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NEWS RELEASE

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PSC Largely Reaffirms Big Rivers Electric Rate Decision

Rehearing of 2011 rate case results in minor adjustments

FRANKFORT, Ky. (Jan 29, 2013) – The Kentucky Public Service Commission (PSC) today largely reaffirmed its November 2011 decision in a rate adjustment case for Big Rivers Electric Corp., including how revenue is allocated among the utility's customer classes.

The PSC's 2011 decision reduced the extent to which two aluminum smelters that are Big Rivers' largest customers subsidize service to residential and small commercial customers. But the subsidy reduction was far less than the \$11 million sought by the smelters.

In today's order, the PSC said it could "find no reason to depart from" its long-standing practice of gradually reducing such subsidies.

Today's order also corrects a \$450,000 mathematical error that occurred in the previous rate calculation. It adds legal costs that should have been included in calculating the original rates. Together, those corrections will result in residential customers paying an additional 45 cents per month based on an average usage of 1,000 kilowatt-hours (a kilowatt-hour is the amount of electricity used by a 100-watt light bulb in 10 hours).

The November 2011 decision allowed Big Rivers to increase annual revenue by approximately \$26.75 million, or about 6 percent. That was about \$13 million less than Big Rivers had requested.

With the two corrections made today, the total annual revenue increase granted to Big Rivers rises by about \$1 million, to \$27.78 million. The additional revenue granted today will come from the slightly higher rates for residential and commercial customers.

Both Big Rivers and the Kentucky Industrial Utility Customers, Inc. (KIUC), which represented the aluminum smelters, challenged the PSC's November 2011 order. The PSC granted Big Rivers' request for rehearing on four issues.

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PSC Largely Reaffirms 2011 Big Rivers Electric Rate Decision – Page 2

Rather than seek rehearing before the PSC, KIUC asked Franklin Circuit Court to set aside the decision. The court refused to do so and sent the matter back to the PSC, where it was consolidated with the Big Rivers rehearing action.

An evidentiary hearing in the matter was held on Sept. 12, 2012.

The PSC ultimately ruled on seven issues raised by Big Rivers and KIUC. The Kentucky Office of Attorney General, as well as Jackson Purchase Energy Cooperative and Kenergy Corp., two of the electric distribution cooperatives that purchases power from Big Rivers, also participated in both the original case and the rehearing proceeding.

In today's order, the PSC made the following rulings:

- Denied a request by KIUC to reallocate \$11 million in annual revenue from the smelters to residential and small commercial customers.
- Granted a KIUC request that reallocated costs for energy efficiency programs that are in place for residential and small commercial customers only.
- Denied a KIUC request regarding the calculation of depreciation expense.
- Denied a Big Rivers request to increase depreciation expenses on construction work in progress,
- At the request of Big Rivers, changed the wording in the original order regarding an aspect of the company's financial modeling.
- Corrected a \$450,000 error in calculation of Big Rivers' depreciation expenses.
- Granted Big Rivers recovery of legal costs related to the rate case, but reduced the amount from \$1.98 million to \$1.83 million, to be recovered over a three-year period.

Rate changes resulting from today's decision will be passed through to the customers of the three electric distribution cooperatives that purchase power from Big Rivers – Jackson Purchase Energy Cooperative, Kenergy Corp. and Meade County Rural Electric Cooperative Corp. Big Rivers is owned by the three distribution cooperatives.

Orders setting those pass-through rates also were issued today.

Together, the three cooperatives serve about 112,000 customers in 26 counties in western Kentucky. The customers include about 20 large industrial facilities as well as two aluminum smelters. The two aluminum smelters together use about 65 percent of the power generated by Big Rivers and provide 70 percent of its annual revenue.

Because the two errors corrected in today's order led to Big Rivers receiving less revenue than it should have, the utility will be allowed to make up the difference over several months. Today's order directs Big Rivers to determine the amounts to be recovered and to submit the calculations by Feb. 8 to the PSC for approval.

The PSC then will issue a final determination of the size and duration of the adjustment to recover the underbilled amount.

The rates set in today's order will remain in effect while the PSC considers a rate adjustment request filed by Big Rivers earlier this month.

In the new rate case, Big Rivers is seeking to increase rates in order to offset the loss of revenue from the anticipated closure in August of the Century Aluminum smelter in Hawesville. Century Aluminum accounts for nearly 40 percent of Big Rivers' annual revenue.

Century Aluminum did not announce the Hawesville smelter closure until after the PSC issued its November 2011 order in the earlier rate case. The impact of the closure was beyond the scope of issues addressed in today's order.

Big Rivers says it will need to increase annual revenue from its remaining customers by about \$74 million to offset the loss of Century Aluminum. That would increase the monthly electric bill for a typical residential customer by more than \$20, the company says.

Big Rivers also said it will seek to sell power to other utility companies and is considering closing power plants in order to adjust for the loss of Century Aluminum.

No dates have been set yet for public meetings or an evidentiary hearing on the new rate case.

Today's orders and other documents in the rehearing case, as well as videos of the hearing, are available on the PSC website, psc.ky.gov. The case number is 2011-00036. The case numbers for the pass-through cases for the distribution cooperatives are 2011-00035 (Kenergy), 2011-00038 (Meade County) and 2011-00057 (Jackson Purchase).

Documents in the new rate case, which is case number 2012-00535, also are available on the PSC website.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 90 employees.