

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GREEN RIVER ELECTRIC )  
CORPORATION AND HENDERSON UNION )  
ELECTRIC COOPERATIVE CORPORATION FOR ) CASE NO. 99-162  
APPROVAL OF RATE DECREASE FOR KENERGY )  
CORP., CONSOLIDATION SUCCESSOR )

ORDER

IT IS ORDERED that Kenergy Corp. ("Kenergy") shall file the original and 8 copies of the following information with the Commission no later than January 24, 2000, with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this Order.

1. a. List each customer that Kenergy directly served as of December 31, 1998<sup>1</sup> and describe the general nature of each customer's business.

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<sup>1</sup> Green River Electric Corporation ("Green River") and Henderson Union Electric Cooperative Corporation ("Henderson Union") were consolidated on July 1, 1999 to form Kenergy. Unless otherwise noted, any references in this Order to Kenergy's operations prior to July 1, 1999 refer to Green River and Henderson Union's combined operations.

b. State the total revenue that Kenergy received from each customer listed in part (a) for the 12 months ending December 31, 1998. If applicable, segregate the total revenue between the pass through of purchased power costs from Big Rivers Electric Corporation ("Big Rivers") and the adder that Kenergy or its predecessors applied to the customers' bills.

c. For each customer listed in part (a), state the annual effect of the rate revisions, in dollars and percentage change, resulting from the Commission's Orders in Case Nos. 97-204<sup>2</sup> and 98-267.<sup>3</sup> The comparison shall be made against the rates in effect for the 12 months immediately prior to the effective date of the changes authorized in Case Nos. 97-204 and 98-267.

2. For each Kenergy customer class containing non-direct serve customers, state the annual effect of the rate revisions, in dollars and percentage change, resulting from the Commission's Orders in Case Nos. 97-204 and 98-267. The comparison shall be made against the rates in effect for the 12 months immediately prior to the effective date of the changes authorized in Case Nos. 97-204 and 98-267.

3. a. (1) How did Kenergy determine the level of its proposed rate reduction?

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<sup>2</sup> Case No. 97-204, The Application of Big Rivers Electric Corporation, Louisville Gas and Electric Company, Western Kentucky Energy Corp., Western Kentucky Leasing Corp., and LG&E Station Two Inc. for Approval of Wholesale Rate Adjustment for Big Rivers Electric Corporation and for Approval of Transaction.

<sup>3</sup> Case No. 98-267, The Application of Big Rivers Electric Corporation for Approval of the 1998 Amendments to Station Two Contracts Between Big Rivers Electric Corporation and the City of Henderson, Kentucky and the Utility Commission of the City of Henderson.

(2) Provide all workpapers, analyses and studies used to reach this decision.

(3) Provide all internal memorandum, correspondence, and related documents in which the level of a reduction in Kenergy's rates after the consolidation of Henderson Union and Green River is discussed.

b. (1) Why should the proposed rate reduction be restricted to non-direct serve customers?

(2) Provide all workpapers, analyses and studies used to reach this decision. Provide all internal memorandum, correspondence, and related documents in which the eligibility for the proposed reduction in Kenergy's rates after the consolidation of Henderson Union and Green River is discussed.

4. Refer to Kenergy's Amended Application, Exhibit 1. During the test year, Kenergy's predecessors, Green River and Henderson Union, wrote off generating and transmission capital credits ("GTCC") they had previously received from Big Rivers. This write off is shown on Exhibit 1 as an extraordinary item.

a. State the portion of the combined write off amount of \$39,689,199 that is attributable to:

(1) Green River.

(2) Henderson Union.

b. Indicate the vintage years of GTCCs reflected by the write off.

c. Identify the last year each cooperative received a GTCC assignment from Big Rivers.

d. For each cooperative, provide all accounting entries made to reflect the write off and include a description for each recorded entry.

e. Explain why Green River and Henderson Union classified the write off as an extraordinary item. This explanation shall include all applicable references to the uniform system of accounts.

f. (1) Did Green River or Henderson Union require the prior approval of the Rural Utilities Service ("RUS") to write off the Big Rivers' GTCCs?

(2) If yes, provide all correspondence between the cooperatives and the RUS regarding the write off.

g. (1) What provisions, if any, of Green River's and Henderson Union's articles of incorporation and bylaws address the write off of GTCCs?

(2) Provide all provisions set forth in the response to part (g)(1).

h. (1) Was the approval of the Green River or Henderson Union membership required for this write off?

(2) If yes,

(a) How did the cooperative(s) obtain this approval?

(b) If a vote of the cooperatives' membership was taken, what was the result of this vote?

i. Green River and Henderson Union recognized the write off on their respective RUS Form 7 monthly financial reports as an extraordinary item during 1998. However, a review of the 1998 Annual Reports filed with the Commission indicates that Henderson Union did not classify the write off as an extraordinary item in its 1998

Annual Report to the Commission and did not recognize the write off on its income statement.

(1) Explain Henderson Union's treatment of the write off in its 1998 Annual Report in the Commission.

(2) Explain why the approach that Henderson Union used in the RUS Form 7 monthly financial report apparently was not followed when the 1998 Annual Report was prepared.

5. Kenergy proposes a 4 percent rate reduction for a five-year period. The Consolidation Agreement between Green River and Henderson Union states that one objective of Kenergy is to provide rate parity for all customers within two years from the effective date of the consolidation.<sup>4</sup>

a. Is Kenergy still committed to achieving rate parity for all customers by July 2001?

b. If yes, provide its current timetable for achieving this goal.

c. If no, state when Kenergy expects to achieve rate parity and explain why Kenergy revised its target date.

d. Describe the effect, if any, of a 4 percent rate reduction to non-direct serve customers, effective until September 1, 2004, on Kenergy's efforts to achieve rate parity for all customers before 2004.

Done at Frankfort, Kentucky, this 10<sup>th</sup> day of January, 2000.

By the Commission

ATTEST:

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Executive Director

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<sup>4</sup> Case No. 99-136, The Application of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation for Approval of Consolidation, Application, Exhibit 2 at 8.