

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

BIG RIVERS ELECTRIC CORPORATION'S)
NOTICE OF CHANGES IN RATES AND)
TARIFFS FOR WHOLESALE ELECTRIC) CASE NO. 9613
SERVICE AND OF A FINANCIAL WORKOUT)
PLAN)

O R D E R

On April 6, 1987, National-Southwire Aluminum Company ("NSA") and Alcan Aluminum Corporation ("Alcan") filed petitions for rehearing of the Commission's Order entered March 17, 1987. NSA seeks rehearing on the issues of Big Rivers Electric Corporation's ("Big Rivers") prudence in constructing the Wilson Generating Plant and the expenditure of general revenues to fund its construction.

Alcan seeks rehearing on the following issues: the Commission's finding that Big Rivers' continued construction of Wilson was based on the potential increase in load associated with the addition of a fourth potline by ARCO (Alcan's predecessor); Big Rivers' expenditure of system funds to complete construction of Wilson; Big Rivers' prudence in constructing Wilson; and the Commission's findings with regard to the used and useful standard for valuing property for rate-making purposes.

On April 22, 1987, Big Rivers filed responses to NSA's and Alcan's petitions for rehearing. Big Rivers states that the issues presented for rehearing were thoroughly investigated,

litigated, and definitively adjudicated and rehearing should be denied.

Based on the petitions for rehearing and the responses, the Commission is of the opinion and hereby finds that the petitions should be granted for the limited purpose of further consideration.

The Commission notes the response by the Rural Electrification Administration ("REA") to our Order issued March 17, 1987. In his letter of April 9 to the Commission (Appendix A), Harold Hunter, Administrator of the REA stated:

It appears that the Commission wants to reserve to itself the final authority to determine when and if loans will be repaid and the manner in which REA will exercise its jurisdiction over power sales of its borrowers.

We wish to clarify our Order on these points to avoid any further misunderstanding. We did not intend in our Order and do not now assert any authority to unilaterally require a write-down by borrowers of REA loans. Our reference to KRS 278.290(1) at page 36 of our Order was included to emphasize that the Commission is not bound by any single, rigid standard, but can be flexible in resolving the Big Rivers' problem. The statutory reference was not meant to imply that the Commission intended to revalue Big Rivers' property in order to reduce its loan repayment obligations. We have no such intention. Similarly, we did not intend in our Order to dictate how REA should exercise its jurisdiction over its borrowers' power sales. The Commission understands and respects the statutory basis on which REA and the

Rural Telephone Bank carry out their responsibilities. In the case of Big Rivers, we intend to actively and expeditiously seek a solution that is fair, just, and reasonable to all parties, including the REA.

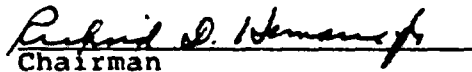
IT IS THEREFORE ORDERED that:

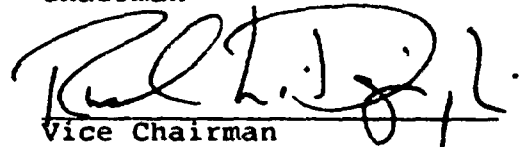
1. The petitions for rehearing filed by NSA and Alcan be and they hereby are granted for the limited purpose of further consideration.

2. The Commission's Order entered March 17, 1987, be and it hereby is clarified as provided herein.

Done at Frankfort, Kentucky, this 27th day of April, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9613 DATED APRIL 27, 1987.



United States
Department
of Agriculture

Rural
Electrification
Administration

Office
of the
Administrator

Washington,
D.C.
20250

April 9, 1987

Honorable Richard D. Heman, Jr.
Chairman, Commonwealth of Kentucky
Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

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CHAIRMAN
P.S.C.

Dear Chairman Heman:

I have carefully reviewed the March 17, 1987 Order of the Public Service Commission of the Commonwealth of Kentucky in Case No. 9885 which denied a modest rate increase for Big Rivers Electric Corporation. I have discussed this Order with the Secretary of Agriculture, the General Counsel of the Department, and officials of the Department of Justice. Frankly, we are all surprised and disappointed at this action of the Commission and the rationale on which the Order is based.

The Order raises profound and disturbing questions about the future feasibility and security of loans made or guaranteed by the Rural Electrification Administration (REA) and the Rural Telephone Bank (RTB) for use in the Commonwealth of Kentucky. It appears that the Commission wants to reserve to itself the final authority to determine when and if loans will be repaid and the manner in which REA will exercise its jurisdiction over power sales of its borrowers.

The Commission's Order denying rate relief to Big Rivers has compromised the ability of Big Rivers to repay its Federal loans. Because of the position taken by the Commission as expressed in this Order, REA is obligated to consider the options available to it to protect the Rural Electrification and Telephone programs and the interest of the American taxpayer. Until we are in a position to reach a final decision, REA and the RTB will suspend all loan and loan guarantee approvals and advances on loans and loan guarantees already approved to all electric and telephone borrowers in Kentucky.

It would be helpful if you and the other members of the Commission would meet with me in Washington, D. C. to discuss this matter and attempt to arrive at a satisfactory resolution assuring repayment of loans to Kentucky borrowers.

For your information, I am enclosing a copy of a letter which REA is sending to its electric and telephone borrowers in Kentucky notifying them of REA's suspension action.

Sincerely,

HAROLD V. HUNTER
Administrator

Enclosure



United States
Department
of Agriculture

Rural
Electrification
Administration

Washington
D.C.
20250

LETTER SENT TO ALL REA-FINANCED ELECTRIC AND TELEPHONE SYSTEMS IN KENTUCKY

Dear Mr./Ms.:

I was surprised and disappointed to learn of the March 17, 1987 Order of the Public Service Commission of the Commonwealth of Kentucky in Case No. 9885 denying a modest rate increase to Big Rivers Electric Corporation (Big Rivers). Big Rivers has sought the rate increase to reflect the commercialization last year of the Wilson Generating Plant, a revenue producing, state-of-the-art, coal-fired, 400 MW power plant located in Western Kentucky.

The Rural Electrification Administration (REA), with the endorsement of the Commission, extended over \$700 million in Federal loans and guarantees to Big Rivers to finance most of the Wilson Plant. Big Rivers has been in default on its Government loans since 1984 and is presently more than \$220 million in arrears.

A similar attempt to modestly increase rates was rejected by the Public Service Commission in 1985, some 6 months after Big Rivers had defaulted on its Government loans. This latest rejection came after years of arduous negotiations among Big Rivers, REA, and other interested parties.

Big Rivers has not had a rate increase since 1981 and currently charges its members the lowest rates of any consumer-owned generating cooperative in the country. Had the Commission granted Big Rivers' request in this case, its rates would still have been far below those projected by Big Rivers in prior Commission proceedings authorizing the construction and financing of the Wilson Plant.

The Commission has apparently undertaken to allocate economic risks to REA in a manner not contemplated in the Rural Electrification Act or assumed by REA. The Order raises profound and disturbing questions about the feasibility of loans made or guaranteed by REA and the Rural Telephone Bank (RTB) for use in the Commonwealth of Kentucky. The Commission has seemingly reserved to itself the final authority to determine when Federal loans will be repaid, if ever. The Order also suggests that the Commission will make repayment of REA loans dependent upon how REA exercises its jurisdiction over power sales of its borrowers.

The Commission's Order denying rate relief has compromised important Federal interests, including the ability of Big Rivers to repay its Federal loans. Because of the climate of uncertainty created by the Order of the Public Service Commission dated March 17, 1987, I am not able to conclude, as required by law, that the security for REA and RTB loans is reasonably adequate and that such loans will be repaid within the time agreed. Accordingly, I must ask you, pursuant to your loan contract, to provide evidence satisfactory to

REA of the continuing economic feasibility of your system taking into account the Order of the Public Service Commission. Regretfully, until I receive satisfactory assurances in this matter, I must suspend any action on requests for the advance of funds on loans made or guaranteed by REA or the RTB, and on applications for additional loans or guarantees.

For your information, a copy of my letter to the Commission Chairman is enclosed.

Sincerely,

Enclosure