ORIGINAL

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy® Cooperative

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PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET	))))))	Case No. 2018-00146

Response to the Attorney General's Initial Information Requests dated June 25, 2018

FILED: July 6, 2018

ORIGINAL

BIG RIVERS ELECTRIC CORPORATION

NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146

Response to the Office of the Attorney General's Initial Request for Information dated June 25, 2018

July 6, 2018

Item 1) ***Refer to the Application, page 7, Line 12 and the Direct Testimony of Robert W. Berry, page 7, Line 20. Provide the calculation, including all assumptions, used to conclude the net margin figure presented in both citations. If the net margin figure is a collection of amounts located in the record, provide a narrative explanation of how the net margin figure was calculated. Further, provide any and all worksheets not already of record used in calculating the net margin figure in native electronic format.***

Response) The assumptions used in the HMPL Exit sensitivity were provided on page 7, lines 2-17 of Mr. Berry's testimony. In Exhibit 2 provided with Mr. Berry's testimony, files were provided with information on how the margins were developed and compared. In the Excel file "Ex Berry-2 - Fcst Metrics - Budget vs HMPL Exit 11-21-2017 – CNF.xlsx" the [redacted] in cell S7 on the Summary worksheet and the [redacted] in cell S8 provides the [redacted] difference referenced by Mr. Berry. The financial model containing the [redacted] margins for the 2019-2031 period in Excel format was provided in "Exhibit 2 and named "Ex Berry-2 - Finl Fcst (2018-2031) 11-21-2017 HMPL Exit.xlsx". The financial model in Excel format with the [redacted] margins is provided in the attachment to KIUC 1-6 in this proceeding with the file named "KIUC 1-6 - PGS – Att.xlsx". The margins in each of the financial models can be located on row 125 of the "Stmts RUS" worksheet.

Inputs into the Big Rivers' financial forecast model include production cost model output data, member base rates, demand and energy forecasts, debt schedules, depreciation and amortization, capital expenditures, and expense forecasts, including departmental labor forecasts.

Witness) Paul G. Smith

Item 2) *Refer to the Application, pages 6-7, paragraph 19, wherein it states, "Big Rivers currently has on its books an approximately $89.6 million asset relating to the value of the Contracts that Big Rivers will have to retire and write off as a result of the termination of the Terminate Contracts."*

a. Provide the calculation, including all assumptions, used to conclude the value of the remaining asset. Further, provide a narrative explanation as to what is included in this asset (i.e. recovery of capital costs, return, etc.).

b. Absent the termination of the Terminated Contracts, confirm that the $89.6 million asset relating to the value of the Contracts would have been recovered from Henderson. If this cannot be confirmed, explain why, including what amount will be covered by each and every party culminating in the $89.6 million amount.

c. Confirm that RUS's approval to establish the proposed regulatory asset is presupposed on the recovery of said asset.

Response)

a. Please refer to Big Rivers' response to Item 3a of the Commission Staff's Initial Request for Information for a detailed listing of the remaining asset values. The approximately $89.6 million value of the remaining asset is the estimated net book value of capital costs recorded in Big Rivers' accounting books of record, and accordingly does not include return, etc. Please note that the value of the remaining asset will continue to be reduced by the

Station Two-related depreciation expense that is currently allowed in Big Rivers' rates to its Members until new rates are put into effect as part of Big Rivers' next rate case.

The value of the remaining asset represents the undepreciated value of Big Rivers' share of capital costs invested at Station Two. Under the 1998 amendments to the Station Two contracts, the operating life of Station Two was tied to length of time that the Station Two units were capable of the economically competitive production of electricity. During the years that those units were economically competitive, Big Rivers, its Members, and the Members' retail customers benefited from Big Rivers' investment in Station Two. Now that the Station Two units are no longer capable of the economically competitive production of electricity, the operating life of the Station Two units has ended and the contracts have terminated. However, the depreciation expense historically included in Big Rivers' rates was insufficient to fully depreciate Big Rivers' share of Station Two's capital costs by the end of the units' operating life, leaving approximately $89.6 million that Big Rivers has not yet recovered through rates.

The fact that Big Rivers' investment in Station Two has not been fully depreciated reveals that Big Rivers' Members and their retail ratepayers have benefited from rates that were lower than needed to fully depreciate that asset by the end of Station Two's operating life. The lower depreciation expense for Station Two results in part from the Big Rivers "Unwind Transaction," which was approved by the Commission in Case No. 2007-

00455, and in which Big Rivers agreed at the behest of two aluminum smelters, who were members of KIUC, (i) to continue the capitalization policy utilized by Western Kentucky Energy Corp. during the time it operated Station Two between 1998 and the closing of the Unwind Transaction in 2009, and (ii) with certain exceptions, not to increase depreciation rates above those shown in the Unwind Financial Model. These agreements are more fully explained in the Coordination Agreements, which were approved by the Commission in Case No. 2007-00455; an excerpt from testimony filed by the smelters in that case, which is attached hereto; and Big Rivers' response to a request for information in that case, which is attached hereto.

For these reasons, Big Rivers should be allowed to defer in a regulatory asset the remaining asset value and to continue to offset that amount with the Station Two-related depreciation expense that is currently in Big Rivers' rates. As explained in Big Rivers' response to Item 4 of the Attorney General's Initial Request for Information, the Commission will determine as part of Big Rivers' next rate case the extent to which Big Rivers can include the regulatory asset amount in its new rates.

b. See the response to subpart a, above. Absent the termination of the Terminated Contracts, Big Rivers would recover its remaining share of the net book investment through the annual depreciation expense included in Big Rivers' rates to its Members. Big Rivers will not recover any of its remaining share of the net book investment from Henderson. Big Rivers' remaining share of the net book investment was $89.6 million as of January 31, 2018.

c. The RUS' letter approving the establishment of the regulatory asset, which is attached as Exhibit 6 to Big Rivers' Notice and Application, states that RUS' "*approval is based upon the understanding that these costs will be included in Big Rivers next general rate case in 2020. If the Commission does not allow the recovery of any of these costs, those deferred amounts must be written off immediately in its entirety.*"

Witness) Paul G. Smith

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

Case No. 2007-00455

DIRECT TESTIMONY OF
HENRY W. FAYNE

ON BEHALF OF
CENTURY ALUMINUM COMPANY
AND
RIO TINTO ALCAN

JANUARY 25, 2008

It should be noted that the calculation of the TIER target of 1.24x includes both the interest income and the interest expense associated with the existing sale leaseback transactions. If the sale leaseback interest components were excluded, the equivalent TIER coverage would range from 1.32x in 2009 to 1.45x in 2023.

Q: Are there other provisions in the contract that should be highlighted?

A: Yes. The Smelters support this transaction based on the expectation that Big Rivers will effectively control its costs and operate efficiently and, as a result, the cost of electricity to the Smelters will permit the Smelters to continue operations through the term of this agreement and perhaps even beyond. Certainly, a cost-based contract based on coal-fired generation should be expected to result in one of the lowest-cost electricity supplies available. There are several provisions in the contract that are targeted toward this outcome.

In Section 3.10 of the Coordination Agreement, Big Rivers agrees that it shall not modify its depreciation rates without regulatory approval and that it will discuss any proposed change in depreciation rates with the Smelters prior to any filing. More importantly, Big Rivers has agreed not to initiate a request for a change in rates that essentially would produce depreciation expense higher than reflected in the financial model filed in this proceeding, subject to certain conditions. The Smelters acknowledge that it is necessary for Big Rivers to use reasonable rates to record depreciation. However, it is also clear that depreciation studies are as much an art as a science. It is critical for the survival of the Smelters that the cost of electricity be held to a minimum. It is for that reason that Smelters negotiated this provision as a basis for agreeing to the contract terms. And in that context, the Smelters are proceeding on the assumption that the KPSC will accept reasonable depreciation rates consistent with this objective.

Q: Are there other provisions you wish to discuss?

A: The contract also contains terms that provide the Smelters with some limited opportunity to manage its costs by selling some of their energy in the wholesale market; these sales are not intended to be a profit center for the Smelters, but rather a mechanism to enhance the likelihood of survival.

Pursuant to Section 10.1 (Surplus Sales), at each Smelter's request, Big Rivers will sell energy surplus to the Smelter's need and credit the Smelter for the amount that otherwise would have been payable for such energy; to the extent that the net proceeds from such transaction are greater than the amount credited, such proceeds would flow through the TIER calculation to reduce the TIER Adjustment charge.

The Smelters require 100% reliable energy supply. This is critical. An outage lasting for more than a few hours would "freeze" the pots; it would take as long as nine months to restart the Smelter as well as significant capital and maintenance dollars. Therefore, pursuant to Section 10.2 (Undeliverable Energy Sales), if there is an event at a Smelter that limits all or a portion of the Smelter from engaging in aluminum reduction operation for an extended period, Big Rivers will sell energy surplus to the Smelter's need and credit the Smelter with 100% of the net

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

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 Rives 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 GAAP? 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) a. Schedule 3.15 to the Coordination Agreement is attached to Big Rivers' Errata filing with the Errata to Exhibit 20.

b. As a condition to closing the Smelters must have confidence in Big Rivers' ability to produce financial results for the first five years that are similar to the financial model. Therefore, it is very important to the Smelters to understand Big Rivers' capitalization policy in order to evaluate the reasonableness of the depreciation level and the fixed Operation and Maintenance expense projections. Since the Smelter rates are subject to levels within the bandwidth, an accurate understanding of items to be capitalized.

c. Yes, but for the requisite RUS and KPSC approvals discussed herein, Big Rivers agrees that its accounting for assets and capitalization requirements should conform to the provisions of the RUS USoA and GAAP. Note that the financial statements of Big Rivers include the provisions of Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, which was adopted by Big Rivers in 2003, and gives recognition to the ratemaking and accounting practices of the RUS and the KPSC.

The Coordination Agreement, Section 3.15 Big Rivers Capitalization Policy, reads "To the extent consistent with the Accounting Principles, Applicable Law and guidance of applicable Governmental Authorities or RUS, Big Rivers shall capitalize expenditures for the replacement of the items related to Big Rivers' generation facilities identified in the list of the retirement units set forth in the Schedule 3.15." Schedule 3.15 is the retirement unit listing based upon the WKE Capitalization Guidelines, a copy of which is attached to the Errata filed and dated January 30, 2008.

Exhibit X to the New Participation Agreement, in connection with the July 15, 1998, LG&E Energy Corp. Transaction, defines Capital Assets and Station Two Improvements as those items "that should ordinarily be capitalized in accordance with the RUS Uniform System of Accounts Bulletin 1767B, as such Bulletin may be amended, modified or replaced from time to time (but subject to the Capitalization Guidelines)." Exhibit P of the New Participation Agreement, the Capitalization Guidelines, states that "Company Policy No. 10 of Big Rivers (which is incorporated by reference herein) shall serve to amend and supplement the RUS Uniform System of Accounts Bulletin 1767B for purposes of the Accounting Practices, and for purposes of any determination of whether an expenditure shall be a Capital Asset or Station Two Improvement as contemplated in the Operative Documents; provided, that where a disagreement between the Parties persists, or further interpretation is required, the Parties agree that the following guidelines will be consulted in the order listed:

a. The Big Rivers 20,000 item Continuing Property Record (CPR) file.

b. RUS Bulletin 181-2.

c. FERC guidelines.

d. If an asset is not listed in a, b or c, above, Big Rivers and LG&E will mutually agree on whether an item should be capitalized or expensed or, in the absence of such agreement, the matter shall be referred to dispute resolution pursuant to Article 15 of the Participation Agreement."

Big Rivers' Company Policy No. 10 is attached.

Per Exhibit X, the definition of Accounting Practices "means generally accepted accounting principles applied by companies required to report accounts in accordance with the FERC Uniform System of Accounts, except that accounting for Capital Assets shall be based on the RUS Uniform System of Accounts Bulletin 1767B, as such Bulletin may be amended, modified or replaced from time to time (but subject to the Capitalization Guidelines)."

The April 18, 2000, Amendments to the Operative Documents, page 13, approved by both the RUS and the KPSC, replaced the RUS Uniform System of Accounts Bulletin 1767B with the "WKE Capitalization Guidelines".

Section 1.1.1 of the Alcan Retail Electric Service Agreement defines Accounting Principles as "Generally accepted accounting principles consistently applied or, if generally accepted accounting principles in accordance with the uniform system of accounts of an applicable Governmental Authority or RUS are required, the generally accepted accounting principles consistently applied in accordance with such uniform system of accounts, each as in effect from time to time."

d. A depreciation study is a lengthy and expensive process. Big Rives was unsure at times if the Unwind Transaction would move forward to completion. It did not want to utilize its limited resources to complete a study that might not be needed. Therefore, Big Rivers believes it would be prudent to coordinate the study with the anticipated filing of the first general rate adjustment.

Witness) C. William Blackburn

BIG RIVERS ELECTRIC CORPORATION

COMPANY POLICY

POLICY NUMBER 10

SUBJECT **Capitalization of Expenditures**

RE-ISSUE DATE **11/30/93**

Approved by Bill A. [signature]

SCOPE: Determining when to capitalize an expenditure to "Electric Plant in Service" account 101.000 as opposed to expense in accordance with REA Bulletin 1767 B-1.

POLICY: To be capitalized, an item of property must be covered by one of the following classifications:

(A) New Retirement Unit
(B) Retirement Unit Replacement
(C) Retirement System Addition
(D) Retirement System Replacement
(E) New Minor Property Item
(F) Minor Property Item Replacement with Betterment
(G) Computer Software and Software Upgrades

RULES: See the corresponding lettered paragraph below for rules governing each case. Stated dollar values are after consideration of freight, sales tax, discount, etc.

<u>(A) New Retirement Unit</u>

1. Cost more than $1,000 in boiler or turbogenerator plant or $500 in other accounts, and
2. Be readily separable and separately useable, and
3. Have an expected useful life of more than one year. Valves that are requisitioned, including those inventoried, which cost more than $1,000 and are over 2" in size and are not replacements for an <u>existing</u> system are to be capitalized. (System valve replacements are to be charged to maintenance.)

<u>(B) Retirement Unit Replacement</u>

1. Cost more than $1,000 in boiler or turbogenerator plant or $500 in other accounts, and
2. Be a replacement of a similar retirement unit or consist of replacing minor property items that total to more than 50% of the existing retirement unit cost. If the 50% test is met, it is assumed a new retirement unit has been created. Retire 100% of the old unit and recapitalize the salvageable portion along with the new minor property item(s). (The replacement of existing minor property items costing 50% or less of the *original retirement unit is to be charged to maintenance.)*

<u>(C) Retirement System Addition</u>

1. Be an addition to or an expansion of a system, and
2. Cost more than $1,000 in boiler or turbogenerator plant or $500 in other accounts, and
3. Be of permanent nature, and
4. Be an integral part of an existing system. (*A system is a grouping of generic or* interacting items forming a unified whole. Classification as a system is for accounting convenience and enables an efficient and methodical means to account for a grouping of items which are frequently changing as a result of additions and replacements. Classification as a system may be appropriate where specific item identity is difficult to ascertain. Financial Services will make all system determinations. When it is evident that multiple items are purchased on multiple requisitions, possibly on different dates, for the same <u>system</u> project, the capitalization decision shall be based on the total project cost.)

(D) Retirement System Replacement

1. Be an integral part of an existing system, and
2. Be of permanent nature, and
3. Cost more than 50% of the existing retirement system. If the 50% test is met, it is assumed a new retirement system has been created. Retire 100% of the old system and recapitalize the salvageable portion along with the new replacement cost. (Replacement of an existing system costing 50% or less of the original system is to be charged to maintenance.)

(E) New Minor Property Item

1. Minor Property item not previously existing, and
2. Be of a permanent nature, and
3. Cost exceeds 25% of the retirement unit of which it will become a part or $10,000, the smaller of the two. (Otherwise, the addition of minor property items is to be charged to operations.)

(F) Minor Property Item Replacement with Betterment

1. Be of a permanent nature, and
2. Result in a substantial betterment with the primary aim of making the property affected more useful, more efficient, more durable, or capable of greater capacity. Capitalize the cost in accordance with the NOTE 1, below.

(G) Computer Software and Software Upgrades

1. Capitalize any new software purchase of $1,000 or more if used with a boiler or turbogenerator computer or $500 or more if used for any other computer, as long as the new software has a useful life of more than one year.

2. Any software upgrade should be capitalized if the cost of the upgrade exceeds 25% of the software which it will become a part or $10,000, the smaller of the two. The 25% must be $1,000 or more if used with a boiler or turbogenerator computer or $500 or more if used for any other computer.. The software upgrade must have a life of more than one year.

NOTE 1: In all cases above except (F), the amount capitalized is governed by standard accounting principles. For (F) above, the amount capitalized is equal to the difference between the cost of the new minor property item and the cost of replacement without betterment at today's prices. The remaining dollars are to be charged to maintenance.

IMPORTANT: A work order is required when constructing, fabricating, modifying, installing, or removing capital facilities or equipment. See Estimate Construction Work Order procedure number 011.210.08 for details.

Item 3) *Refer to the Application, page 7, paragraph 22. Big Rivers stated that the "expenses resulting from the contract termination are not included in Big Rivers' rates." Confirm that although the expenses from the contract termination are not included in Big Rivers' rates, the expenses considered in Big Rivers' last rate case reflected in order to operate under the contracts are included in Big Rivers' base rates.*

a. Confirm that if the Commission grants Big Rivers' request for deferral accounting treatment for the $89.6 million asset, the expected income associated with that contract reflected in base rates will be deferred, while all expenses, except depreciation, will still be reflected in rates and thus recovered from customers until Big Rivers' next rate case. If this is not confirmed, explain why not.

Response) Both the projected expenses and the revenues related to operating Station Two under the contracts were included in Big Rivers' revenue requirement in Big Rivers' last rate case, Case No. 2013-00199.

a. It is unclear what is meant by the phrase "*the expected income associated with that contract reflected in base rates.*" Except for the revenues Big Rivers receives related to the Station Two depreciation expense in base rates, Big Rivers is not proposing to defer any other revenues associated with Station Two. Rather, the deferral will include the expenses Big Rivers will incur as a result of the termination of the Terminated Contracts, including the approximately $89.6 million asset relating to the value of the generating asset that Big Rivers will otherwise have to retire and write off, as well other incremental expenses relating to the termination of the Terminated Contracts, including but not limited to the costs of consultants and the costs of prosecuting this case, all offset by the depreciation expense amounts related to Station Two that Big Rivers recovers through its rates.

The level of expenses associated with operating under the Terminated Contracts that was included in base rates in the last rate case will continue to be recovered in rates until Big Rivers' next base rate case, at least to the extent that the phrase "*all expenses, except depreciation, will still be reflected in rates*" refers only to the amounts that were included in the test period relied upon in the last rate case -- and not to actual current expense amounts. As shown in Big Rivers' responses to Items 10 and 11 of KIUC's Initial Request for Information, as a result of inflation and other cost increases, Big Rivers' actual expenses of operating Station Two have exceeded the amount of those expenses included in Big Rivers' current rates. Because of the regulatory principal limiting single issue rate making, Big Rivers is generally prohibited from recovering these increased costs through base rates until it files a new base rate proceeding, in which the changes in all of Big Rivers' revenues and expenses can be compared to ensure that Big Rivers' rates overall are fair, just, and reasonable. Similarly, once Big Rivers ceases operating Station Two, it will no longer receive revenues from those units, but the single issue rate making principal would generally prohibit Big Rivers from increasing its base rates based solely on that loss of revenues, until Big Rivers files its next base rate case.

Witness) John Wolfram

Item 4) ***Refer to the Application, page 8, paragraph 25, wherein Big Rivers states, "the termination of the Terminated Contracts will result in substantial savings to Big Rivers that fully offsets the costs. Big Rivers requests that the Commission allow Big Rivers to establish a regulatory asset to defer those expenses." Will Big Rivers commit that since it represents the "substantial savings" from terminating the contracts "fully offsets" the costs, that customers will not be asked to pay any part of the regulatory asset Big Rivers is seeking in this matter? If not, why not?***

Response) No. As explained in the Application, the Commission's historical practice has been to allow a jurisdictional utility to establish a regulatory asset under certain circumstances and then consider the ratemaking treatment of such an asset in a future base rate case. Big Rivers is adhering to the historical practice by seeking authority to establish the regulatory asset now, and is not proposing specific ratemaking treatment at this juncture.

That being said, Big Rivers does anticipate seeking recovery of the amount recorded in the regulatory asset in its next base rate case, amortized over an appropriate period of time. At that time, Big Rivers' rates will reflect the reduction in fixed costs (and revenues) resulting from the termination of the Station Two contracts. Big Rivers expects the Commission to consider allowing Big Rivers to recover the cost to achieve those reductions in costs when determining Big Rivers' revenue requirement. However, that issue is a matter for consideration not in this proceeding but in the context of a full base rate case; to attempt to do so now would constitute single issue ratemaking and would not be appropriate. Consistent with previous Commission orders regarding the establishment of regulatory assets, it should be Big Rivers' responsibility, if it files a base rate application during the period over which it plans to amortize the regulatory asset, to demonstrate that both the recovery of the regulatory asset amount and the amortization period over which recovery is sought are reasonable. For this reason and consistent with historical practices, Big Rivers does not commit in this case to exclude any amounts from its revenue requirement in future rate cases.

Witness) John Wolfram

BIG RIVERS ELECTRIC CORPORATION

NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146

Response to the Attorney General's
Initial Data Requests
dated June 25, 2018

July 6, 2018

Item 5) ***Has Big Rivers ever recovered Terminal Net Salvage for the Henderson units through depreciation expense? If so, how much?***

Response) Big Rivers' depreciation rates include a component for estimated net salvage values. However, as stated in Big Rivers' 2012 Depreciation Study[1], the significant potential costs that could be required for environmental remediation at Big Rivers' plant sites were not considered in developing those net salvage factors. Instead, historical removal costs provided by Big Rivers were used in calculating the net salvage factors incorporated into Big Rivers' depreciation rates.

Based on the net salvage factors included in Big Rivers' current depreciation rates, Big Rivers calculated an estimate of the annual Station Two depreciation expense attributable to the net salvage factors used in developing its current depreciation rates to be approximately $128,900. Please see the attachment to this response for detailed calculations of the estimated portion of annual Station Two depreciation expense attributable to the net salvage factors used to develop Big Rivers' current depreciation rates.

For actual accounting purposes, Big Rivers does not calculate or record separately an estimate of the periodic depreciation expense attributable to net salvage. Instead, 100% of the periodic depreciation expense is recorded to accumulated depreciation. Accordingly, 100% of the depreciation expense recognized

[1] Big Rivers 2012 Depreciation Study, completed by Burns & McDonnell in November 2012, was approved by the RUS in December 2012 and by Order of the Commission on April 25, 2014 (Case No. 2013-00199) with the depreciation rates becoming effective April 1, 2014.

on Big Rivers' Station Two assets has been subtracted from the plant costs for determining Big Rivers' unrecovered Station Two capital costs of approximately $89.6 million as of January 31, 2018, exclusive of any future terminal net salvage costs.

Witness) Paul G. Smith

Big Rivers Electric Corporation
Estimated Net Salvage in Station Two (SII) Annual Depreciation
Based on Values as of 1/31/18

			(a)	*(b)*	*(c)*	*(d)*	*(e)*	*(f)*	*(g)*
					[(a) + (b)]			*[(d) - (e)]*	*[(a) x (f)]*
		Plant GL Acct.	BREC's SII Plant-in-Service Cost	BREC's SII Accum. Deprec.	BREC's SII Net Book Value	Actual Deprec. Rts. (Incl. Net Salvage)[2]	Adjusted Deprec. Rts. (Excl. Net Salvage)[1]	*Difference*	Estimated Net Salvage in SII Annual Depreciation
SII Only Assets:									
SII Only	STRUCTURES-HMPL	10103115	$ 554,801	$ (79,126)	$ **475,675**	1.38%	1.22%	*0.16%*	$ **888**
SII Only	BOILER PLANT EQUIPMNT	10103125	22,629,673	1,124,552	**23,754,225**	2.02%	1.82%	*0.19%*	**43,529**
SII Only	ENVIRONMTL COMPLIANCE	1010312F	30,145,551	(3,540,888)	**26,604,663**	2.43%	2.35%	*0.08%*	**22,631**
SII Only	SCRUBBER	1010312K	37,750,413	(18,449,497)	**19,300,916**	2.43%	2.35%	*0.08%*	**28,341**
SII Only	ENVIRONMTL COMPL-SHORT LIFE	1010312Q	5,637,704	(5,393,973)	**243,731**	15.95%	15.95%	*0.00%*	**-**
SII Only	BOILER PLANT-SHORT LIFE	1010312Z	772,906	(152,542)	**620,364**	25.38%	25.38%	*0.00%*	**-**
SII Only	TURBOGENERATOR UNITS	10103145	9,795,151	(1,140,551)	**8,654,600**	1.96%	1.65%	*0.31%*	**30,174**
SII Only	ACCESS ELECTRIC EQUIP	10103155	3,857,950	(91,124)	**3,766,826**	2.03%	2.19%	*-0.16%*	**(6,291)**
SII Only	MISC POWER PLANT EQUIP	10103165	422,504	(115,939)	**306,565**	4.04%	4.07%	*-0.02%*	**(95)**
Total SII Only:			**$ 111,566,653**	**$ (27,839,088)**	**$ 83,727,565**				**$ 119,177**
Reid/SII-Shared:									
R/SII-Shared	STRUCTURES-R/SII	10103116	$ 579,637	$ (96,371)	$ **483,266**	1.38%	1.22%	*0.16%*	$ **928**
R/SII-Shared	ENVIRON COMPL-R/SII	1010312G	1,525,486	(283,605)	**1,241,881**	2.43%	2.35%	*0.08%*	**1,145**
R/SII-Shared	BOILER PLANT-SHORT LIFE-R/SII	1010312U	55,475	(35,415)	**20,060**	25.38%	25.38%	*0.00%*	**-**
R/SII-Shared	BOILER PLANT-R/SII	10103126	2,289,902	(123,217)	**2,166,685**	2.02%	1.82%	*0.19%*	**4,405**
R/SII-Shared	TURBINE PLT-R/SII	10103146	896,161	26,315	**922,476**	1.96%	1.65%	*0.31%*	**2,761**
R/SII-Shared	COMMON-R/SII	10103156	27,117	(505)	**26,612**	2.03%	2.19%	*-0.16%*	**(44)**
R/SII-Shared	COMMON PLANT-R/SII	10103166	740,472	(136,187)	**604,285**	4.04%	4.07%	*-0.02%*	**(166)**
R/SII-Shared	OFFICE FURN & EQUIP-R/SII	10103916	5,948	76	**6,024**	9.11%	10.00%	*-0.89%*	**(53)**
Total R/SII-Shared:			**$ 6,120,198**	**$ (648,909)**	**$ 5,471,289**				**$ 8,976**
Green/SII-Shared:									
G/SII-Shared	BOILERPLANT,EC-G/SII	1010312J	$ 5,895	$ (2,086)	$ **3,809**	2.43%	2.35%	*0.08%*	$ **4**
Reid/Green/SII-Shared:									
R/G/SII-Shared	STRUCTURES-R/G/SII	10103117	$ 315,385	$ (105,577)	$ **209,808**	1.38%	1.22%	*0.16%*	$ **505**
R/G/SII-Shared	BOILER PLANT-R/G/SII	10103127	153,361	(40,618)	**112,743**	2.02%	1.82%	*0.19%*	**295**
R/G/SII-Shared	TURBINE PLT-R/G/SII	10103147	8,623	(3,517)	**5,106**	1.96%	1.65%	*0.31%*	**27**
R/G/SII-Shared	ACCESS ELECTRIC EQUIPMENT	10103157	15,815	(1,861)	**13,954**	2.03%	2.19%	*-0.16%*	**(26)**
R/G/SII-Shared	COMMON PLANT-R/G/SII	10103167	55,720	(12,497)	**43,223**	4.04%	4.07%	*-0.02%*	**(13)**
R/G/SII-Shared	OFFICE FURN & EQUIP-R/G/SII	10103917	7,873	(5,915)	**1,958**	9.11%	10.00%	*-0.89%*	**(70)**
R/G/SII-Shared	MISC EQUIP-R/G/SII	10103987	447	(279)	**168**	6.05%	6.25%	*-0.20%*	**(1)**
Total R/G/SII-Shared:			**$ 557,224**	**$ (170,264)**	**$ 386,960**				**$ 717**
BREC's Total SII Assets (Including Shared):			**$ 118,249,970**	**$ (28,660,347)**	**$ 89,589,623**				**$ 128,874**

Footnotes:

[1] See page 2 for calculation of adjusted depreciation rates, removing net salvage factors.

[2] See page 3 for actual depreciation rates per Big Rivers' 2012 Depreciation Study.

Item 6) ***Refer to the April 9, 2018 letter from Mr. Victor [Vu], provided as Notice and Application Exhibit 6, page 2. Confirm that the letter indicates Big Rivers' next general rate case will be in 2020. Is it Big Rivers' intention to file a general rate case in 2020?***

Response) Big Rivers currently anticipates filing its next rate case in 2020 for new rates to go into effect January 1, 2021. However, this expectation is dependent upon a number of factors, including market conditions and the results of this case. For example, if the Commission's order in this case forces Big Rivers to defer all Station Two related costs that are currently in rates, Big Rivers would likely have to file for an emergency rate increase. Among other things, such a rate case would include bringing the fixed costs and ongoing depreciation for Big Rivers' Wilson generating station back into rates, which exceed the savings that result from the Station Two contract termination, and which would therefore result in an unnecessarily premature rate increase.

Witness) Robert W. Berry

NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146

Response to the Attorney General's Initial Data Requests dated June 25, 2018

July 6, 2018

Item 7) ***Provide Big Rivers' equity balance as of the latest date available.***

Response) Big Rivers' equity balance as of May 31, 2018, the latest date available at the time of this response, was $502,505,526.

Witness) Paul G. Smith

NOTICE OF TERMINATION OF CONTRACTS AND APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A DECLARATORY ORDER AND FOR AUTHORITY TO ESTABLISH A REGULATORY ASSET
CASE NO. 2018-00146

Response to the Attorney General's Initial Data Requests dated June 25, 2018

July 6, 2018

Item 8) *Provide Big Rivers' capitalization as of the latest date available.*

Response) Big Rivers' total capitalization as of May 31, 2018, the latest date available at the time of this response, was $1,273,787,037.

Witness) Paul G. Smith

Item 9) ***Confirm that Big Rivers' "minimum equity balance is required to be $375 million, plus 50% of its cumulative positive net margins for the fiscal years after 2015", as stated on pages 6-7 of KIUC's Reply in support of its motion to intervene.***

Response) Pursuant to Big Rivers' Senior Secured Credit Agreement dated as of March 5, 2015, as amended September 19, 2017, Section 6.07(b) states that "*The Borrower will maintain, in accordance with GAAP, a minimum Members' Equities' Balance at each fiscal quarter-end and as of the last day of each fiscal year, as specified below during the following calendar year periods:*"

Big Rivers Electric Corporation Minimum Members' Equities' Balance	
Period Ending (and Fiscal Quarters Ending Therein)	**Amount**
December 31, 2014	$375,000,000
December 31, 2015	$375,000,000 plus 50% of the positive net margins for the Borrower's fiscal year ending December 31, 2014
December 31, 2016	$375,000,000 plus 50% of the cumulative positive net margins between the Borrower's fiscal years ending December 31, 2014 and December 31, 2015
December 31, 2017	$375,000,000 plus 50% of the cumulative positive net margins between the Borrower's fiscal years ending December 31, 2014, December 31, 2015, and December 31, 2016

Big Rivers Electric Corporation Minimum Members' Equities' Balance *(continued)*	
Period Ending (and Fiscal Quarters Ending Therein)	**Amount**
December 31, 2018	$375,000,000 plus 50% of the cumulative positive net margins between the Borrower's fiscal years ending December 31, 2014, December 31, 2015, December 31, 2016, and December 31, 2017
December 31, 2019	$375,000,000 plus 50% of the cumulative positive net margins between the Borrower's fiscal years ending December 31, 2014, December 31, 2015, December 31, 2016, December 31, 2017, and December 31, 2018
December 31, 2020	$375,000,000 plus 50% of the cumulative positive net margins between the Borrower's fiscal years ending December 31, 2014, December 31, 2015, December 31, 2016, December 31, 2017, December 31, 2018, and December 31, 2019

Witness) Paul G. Smith