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 APPROVAL OF RATE DECREASE FOR KENERGY CORP., CONSOLIDATION SUCCESSOR	)))))	CASE NO. 99-162

O R D E R

IT IS ORDERED that Kentucky Industrial Utility Customers, Inc. ("KIUC") shall file the original and 8 copies of the following information with the Commission no later than March 31, 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. At page 6 of his direct testimony, Mr. Russell L. Klepper states: “Under the organizational structures of GREC and HUEC, voting rights were exercised equally by all members rather than on the basis of economic participation (the voting structure existing in almost all other business entities).”

a. When preparing his testimony, was Mr. Klepper aware that KRS 279.090(5) requires such a voting structure for all rural electric cooperative corporations organized pursuant to KRS Chapter 279?

b. In light of KRS 279.090(5) and assuming that direct serve industrial customers were permitted to vote on the proposed merger of Green River Electric Corporation ("Green River") and Henderson Union Electric Cooperative Corporation ("Henderson Union"), how were direct serve industrial customers "disenfranchised" during the vote on the proposed merger?

2. At page 7 of his direct testimony, Mr. Klepper states: "This case involves distribution costs."

a. Are the rates that Kenergy Corp. ("Kenergy") charges to non-direct serve customers unbundled?

b. If the rates are not unbundled, why does Mr. Klepper contend that this proceeding only involves distribution costs?

3. Refer to Direct Testimony and Exhibits of Russell L. Klepper at 7.

a. Identify the "non-direct serve industrial customers" to which Mr. Klepper refers at line 7.

b. Explain in detail how Mr. Klepper concluded that Kenergy's responses to the Commission's Order of January 10, 2000 show that "in Case Nos. 97-204 and 98-267 direct serve customers received larger percentage rate decreases than non-direct serve customers on a total rate basis." Provide all calculations and workpapers that Mr. Klepper used to reach his conclusion.

c. Does Mr. Klepper agree that Kenergy's responses to the Commission's Order of January 10, 2000, Items 1(c) and 2, show that

(1) direct serve customers' rate decrease percentages, excluding the Smelters, range from 3.99 to 19.97 percent?

(2) the rate decrease percentages for non-direct serve customers range from .05 to 16.01 percent?

d. Explain in detail how Mr. Klepper concluded that, based on Kenergy's responses to KIUC's Supplemental Request for Information, that "the percentage rate decreases considering only generating and transmission services were approximately equal over all classes of customers, except for the Smelters." Provide all calculations and workpapers that Mr. Klepper used to reach his conclusion.

e. Does Mr. Klepper agree that Attachments 2 and 3 of Kenergy's responses to KIUC's Supplemental Request for Information show that

(1) the percentage decrease in power costs for direct serve customers, excluding the Smelters, ranges from 4.06 to 14.93 percent?

(2) the percentage decrease in power costs for non-direct serve customers ranges from 7.11 to 13.00 percent?

4. Refer to Direct Testimony and Exhibits of Russell L. Klepper at 14.

a. Explain why Mr. Klepper's assumption that direct serve customers are only responsible for administrative and general expenses and a portion of the KPSC assessment is reasonable.

b. What cost-of-service study methodology most closely reflects Green River's approach for allocating patronage capital credits?

5. Refer to Direct Testimony and Exhibits of Russell L. Klepper at 15-16.

a. Do the adders calculated for Alcan Aluminum Corporation (“Alcan”), Southwire Company (“Southwire”), and Commonwealth Industries, Inc. (“Commonwealth”) follow exactly the same formula, with identical variables and assumptions?

b. Are the energy consumption patterns, load factors, and contract terms identical for Alcan, Southwire, and Commonwealth?

c. If the items referenced in Item 5(a) and 5(b) differ for each company, explain how, in the absence of a thorough analysis of the adders, the proposition that Alcan is subject to “ongoing discrimination” is supportable.

6. a. Did Mr. Klepper, in preparing his testimony and developing his recommendations, perform a traditional cost-of-service study on Kenergy’s operations?

b. If Mr. Klepper did not perform a traditional cost-of-service study on Kenergy’s operations, explain why not?

c. In Mr. Klepper’s opinion, could the information necessary for the preparation of a traditional cost-of-service study have been obtained through the discovery process in this proceeding? If not, explain why not.

7. a. At page 18 of his testimony, Mr. Klepper advocates a new rate structure for the collection of distribution-related costs from the direct serve customers. Explain in detail why Mr. Klepper did not propose new Kenergy adder rates based upon his proposed new rate structure.

b. Absent proposed adder rates and a cost-of-service study supporting Mr. Klepper's proposed adder, explain how the reasonableness of Mr. Klepper's proposal can be adequately evaluated.

8. At page 6 of his testimony, Mr. Klepper states: "[I]t is not an appropriate use of the Commission's discretion to use its ratemaking authority to correct or amend any real or perceived deficiency in a prior ratemaking decision of the Commission."

a. Is it Mr. Klepper's position that the continued opposition of Alcan, Southwire, and KIUC to the variable aluminum smelter rate after its establishment in 1987 represented an effort to encourage the Commission to engage in an inappropriate use of its rate-making authority?

b. Explain why Mr. Klepper's proposed changes to Kenergy's adders are not an attempt to encourage the Commission to use its rate-making authority to correct or amend a real or perceived deficiency in a prior rate-making decision of the Commission.

9. Refer to Direct Testimony and Exhibits of Russell L. Klepper at 6, line 21. Explain how Kenergy's proposed rate reduction constitutes a "retroactive remedy" to prior Commission decisions.

Done at Frankfort, Kentucky, this 24th day of March, 2000.

By the Commission

ATTEST:

Executive Director