

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF HENDERSON-)
UNION RURAL ELECTRIC COOPERATIVE)
CORPORATION FOR AUTHORIZATION TO) CASE NO. 9164
FLOW-THROUGH BIG RIVERS ELECTRIC)
CORPORATION WHOLESALE POWER RATE)
INCREASE)

O R D E R

On November 21, 1984, Henderson-Union Rural Electric Cooperative Corporation ("Henderson-Union") filed an application to flow through any increase in rates granted its wholesale power supplier, Big Rivers Electric Corporation ("Big Rivers"), in Case No. 9163. Henderson-Union did not request the approval of any additional revenues or margins in its flow through application.

Henderson-Union is one of four member distribution cooperatives of Big Rivers. Based on the rates proposed by Big Rivers in Case No. 9163, Henderson-Union requested an increase of \$7,732,803. The proposed increase would result in an overall increase of approximately 9.3 percent to Henderson-Union's consumers.

The matter was scheduled for hearing on March 26, 1985, at the Commission's offices in Frankfort, Kentucky. The hearing was conducted as scheduled and the Consumer Protection Division of the Attorney General's office, Alcan Aluminum Corporation, and Arco Metals Company participated as intervenors.

In the course of its investigations in this application, the Commission made inquiries into policies and procedures employed by Henderson-Union when procuring insurance coverage. The Commission's general finding on this issue is that Henderson-Union is not diligent enough in pursuing the lowest possible cost of insurance coverage since it does not purchase through a bidding procedure, and thus does not apply optimal purchasing practices in acquiring insurance. Therefore, the Commission hereby advises Henderson-Union that the Commission will closely scrutinize insurance expenditures in future rate proceedings to assure that the maximum coverage necessary at the lowest possible cost is selected, and that excessively high insurance costs are not passed on to the ratepayers.

The Commission, after review of the evidence of record and being advised, is of the opinion and finds that:

1. The proposed increase by Big Rivers in Case No. 9163 was denied which will result in no increase in purchased power costs to Henderson-Union.

2. The issue of whether Henderson-Union should be allowed to flow through any increase in its wholesale purchased power cost allowed in Case No. 9163 is moot.

3. Henderson-Union should review and analyze its procedures for the procurement of insurance coverages to insure that it is receiving the maximum coverage necessary at the least possible cost. Moreover, the Commission will require Henderson-Union to submit a report detailing a plan to implement such procedures. In future rate cases, Henderson-Union should be prepared to document

its insurance expenditures and demonstrate its efforts to secure the best coverage for the least premium.

IT IS THEREFORE ORDERED that the application by Henderson-Union to flow through any increase in wholesale purchased power costs be and it hereby is dismissed without prejudice.

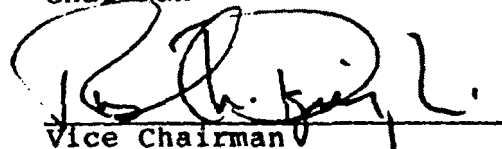
IT IS FURTHER ORDERED that the rates currently being charged by Henderson-Union shall remain in effect.

IT IS FURTHER ORDERED that within 90 days from the date of this Order Henderson-Union shall submit a report detailing its plan to implement procedures to insure that it is receiving the maximum insurance coverage necessary at the least possible cost.

Done at Frankfort, Kentucky, this 7th day of May, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary