COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE CONTRACT FOR ELECTRIC SERVICE BETWEEN HENDERSON-UNION RURAL ELECTRIC COOPERATIVE CORPORATION AND COSTAIN COAL COMPANY	))))	CASE NO. 93-229

O R D E R

On July 1, 1993, the Commission suspended the proposed contract between Henderson-Union Rural Electric Cooperative Corporation ("Henderson-Union") and Costain Coal Company ("Costain") to provide electric service at Costain's East Portal site. The Commission also directed Henderson-Union to file certain supplemental information in support of the proposed contract.

The Commission has reviewed the supplemental information filed by Henderson-Union and finds that further information is needed in order to determine the reasonableness of the proposed contract. The needed information pertains to specific questions about Costain's East Portal mine site, Costain's existing mines in western Kentucky, the projected fuel costs of Big Rivers Electric Corporation ("Big Rivers") included in the previous response, and the absence of any financial guarantee by Costain.

IT IS THEREFORE ORDERED that Henderson-Union shall file, within 15 days of the date of this Order, the original and 10 copies of its responses to the following requests for information set forth herein. Careful attention shall be given to copied material to ensure its legibility.

1. The response to Item 3 of the Commission's Order of July 1, 1993 indicates that 800 jobs will be created due to the opening of Costain's East Portal mine site.

a. Provide a general description of the types of jobs that will be created and a projected timetable for when employment at the mine will reach milestones such as 200, 400, and 800 employees.

b. Identify, by mine name and county in which located, all Costain mines presently operated in the service area of any Big Rivers' distribution cooperatives. Indicate the number of persons employed at each mine and the tons of coal produced at each mine in calendar year 1992.

c. Will the opening of the East Portal site result in, or coincide with, the closing of any other Costain mines? If so, identify the affected mines, the number of affected employees and explain whether any of these employees will be reassigned to work at the East Portal mine.

d. Has Costain entered into long-term contracts for the sale of coal from the East Portal mine? Provide the term (length) of any such contracts.

2. The marginal cost recovery study provided in response to Item 3 of the Commission's Order of July 1, 1993 uses a constant fuel cost of 13.3 mills per KWH for the full term of the contract. Provide the derivation of this amount, including all assumptions, and explain why it does not change over the term of the contract.

3. The response to Item 4(b) of the Commission's Order of July 1, 1993 explained the purpose of the 90 cents per KW

termination credit but did not explain its derivation. Given that Costain's average demand is estimated to be 7,500 KW and the term of the agreement is ten years, explain how the 90 cents was derived.

4. The response to Item 5(b) of the Commission's Order of July 1, 1993 indicates that one reason for entering into an unsecured electric service agreement with Costain is that, since Costain is a coal supplier of Big Rivers, Big Rivers could withhold payment on its coal shipments from Costain if Costain defaulted under the terms of the electric service agreement.

a. Is there a written agreement between Big Rivers and Costain authorizing Big Rivers to withhold payments on coal shipments in the event Costain defaults on the proposed electric service agreement? If yes, provide the written agreement. If no, explain why Costain's potential default under the electric service agreement, to which Big Rivers is not a party, should be linked to Big Rivers' payments under its coal supply contracts with Costain.

b. How would the remedy described by Henderson-Union be administered in the event Costain became insolvent and filed bankruptcy? Would not Big Rivers' ability to withhold payments on coal shipments terminate under such a scenario?

c. Describe in detail Costain's current status as a coal supplier to Big Rivers and explain why Henderson-Union believes that position is sufficiently stable to warrant entering into an unsecured agreement.

d. What recourse would Henderson-Union have if, for some reason, Costain ceased to be a coal supplier to Big Rivers?

e. Describe in detail the investigation of Costain's financial status referred to in the aforementioned response.

Done at Frankfort, Kentucky, this 20th day of August, 1993.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director