Case No. 2015-00124
Witness: Nicholas R. Castlen
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**DIRECT TESTIMONY
OF
NICHOLAS R. CASTLEN**

Q. Please state your name, business address, and position.

A. My name is Nicholas R. Castlen, and my business address is Big Rivers Electric Corporation ("Big Rivers"), 201 Third Street, Henderson, Kentucky, 42420. I am the Manager of Finance at Big Rivers.

Q. Please summarize your education and professional experience.

A. I received a Bachelor of Science in Accounting from the University of Kentucky in 2006 and a Master of Science in Accounting from the University of Kentucky in 2007. I became a Certified Public Accountant ("CPA") in the state of Kentucky in 2007.

Before assuming my current position as Manager of Finance in July 2013, I was a Staff Accountant at Big Rivers primarily responsible for the accounting and administration of the Company's long- and short-term debt obligations and various rate mechanisms. Prior to joining Big Rivers, I was a Revenue Accounting Analyst at LG&E and KU Energy LLC from December 2009 to April 2012, where I was responsible for various financial accounting, reporting, and analysis roles for retail and wholesale, electric and gas utility revenues. From January 2006 to December 2009, I was employed by PricewaterhouseCoopers LLP as an Audit and Assurance Associate.

1 **Q. Please summarize your duties at Big Rivers.**

2 A. As the Manager of Finance, my primary responsibilities involve providing
3 direction and oversight to corporate accounting and finance activities
4 related to the Company's financial reporting requirements, debt
5 administration, financial forecasting, cash management, taxes (income,
6 property, sales, and use), and fixed assets. Additionally, I am responsible
7 for Big Rivers' following rate mechanisms and the related filings with the
8 Kentucky Public Service Commission ("Commission"): Fuel Adjustment
9 Clause ("FAC"), Environmental Surcharge ("ES").

10 **Q. Have you previously testified before the Commission?**

11 A. Yes. I've provided testimony and responses to data requests in Case Nos.
12 2012-00534, 2013-00139, 2013-00347, 2014-00097, and 2014-00323 (reviews
13 of Big Rivers' ES mechanism). I have also served as a witness, providing
14 testimony and/or responses to data requests, in Case Nos. 2012-00555,
15 2013-00266, 2013-00449, 2014-00230, and 2014-00455 (reviews of Big
16 Rivers' FAC mechanism).

17 **Q. On whose behalf are you filing this testimony?**

18 A. I am filing this testimony on behalf of Big Rivers and its three member
19 distribution cooperatives, which are Jackson Purchase Energy Corporation
20 ("JPEC"), Kenergy Corp. ("Kenergy"), and Meade County Rural Electric
21 Cooperative Corporation ("Meade County") (collectively, "the Members").

22 **Q. What is the purpose of your testimony in this proceeding?**

1 A. The purpose of my testimony is to describe the application of Big Rivers' ES
2 mechanism as billed from August 1, 2014 through January 31, 2015 (which
3 corresponds to the expense months of June 2014 through November 2014).
4 Additionally, I have coordinated with Big Rivers' Members in the
5 preparation of this testimony and prepared responses to the Commission
6 Staff's First Request for Information ("Commission's Initial Requests") that
7 accompany this testimony.

8 This testimony also includes information the Members have provided
9 me in support of their pass-through mechanisms that are also under review
10 in this proceeding and that the Members use to pass through, to their retail
11 members, the costs Big Rivers charges to them under Big Rivers' ES
12 mechanism. The review period for the Members' pass-through mechanisms
13 that corresponds to the August 1, 2014 through January 31, 2015 billing
14 period for Big Rivers' environmental surcharge mechanism are the billing
15 months of September 2014 through February 2015 for non-dedicated
16 delivery point customers (*i.e.*, there is a one-month lag for non-dedicated
17 delivery point customers), and August 2014 through January 2015 for
18 dedicated delivery point customers (*i.e.*, there is no billing lag for dedicated
19 delivery point customers).

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1 **Q. Please provide a brief overview of Big Rivers' ES mechanism.**

2 A. Big Rivers' ES mechanism was approved by Order of the Commission dated
3 June 25, 2008, in Case No. 2007-00460, which was part of the transaction
4 that unwound Big Rivers' 1998 lease with E.ON U.S. LLC and its affiliates
5 (the "Unwind Transaction") that was approved by Order of the Commission
6 dated March 6, 2009, in Case No. 2007-00455. Big Rivers' ES went into
7 effect immediately following the July 16, 2009, closing of the Unwind
8 Transaction for service commencing July 17, 2009.

9 Big Rivers' environmental compliance plan approved by the
10 Commission in Case No. 2007-00460 (the "2007 Plan") consists of programs,
11 and the related costs, for controlling sulfur dioxide ("SO₂"), nitrogen oxide
12 ("NO_x"), and sulfur trioxide ("SO₃"). The environmental compliance costs
13 which Big Rivers may recover under KRS 278.183, and its 2007 Plan,
14 include the costs of reagents, sludge and ash disposal, and emission
15 allowances.

16 For the SO₂ program, Big Rivers recovers through its ES mechanism
17 the costs of reagents, the costs for the disposal of coal combustion
18 byproducts (fly ash, bottom ash, and scrubber sludge), and the costs of
19 purchasing SO₂ emission allowances. For the NO_x program, Big Rivers
20 recovers the costs of reagents and the costs of purchasing additional NO_x
21 emission allowances as needed. For the SO₃ program, Big Rivers recovers
22 reagent costs. Due to generating unit design differences and Big Rivers'

1 compliance plan, each of Big Rivers' generating units utilizes a different
2 combination of reagents. Depending on the unit facilities, various reagents
3 are used to treat the flue gas, thereby removing the three targeted
4 emissions. The SO₂ reagents are comprised of emulsified sulfur, lime,
5 fixation lime, limestone, dibasic acid, and sodium bisulfite. The NO_x
6 reagents are comprised of anhydrous ammonia and emulsified sulfur. The
7 reagent used for SO₃ is hydrated lime. Note that the 2007 Plan included
8 only operating and maintenance ("O&M") costs.

9 In its Order dated October 1, 2012, in Case No. 2012-00063, the
10 Commission approved certain additions to Big Rivers' 2007 Plan relating to
11 the Mercury and Air Toxics Standards ("MATS") rule. The additions (the
12 "2012 Plan") included installing activated carbon injection and dry sorbent
13 injection systems and emission control monitors at Big Rivers' Coleman,
14 Wilson, and Green generating stations; and installing emission control
15 monitors at Henderson Municipal Power & Light's Station Two generation
16 station. The 2012 Plan includes both the capital and O&M costs associated
17 with the projects, as well as recovery of Big Rivers' actual costs incurred in
18 Case No. 2012-00063 (amortized over three years).

19 Please note that as a result of the terminations of retail power
20 contracts by two aluminum smelters, Big Rivers idled its Coleman
21 generation station in May 2014. As a result, Big Rivers does not plan to
22 proceed with the MATS projects at the Coleman station at this time.

1 However, Big Rivers will complete the MATS projects at Coleman prior to it
2 returning to service.

3 Big Rivers' ES mechanism allows Big Rivers to recover costs related
4 to the 2007 Plan (which only includes O&M costs) and the 2012 Plan (which
5 includes both O&M costs and capital costs), less proceeds from by-product
6 and emission allowance sales, plus or minus an ongoing cumulative under-
7 or over-recovery adjustment.

8 **Q. Please provide a brief overview of the Members' pass-through**
9 **mechanisms.**

10 A. The Members' pass-through mechanisms allow each Member to bill its
11 retail customers for the portion of Big Rivers' environmental surcharge that
12 Big Rivers bills each Member. JPEC's pass-through mechanism was
13 approved by the Commission in Case No. 2008-00010; Kenergy's
14 mechanism was approved by the Commission in Case No. 2008-00009; and
15 Meade County's was approved by the Commission in Case No. 2007-00470.

16 **Q. Have there been any changes to Big Rivers' environmental**
17 **surcharge mechanism since the prior review?**

18 A. No.

19 **Q. Has Big Rivers sold any SO₂ or NO_x allowances during the expense**
20 **months corresponding to the billing periods under review in this**
21 **case?**

22 A. No.

1 **Q. Has Big Rivers' environmental surcharge mechanism been**
2 **accurately compiled, and is it operating as intended?**

3 A. Yes.

4 **Q. Have the Members' pass-through mechanisms been accurately**
5 **compiled, and are they operating as intended?**

6 A. The Members believe their pass-through mechanisms have been accurately
7 compiled and are operating as intended.

8 **Q. Are the amounts charged under Big Rivers' environmental**
9 **surcharge mechanism during the review period just and**
10 **reasonable?**

11 A. Yes.

12 **Q. Are the amounts charged under the Members' pass-through**
13 **mechanisms during the review period just and reasonable?**

14 A. The Members believe the amounts charged under their pass-through
15 mechanisms are just and reasonable.

16 **Q. Do Big Rivers and its Members have additional over- or under-**
17 **recovery amounts they believe need to be recognized?**

18 A. No. Big Rivers and its Members are not requesting any additional over- or
19 under-recovery amounts. The normal over/under recovery carry-forward
20 element of Big Rivers' environmental surcharge mechanism is operating as
21 intended.

22

1 **Q. Did Big Rivers recover any capital costs through its ES mechanism**
2 **during the period under review?**

3 A. Yes. Big Rivers recovered capital costs associated with its 2012 Plan
4 projects during the period under review through the inclusion of
5 Construction Work-in-Progress balances for its 2012 Plan projects in the
6 calculation of environmental compliance rate base on ES Form 2.00 in its
7 monthly ES filings.

8 **Q. What Base Environmental Surcharge Factor (“BESF”) cost did Big**
9 **Rivers use during the review period?**

10 A. Big Rivers had no environmental surcharge related costs in its base rates
11 during the review period.

12 **Q. Does this conclude your testimony?**

13 A. Yes, it does.