CASE NUMBER:

99-136

KY. PUBLIC SERVICE COMMISSION
AS OF : 07/13/00

HISTORY INDEX FOR CASE: 1999-136
GREEN RIVER ELECTRIC CORPORATION
Transfer/Sale/Purchase/Merger
AND HENDERSON UNION ELECTRIC

IN THE MATTER OF THE APPLICATION OF GREEN RIVER ELECTRIC
CORPORATION AND HENDERSON UNION ELECTRIC COOPERATIVE CORP.
FOR APPROVAL OF CONSOLIDATION

SEQ NBR	ENTRY DATE	REMARKS
M0001	04/02/1999	FRANK KING / GREEN RIVER ELECTRIC-NOTICE OF INTENT TO FILE
0002	04/09/1999	Acknowledge Notice of Intent.
0003	04/19/1999	Application.
0004	04/20/1999	Acknowledgement letter.
0005	04/22/1999	No deficiencies letter
0006	04/29/1999	Order scheduling hearing on 5/20; req's for info due 5/6; resp's due 5/17.
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0007	05/06/1999	Data Request Order, response due 5/17/99.
M0003	05/10/1999	MICHAEL KURTZ KENTUCKY INDUSTRIAL-REQUEST TO INTERVENE
M0004	05/11/1999	RICHARD LIGGETT-REQUEST TO INTERVENE
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M0007	05/19/1999	FRANK KING GREEN RIVER-NOTICE OF SERVICE
M0008	05/28/1999	CONNIE SEWELL COURT REPORTER-TRANSCRIPT FILED FOR HEARING ON MAY 20.99
0009	06/18/1999	Final Order approving the consolidation of Green River and Henderson Union.
M0009	07/07/1999	FRANK KING KENERGY-NOTICE CONFIRMING DATE OF CONSOLIDATION
M0010	06/22/2000	FRANK KING KENERGY-CONSOLIDATION UPDATE IN RESPONSE TO ORDER OF JUNE 18,99

DORSEY, KING, GRAY & NORMENT

ATTORNEYS-AT-LAW

318 SECOND STREET

HENDERSON, KENTUCKY 42420

JOHN DORSEY (1920-1986)
FRANK N. KING, JR.
STEPHEN D. GRAY
WILLIAM B. NORMENT, JR.
J. CHRISTOPHER HOPGOOD

TELEPHONE
(270) 826-3965
TELEFAX
(270) 826-6672

June 21, 2000

RECEIVED
JUN 22 2000
PUBLIC SERVICE
COMMISSION

Mr. Martin J. Huelsmann, Executive Director
Public Service Commission of Kentucky
Post Office Box 615
Frankfort, Kentucky 40602

Re: Case No. 99-136

Dear Mr. Huelsmann:

We hand you herewith for filing 10 copies of "Kenergy Consolidation Update." Please accept this filing as compliance with ordering paragraph no. 3 of the Commission's June 18, 1999, order in the above case.

Thank you for your assistance.

Very truly yours,

DORSEY, KING, GRAY & NORMENT

By Frank N. King, Jr.

Frank N. King, Jr.

FNKJr/cds
Encls.
Copy: Mr. Dean Stanley

Presentation at end of file

DORSEY, KING, GRAY & NORMENT
ATTORNEYS-AT-LAW
318 SECOND STREET
HENDERSON, KENTUCKY 42420

JOHN DORSEY (1920-1986)
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J. CHRISTOPHER HOPGOOD

TELEPHONE
(270) 826-3965
TELEFAX
(270) 826-6672

RECEIVED
JUL - 7 1999
PUBLIC SERVICE
COMMISSION

July 2, 1999

Ms. Helen Helton, Executive Director
Public Service Commission of Kentucky
730 Schenkel Lane
Post Office Box 615
Frankfort, Kentucky 40602

Re: Case No. 99-136

Dear Ms. Helton:

Enclosed for filing please find notice confirming date of consolidation of Kenergy Corp. This notice is filed pursuant to Ordering paragraph 2 of the Commission's June 18, 1999, order in this case.

Thank you for your assistance.

Very truly yours,

DORSEY, KING, GRAY & NORMENT

By Frank N. King

Frank N. King, Jr.

FNKJr/cds
Encls.
Copy/w/encls.: Mr. Dean Stanley
Mr. Michael Kurtz

RECEIVED

JUL - 7 1999

PUBLIC SERVICE
COMMISSION

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF GREEN RIVER ELECTRIC CORPORATION AND HENDERSON UNION ELECTRIC COOPERATIVE CORP. FOR APPROVAL OF CONSOLIDATION	))))	CASE NO.99-136

NOTICE CONFIRMING DATE OF CONSOLIDATION OF KENERGY CORP.

Pursuant to the Commission's June 18, 1999, order notice is hereby given that July 1, 1999, was the effective date of consolidation of Kenergy Corp. Attached hereto and made a part hereof is a copy of the Articles of Consolidation which were received and filed in the office of Secretary of State, Commonwealth of Kentucky on June 22, 1999, and have been recorded in Articles of Incorporation Book 26, at page 656, Henderson County Clerk's Office.

This the 2nd day of July, 1999.

DORSEY, KING, GRAY & NORMENT
318 Second Street
Henderson, Kentucky 42420
Telephone - 270-826-3965
Telefax - 270-826-6672
Attorneys for Kenergy Corp.

By Frank N. King
Frank N. King, Jr.

I hereby certify that the foregoing has been served upon Michael L. Kurtz, Esq., Boehm, Kurtz & Lowry, 2110 CBLD Center, 36 East Seventh Street, Cincinnati, Ohio 45202, attorney for Kentucky Industrial Utilities Customers, Inc., by mailing a true and correct copy of same on this 2nd day of July, 1999.

Frank N. King
Frank N. King, Jr.

JUN 22 12 00 PM '99 01*800

JOHN Y. BROWN III
SECRETARY OF STATE
COMM. OF KENTUCKY
BY Claudia Perry

ARTICLES OF CONSOLIDATION

OF

KENERGY CORP.

Green River Electric Corporation and Henderson Union Electric Cooperative Corp., both being duly created nonprofit electric cooperatives pursuant to Kentucky Revised Statutes Chapter 279, by and through their respective directors, state as follows for the purpose of consolidation, to-wit:

ARTICLE I

The names and addresses of the corporations being consolidated are: Green River Electric Corporation, 3111 Fairview Drive, Owensboro, Kentucky 42303, and Henderson Union Electric Cooperative Corp., 6402 Old Corydon Road, Henderson, Kentucky 42420.

ARTICLE II

The name of the consolidated corporation shall be **KENERGY CORP.**

ARTICLE III

The street address of the corporation's initial registered office is 6402 Old Corydon Road, Henderson, Kentucky 42420, and the name of its initial registered agent at that office is Dean Stanley.

ARTICLE IV

The mailing address of the corporation's principal office is Post Office Box 18, Henderson, Kentucky 42419-0018. The place, including the county, where its principal office will be located is 6402 Old Corydon Road, Henderson, Kentucky 42420, being located in Henderson County.

ARTICLE V

The Kenergy Corp. is formed for the purpose of making electric energy available to its members at the lowest cost consistent with sound economy and good management. This corporation is also formed for the purpose of transacting any and all lawful business permitted under the applicable laws of the Commonwealth of Kentucky.

ARTICLE VI

The territory in which the corporation's operations initially are to be conducted includes all or portions of the following counties of the Commonwealth of Kentucky: Henderson, Hopkins, Webster, Hancock, Daviess, McLean, Ohio, Muhlenberg, Breckinridge, Caldwell, Crittenden, Lyon, Union and Livingston.

ARTICLE VII

The corporation initially shall have 17 directors, being the eight (8) directors of Green River Electric Corporation and the nine (9) directors of Henderson Union Electric Cooperative Corp. The names and post office addresses of the directors who are to manage the affairs of the corporation for the first three (3) years of its existence, or until the first meeting called to elect directors, or until the successors of the first directors are elected and have qualified are as follows:

Royce E. Dawson, M. D.
1607 Fawn Drive
Owensboro, Kentucky 42301

Jimmy D. Mounts
Route One
Slaughters, Kentucky 42456

Melvin Pat Gibson
62 Rock Creek Lane
Whitesville, Kentucky 42378

William Reid
4818 Highway 144
Owensboro, Kentucky 42303

Richard H. Wilson
1560 Franklin Gaynor Road
Hawesville, Kentucky 42348

Sandra Wood
2500 Kentucky 85 East
Island, Kentucky 42350

Larry Elder
2245 Hayden Bridge Road
Owensboro, Kentucky 42301

S. Randolph Powell
8260 Whitelick Road
Corydon, Kentucky 42406

William Scott
5956 Ditto Road
Philpot, Kentucky 42366

James E. Long
Box 73
Baskett, Kentucky 42402

Dr. H. M. Smith
405 Robinson Road
Morganfield, Kentucky 42437

Glenn E. Cox
396 Mill Bluff Road
Fredonia, Kentucky 42411

Vickie A. Davis
9089 State Route 109
Sturgis, Kentucky 42459

William Denton
12633 Highway 351
Henderson, Kentucky 42420

Orlin Long
877 Emmaus Church Road
Salem, Kentucky 42078

Christopher Mitchell
11920 State Route 270W
Clay, Kentucky 42404

Ben H. Shouse
4262 State Route 758
Morganfield, Kentucky 42437

ARTICLE VIII

The duration of this corporation shall be perpetual.

ARTICLE IX

The corporation is organized without capital stock and members may be admitted by making a written application for membership, paying the required membership fee and receiving electric service from the corporation. Membership shall be terminated upon the death, cessation of existence, expulsion or withdrawal of a member, or as otherwise set forth in the corporation's bylaws.

ARTICLE X

No director of the corporation shall be personally liable to the corporation or its members for monetary damages for breach of his or her duties as a director, except for liability (i) for any transaction in which the director's personal financial interest is in conflict with the financial interests of the corporation or its members, or (ii) for acts or omissions not in good faith or which involve intentional misconduct or are known to the director to be a violation of law, or (iii) for any vote for or assent to an unlawful distribution to members or other conduct prohibited under KRS 271B.8-330, or (iv) for any transaction from which the director derived an improper personal benefit. If the general corporation laws of Kentucky are amended after the effective date of this Article to authorize corporate action further limiting the personal liability of directors, then the liability of a director of the corporation shall be limited to the fullest extent permitted by such general corporation laws as so amended. Any repeal or modification of this Article by the members of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

ARTICLE XI

The incorporators are the 17 directors listed above in Article VII.

ARTICLE XII

The corporate existence shall begin on the 1st day of July, 1999, at 12:00:01 A.M., C.D.T.

IN TESTIMONY WHEREOF, all of the directors of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. have signed and acknowledged these articles as of this the 18th day of JUNE, 1999.

Royce E. Dawson
Royce E. Dawson

James E. Long
James E. Long

Jimmy D. Mounts
Jimmy D. Mounts

Dr. H. M. Smith
Dr. H. M. Smith

Melvin Pat Gibson
Melvin Pat Gibson

Glenn E. Cox
Glenn E. Cox

William Reid
William Reid

Vickie A. Davis
Vickie A. Davis

Richard H. Wilson

William Denton

Sandra Wood

Orlin Long

Larry Elder

Christopher Mitchell

S. Randolph Powell

Ben H. Shouse

William Scott

STATE OF KENTUCKY

COUNTY OF DAVIESS

The foregoing was signed, acknowledged and sworn to before me by **ROYCE E. DAWSON, JIMMY D. MOUNTS, MELVIN PAT GIBSON, WILLIAM REID, RICHARD H. WILSON, SANDRA WOOD, LARRY ELDER** and **WILLIAM SCOTT**, this 2nd day of June, 1999.

My commission expires September 29, 2001

Notary Public, State of Kentucky at Large

(seal)

STATE OF KENTUCKY

COUNTY OF HENDERSON

The foregoing was signed, acknowledged and sworn to before me by **S. RANDOLPH POWELL, JAMES E. LONG, DR. H. M. SMITH, GLENN E. COX, VICKIE A. DAVIS, WILLIAM DENTON, ORLIN LONG, CHRISTOPHER MITCHELL** and **BEN H. SHOUSE**, this 25th day of May, 1999.

My commission expires September 29, 2001

Charla D. Smithhart

Notary Public, State of Kentucky at Large

(seal)

This instrument was prepared by:

Frank N. King

FRANK N. KING, JR.
DORSEY, KING, GRAY & NORMENT
Attorneys at Law
318 Second Street
Henderson, Kentucky 42420

INDEX FOR CASE: 99-136
GREEN RIVER ELECTRIC CORPORATION
Transfer/Sale/Purchase/Merger
AND HENDERSON UNION ELECTRIC

IN THE MATTER OF THE APPLICATION OF GREEN RIVER ELECTRIC
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0009	06/18/99	Final Order approving the consolidation of Green River and Henderson Union.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 99-136
GREEN RIVER ELECTRIC CORPORATION

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on June 18, 1999.

See attached parties of record.

Stephanie D. Bell
Secretary of the Commission

SB/hv
Enclosure

Honorable Frank N. King
Attorney at Law
Dorsey, King, Gray & Norment
318 Second Street
Henderson, KY. 42420

Dean Stanley
General Manager
Green River Electric Corporation
3111 Fairview Drive
P. O. Box 1389
Owensboro, KY. 42302 1389

Charlye Jo Griggs
Director of Office Services
Henderson Union Electric
Cooperative Corporation
6402 Old Corydon Road
P. O. Box 18
Henderson, KY. 42420 0018

Honorable Michael L. Kurtz
Counsel for KIUC
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH. 45202

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 CONSOLIDATION	))))	CASE NO. 99-136

<u>ORDER</u>

On April 19, 1999, Green River Electric Corporation ("Green River") and Henderson Union Electric Cooperative Corporation ("Henderson Union") jointly applied pursuant to KRS 278.020(4) and (5) for approval of their proposed merger and consolidation into a new utility to be named Kenergy Corp. ("Kenergy"). Green River and Henderson Union are nonprofit electric cooperatives, organized under KRS Chapter 279 and engaged in the retail distribution of electric power to member-consumers in western Kentucky. Green River serves approximately 30,378 customers in nine counties and Henderson Union serves approximately 18,099 customers in eight counties.

The Commission granted full intervention to Kentucky Industrial Utility Customers, Inc., who represented the interests of members Alcan Aluminum Corporation, Commonwealth Aluminum Corporation, and Kimberly Clark. A public hearing in this matter was held at the Commission's offices on May 20, 1999. Mr. Richard L. Liggett, a member-consumer of Henderson Union, offered public comments regarding the proposed consolidation.

BACKGROUND

The subject of consolidation was first raised in 1993 in a Commission sponsored management audit of Green River and Henderson Union. The audit was performed for the Commission by F.E. Jennings and Co. ("Jennings"), an independent management consulting firm. Jennings issued a comprehensive audit report in June 1993 that recommended further studies be performed to explore the feasibility of consolidating the entire Big Rivers Electric Corporation ("Big Rivers") system.[1] Although two members of the Big Rivers system declined to participate in any discussions of consolidation, Green River and Henderson Union agreed to such discussions and eventually procured a formal feasibility study.

A preliminary study was performed at no cost to the utilities by the National Rural Electric Cooperative Association ("NRECA") and the National Rural Utilities Cooperative Finance Corporation. This preliminary study, presented at a joint meeting of the Green River and Henderson Union Boards of Directors, recommended further in-depth analysis. This presentation became Phase I of a five-phase consolidation process. Eventually, Green River and Henderson Union engaged NRECA to perform a detailed study of the proposed consolidation.

The detailed NRECA Consolidation Study ("1996 Study"), completed in October 1996, reviewed virtually every element related to a consolidation of Green River and Henderson Union. Based upon the 1996 Study's extensive findings and recommendations, the two cooperatives entered into negotiations toward consolidation.

[1] The Big Rivers' system consists of four distribution cooperatives: Green River; Henderson Union; Jackson Purchase Electric Cooperative Corporation; and Meade County Rural Electric Cooperative Corporation.

On March 11, 1997, they executed a Consolidation Agreement to merge and form a new entity to be known as Kenergy Corp. On May 27, 1997, this Commission approved the proposed consolidation.[2] A majority of Henderson Union members who subsequently voted on the proposed consolidation, however, failed to approve the proposal.[3]

In November 1998, Green River and Henderson Union formed a Consolidation Committee to again explore consolidation. They retained Joseph Slatter, Jr., co-author of the 1996 Study, to revise and update that study. This revised study ("1999 Study") includes three scenarios relating to the economic benefits of consolidation. Scenario 1 reflects the immediate impact of consolidation from year one to year 10 of the forecast period and would result in savings of $23.6 million. Scenario 2 reflects a phase-in period of 5 years to full realization and results in savings of $19.9 million. Scenario 3 reflects a phase-in period of 10 years to full realization and results in savings of $14.5 million.[4]

On January 23, 1999, Green River and Henderson Union executed a new consolidation agreement. This agreement provides that, subject to the Commission's approval, the two cooperatives will consolidate on July 1, 1999. It also addresses Kenergy's principal place of business, the composition of Kenergy's board of directors, the naming of Kenergy's principal officers, the retention of all current employees, the new cooperative's capital credits policy, and the cooperatives' intention to request a four

[2] Case No. 97-156, The Application of Green River Electric Corporation and Henderson Union Corporation for Approval of Consolidation (May 27, 1997).

[3] Application at 3. By a vote of 478 to 170, Green River's members approved the proposed consolidation. Henderson Union's members, however, voted 230 against and 217 in favor.

[4] National Rural Electric Cooperative Association, Green River Electric Corporation and Henderson Union Electric Cooperative Consolidation Study (Jan. 1999) at 77 – 85.

percent rate reduction for five years for non-direct serve members. Both cooperatives have submitted the proposed consolidation to their members. The majority of members voting on the proposed consolidation from each cooperative have approved the proposal.[5]

DISCUSSION

Based upon a review of the record, the Commission finds that the proposed consolidation should provide significant long-term benefits to the member-consumers of Green River and Henderson Union. The Commission is convinced that the positive financial impact and economies of scale achievable through consolidation will allow Green River and Henderson Union to best serve their member-consumers in the future. The evidence conclusively demonstrates that the consolidated organization, Kenergy, will have the financial, technical and managerial abilities to provide reasonable service to its member-consumers. Kenergy should be able to provide electric service at a total cost that is lower than otherwise achievable without a consolidation.

The record also demonstrates that Green River and Henderson Union have developed a reasonable plan to consummate the consolidation. It is apparent, however, that all issues have not been finalized. The Commission views this consolidation effort as a "work in progress." For example, Green River and Henderson Union are committed to effectuate the consolidation without terminating any employees.[6] Consequently, since a substantial portion of the economic benefits of consolidation are from reduced staffing levels, it will take five to seven years to realize the full potential savings. Similarly, there are numerous organizational and personnel decisions having long-term economic

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[5] Application at 7. Green River's members voted 11,346 to 1,283 in favor of the proposed consolidation. Henderson Union's vote was 4,478 to 3,182.

[6] Exhibit 4 of Application (Testimony of Dean Stanley) at 2.

implications that must await resolution by Kenergy and its Board of Directors. While many of these issues were identified in the 1999 Study, there will likely be others that arise as Kenergy begins serving its member-consumers.

The Commission further finds that it has an obligation to monitor the progress of this consolidation and the decisions made by Kenergy on the numerous outstanding issues which will impact the cost and delivery of electric service. The Commission also recognizes that, in the near-term, Kenergy may be in a position to adopt technological innovations that are feasible and cost effective. Such measures also warrant serious consideration if cost effective.

To facilitate the Commission's monitoring of this consolidation and the outstanding issues enumerated in the 1999 Study and this Order, Green River and Henderson Union should file periodic reports describing their progress on these issues and in achieving the benefits of the consolidation. The first such progress report should be submitted one year after the consolidation has been consummated. The need for and the timing of subsequent progress reports will be determined after review and analysis of the first report.

The Commission commends Green River and Henderson Union for seriously considering consolidation and then pursuing it once the benefits became apparent. In summary, we find this consolidation to be in accordance with the law, for a proper purpose, and consistent with the public interest. We encourage Green River and Henderson Union to complete the consolidation in the most practical, efficient and cost-effective manner.

The Commission notes that this matter represents the second proposed consolidation of electric distribution cooperatives that has won the approval of cooperative members within the last two years.[7] The Commission urges other electric cooperatives to consider consolidations and other forms of strategic alliances that will achieve economic benefits and enhance the economies of scale necessary to continue to provide high quality service at reasonable costs to their member-consumers.

IT IS THEREFORE ORDERED that:

1. The consolidation of Green River and Henderson Union into a new electric distribution cooperative to be known as Kenergy is approved.

2. Within five days after consummation of the consolidation, Kenergy shall file a written notice with the Commission setting forth the date of consolidation.

3. Twelve months after the consolidation Kenergy shall file a report detailing the progress in achieving the benefits of consolidation, the status of all unresolved issues discussed in the 1999 Study, and an analysis of additional technological Improvements.

Done at Frankfort, Kentucky, this 18th day of June, 1999.

By the Commission

ATTEST:

Executive Director

---

[7] See Case No. 97-424, The Application of Blue Grass Rural Electric Cooperative Corporation and Fox Creek Rural Electric Cooperative Corporation for an Order Approving Consolidation of the Two (2) Named Rural Electric Cooperatives (Dec. 12, 1997).

DORSEY, KING, GRAY & NORMENT

ATTORNEYS-AT-LAW

318 SECOND STREET

HENDERSON, KENTUCKY 42420

JOHN DORSEY (1920-1986)
FRANK N. KING, JR.
STEPHEN D. GRAY
WILLIAM B. NORMENT, JR.
J. CHRISTOPHER HOPGOOD

TELEPHONE
(502) 826-3965
TELEFAX
(502) 826-6672

May 17, 1999

RECEIVED

MAY 19 1999

PUBLIC SERVICE
COMMISSION

Ms. Helen C. Helton
Kentucky Public Service Commission
730 Schenkel Lane - Post Office Box 718
Frankfort, Kentucky 40601

Re: Case No. 99-136

Dear Ms. Helton:

Please file the enclosed notice of service in the captioned case. Thank you for your assistance.

Very truly yours,

DORSEY, KING, GRAY & NORMENT

By Frank N. King

Frank N. King, Jr.

FNKJr/cds
Encls.
Copy/w/encls.: Mr. Dean Stanley
Mr. John West

RECEIVED
MAY 19 1999
PUBLIC SERVICE
COMMISSION

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF GREEN RIVER ELECTRIC CORPORATION AND HENDERSON UNION ELECTRIC COOPERATIVE CORP. FOR APPROVAL OF CONSOLIDATION	))))	CASE NO. 99-136

NOTICE OF SERVICE

Notice is hereby given that a copy of Applicants' Response to Commission's Information Requests was served on intervenor Kentucky Industrial Utility Customers, Inc. by sending via Federal Express a true and correct copy thereof to its counsel, Hon. Michael L. Kurtz, Boehm, Kurtz & Lowry, 2110 CBLD Center, 36 East Seventh Street, Cincinnati, Ohio 45202, this the 17th day of May, 1999.

DORSEY, KING, GRAY & NORMENT
318 Second Street
Henderson, Kentucky 42420
(270) 826-3965 Telephone
(270) 816-6672 Telefax
Attorneys for Applicants

By Frank N. King
FRANK N. KING, JR.

COPY: Michael L. Kurtz, Esq.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

May 14, 1999

To: All parties of record

RE: Case No. 99-136

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie J. Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

Honorable Frank N. King
Attorney at Law
Dorsey, King, Gray & Norment
318 Second Street
Henderson, KY 42420

Dean Stanley
General Manager
Green River Electric Corporation
3111 Fairview Drive
P. O. Box 1389
Owensboro, KY 42302 1389

Charlye Jo Griggs
Director of Office Services
Henderson Union Electric
Cooperative Corporation
6402 Old Corydon Road
P. O. Box 18
Henderson, KY 42420 0018

Honorable Michael L. Kurtz
Counsel for KIUC
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH 45202

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GREEN RIVER ELECTRIC CORPORATION AND HENDERSON UNION ELECTRIC COOPERATIVE CORP. FOR APPROVAL OF CONSOLIDATION	))))	CASE NO. 99-136

ORDER

This matter arising upon the motion of the Kentucky Industrial Utility Customers ("KIUC") for full intervention, and it appearing to the Commission that the KIUC has a special interest which is not otherwise adequately represented, and that such intervention is likely to present issues and develop facts that will assist the Commission in fully considering the matter without unduly complicating or disrupting the proceedings, and this Commission being otherwise sufficiently advised,

IT IS HEREBY ORDERED that:

1. The motion of the KIUC to intervene is granted.

2. The KIUC shall be entitled to the full rights of a party and shall be served with the Commission's Orders and with filed testimony, exhibits, pleadings, correspondence, and all other documents submitted by parties after the date of this Order.

3. Should the KIUC file documents of any kind with the Commission in the course of these proceedings, it shall also serve a copy of said documents on all other parties of record.

Done at Frankfort, Kentucky, this 14th day of May, 1999.

By the Commission

ATTEST:

Executive Director

DORSEY, KING, GRAY & NORMENT
ATTORNEYS-AT-LAW
318 SECOND STREET
HENDERSON, KENTUCKY 42420

JOHN DORSEY (1920-1986)
FRANK N. KING, JR.
STEPHEN D. GRAY
WILLIAM B. NORMENT, JR.
J. CHRISTOPHER HOPGOOD

TELEPHONE
(502) 826-3965
TELEFAX
(502) 826-6672

May 11, 1999

RECEIVED
MAY 13 1999
PUBLIC SERVICE COMMISSION

Ms. Helen C. Helton
Kentucky Public Service Commission
730 Schenkel Lane - Post Office Box 718
Frankfort, Kentucky 40601

Re: Notice of Filing
Case No. 99-136

Dear Ms. Helton:

We enclose herewith for filing in the captioned case Notice of Filing as required under paragraph 5 of the Commission's April 29, 1999, order. Thank you for your assistance in this matter.

Very truly yours,

DORSEY, KING, GRAY & NORMENT

By Frank N. King

Frank N. King, Jr.

FNKJr/cds
Encls.
Copy/w/encls.: Mr. Dean Stanley
Mr. John West

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

RECEIVED
MAY 1 3 1999
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IN THE MATTER OF THE APPLICATION OF)
GREEN RIVER ELECTRIC CORPORATION AND)
HENDERSON UNION ELECTRIC COOPERATIVE)
CORP. FOR APPROVAL OF CONSOLIDATION)

CASE NO.99-136

NOTICE OF FILING

Pursuant to paragraph 5 of the Commission's order entered herein on April 29, 1999, the applicants file herewith the attached copies of the proposed notice to be published and the requests for publication.

DORSEY, KING, GRAY & NORMENT
318 Second Street
Henderson, Kentucky 42420
Telephone - 270-826-3965
Telefax - 270-826-6672
Attorneys for Green River Electric
Corporation and Henderson Union Electric
Cooperative Corp.

By Frank N. King
Frank N. King, Jr.

GREEN RIVER ELECTRIC Corporation - P.O. Box 1389 - 3111 Fairview Dr., Owensboro, Ky. 42302-1389

May 5, 1999

FAXED
DATE May 5, 1999
TIME 10:55 A.M.

TO: *Owensboro Messenger-Inquirer*
Advertising Department

FROM: Joanne Masters
Staff Assistant-Community and Employee Relations

RE: Legal Notice

Please publish the following "Notice of Hearing" in the legal notice section of *Owensboro Messenger-Inquirer* on Tuesday, May 11, 1999.

NOTICE OF HEARING

Green River Electric Corporation and Henderson Union Electric Cooperative Corp. filed a joint application with the Public Service Commission of Kentucky (Case No. 99-136) requesting authority to consolidate the two utilities into one new utility to be known as Kenergy Corp. A public hearing on the application shall be held on May 20, 1999 at 1 p.m. Eastern Daylight Time at the Public Service Commission, Hearing Room 1, 730 Schenkel Lane, Frankfort, KY. The hearing is open to the public. Any person attending will be given an opportunity to comment on the application.

Following publication of the notice, please provide an affidavit of publication and two (2) tear sheets.
Thank you.

FAXED
DATE May 5, 1999
TIME 10:53 A.M.

GREEN RIVER ELECTRIC Corporation - P.O. Box 1389 - 3111 Fairview Dr., Owensboro, Ky. 42302-1389

May 5, 1999

TO: *The Messenger*
Advertising Department

FROM: Joanne Masters
Staff Assistant-Community and Employee Relations

RE: Legal Notice

Please publish the following "Notice of Hearing" in the legal notice section of *The Messenger* on Tuesday, May 11, 1999.

NOTICE OF HEARING

Green River Electric Corporation and Henderson Union Electric Cooperative Corp. filed a joint application with the Public Service Commission of Kentucky (Case No. 99-136) requesting authority to consolidate the two utilities into one new utility to be known as Kenergy Corp. A public hearing on the application shall be held on May 20, 1999 at 1 p.m. Eastern Daylight Time at the Public Service Commission, Hearing Room 1, 730 Schenkel Lane, Frankfort, KY. The hearing is open to the public. Any person attending will be given an opportunity to comment on the application.

Following publication of the notice, please provide an affidavit of publication and two (2) tear sheets.
Thank you.

(800) 844-4732 ▪ (502) 926-4141 ▪ (Fax) 685-2279

Henderson Union Electric Cooperative
6402 Old Corydon Road P.O. Box 18, Henderson, KY 42419-0018
(502) 826-3991 Toll Free in KY 1-800-844-4832

HENDERSON UNION EC

May 5, 1999

DR ~~BRENDA~~ HELEN HELTON, CHAIRMAN
KENTUCKY PUBLIC SERVICE COMMISSION
POST OFFICE BOX 615
FRANKFORT KY 40602

Re: Notice of Hearing (Case No. 99-136)

This is to certify that a Notice of Hearing (Case No. 99-136) has been scheduled for publication as a legal notice in the following daily and county newspapers in Henderson Union Electric Cooperative's service territory during the week of May 10, 1999. Copy of Notice of Hearing is enclosed for your review.

Daily Newspaper	County	Date of Publication
The Gleaner	Henderson	May 11, 1999
Weekly Newspapers	**County**	**Date of Publication**
The Sturgis News	Union	May 12, 1999
The Union County Advocate	Union	May 12, 1999
The Sebree Banner	Webster	May 13, 1999
The Journal Enterprise	Webster	May 13, 1999
The Herald Ledger	Lyon	May 12, 1999
The Times Leader	Caldwell	May 12, 1999
The Crittenden Press	Crittenden	May 13, 1999

Tear sheets and proof of publication have been requested.

Sincerely,

Sue Mays

Sue Mays, Director
Member Services & Marketing

Enclosure

Henderson Union Electric Cooperative
6402 Old Corydon Road P.O. Box 18, Henderson, KY 42419-0018
(502) 826-3991 Toll Free in KY 1-800-844-4832

HENDERSON UNION EC

May 5, 1999

TO: Classified Department

FROM: Sue Mays, Director-Member Services & Marketing SM

RE: Legal Notice

Please publish the following "Notice of Hearing" in the legal notice section one time the week of May 10, 1999.

Following the publication of the notice, please provide an affidavit of publication and two (2) tear sheets by Friday, May 14, 1999.

NOTICE OF HEARING

Green River Electric Corporation and Henderson Union Electric Cooperative Corp. have filed a joint application with the Public Service Commission of Kentucky (Case No. 99136) requesting authority to consolidate the two utilities into one new utility to be known as Kenergy Corp. A public hearing on the application shall be held on May 20, 1999, at 1 p.m. Eastern Daylight Time at the Public Service Commission, Hearing Room 1, 730 Schenkel Lane, Frankfort, KY. The hearing is open to the public. Any person attending will be given an opportunity to comment on the application.

NOTICE OF HEARING
CASE NO. 91-336

Green River Electric Corporation and Henderson Union Electric Cooperative Corp. have filed a joint application with the Public Service Commission of Kentucky (Case No. 91-336) requesting authority to consolidate the two utilities into one new utility to be known as Kenergy Corp. A public hearing on the application shall be held on May 20, 1999, at 1 p.m. Eastern Daylight Time at the Public Service Commission, Hearing Room 1, 730 Schenkel Lane, Frankfort, KY. The hearing is open to the public. Any person attending will be given an opportunity to comment on the application.

99-136

7142 U.S. 41A South
Henderson, KY 42420
May 5, 1999

RECEIVED

MAY 11 1999

PUBLIC SERVICE
COMMISSION

Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
P.O. Box 615
Frankfort, KY 40602

Dear Ms. Helton:

This letter is my request to be an intervening petitioner in the merger between Henderson Union and Green River Rural Electric.

Please send all documents relative to this merger and notify me of any action or meetings at the above address. I can also be reached at [270] 827-2205. Please include the KRS that pertains to these actions.

Thank you.

Sincerely,

Richard L. Liggett

Richard L. Liggett

BOEHM, KURTZ & LOWRY
ATTORNEYS AT LAW
2110 CBLD CENTER
36 EAST SEVENTH STREET
CINCINNATI, OHIO 45202
TELEPHONE (513) 421-2255

TELECOPIER (513) 421-2764

Via Overnight Mail

RECEIVED
MAY 10 1999
PUBLIC SERVICE
COMMISSION

May 7, 1999

Hon. Helen Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40601

Re: **In The Matter Of: Application Of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation for Approval of Consolidation, Case No. 99-136**

Dear Ms. Helton:

Please find enclosed the original and ten copies each of the Petition to Intervene of Kentucky Industrial Utility Customers, Inc. in the above-referenced matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place this document of file.

Very Truly Yours,

Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLK/kew
Attachment
cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy, by regular U.S. mail (unless otherwise noted) to all parties on this 7th day of May, 1999.

Honorable Frank N. King
Attorney at Law
Dorsey, King, Gray & Norment
318 Second Street
Henderson, KY. 42420

Dean Stanley
General Manager
Green River Electric Corporation
3111 Fairview Drive
P. O. Box 1389
Owensboro, KY. 42302 1389

Charlye Jo Griggs
Director of Office Services
Henderson Union Electric
Cooperative Corporation
6402 Old Corydon Road
P. O. Box 18
Henderson, KY. 42420 0018

Michael L. Kurtz, Esq.

RECEIVED

MAY 1 0 1999

PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: Application of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation for Approval of Consolidation	:	Case No. 99-136

PETITION TO INTERVENE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Pursuant to K.R.S. §278.310 and 807 KAR 5:001 Section 3(8), Kentucky Industrial Utility Customers, Inc. ("KIUC") requests that it be granted full intervenor status in the above-captioned proceeding and states in support thereof as follows:

1. KIUC is an association of the largest electric and gas public utility customers in Kentucky. The purpose of KIUC is to represent the industrial viewpoint on energy and utility issues before this Commission and before all other appropriate governmental bodies. The members of KIUC who purchase electricity from Green River Electric Corporation ("GREC") or Henderson Union Electric Cooperative Corporation ("HUEC") who will participate herein are: Alcan Aluminum Corporation, Commonwealth Aluminum Corporation and Kimberly Clark Corporation. KIUC will supplement its Petition with the names of additional participating members as this information becomes known.

2. The matters being decided by the Commission in this case may have a significant impact on the rates paid by KIUC member companies for electricity. Electricity represents a significant cost of doing business for KIUC members. The attorneys for KIUC authorized to represent them in this proceeding and to take service of all documents are:

Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
2110 CBLD Center, 36 East Seventh Street
Cincinnati, Ohio 45202
(513) 421-2255

3. The position of KIUC cannot be adequately represented by any existing party. KIUC intends to play a constructive role in the Commission's decision making process herein and KIUC's participation will not unduly prejudice any party.

WHEREFORE, KIUC requests that it be granted full intervenor status in the above captioned proceeding.

Respectfully submitted,

Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
2110 CBLD Center, 36 East Seventh Street
Cincinnati, Ohio 45202
Ph: (513) 421-2255 Fax: (513) 421-2764
E-Mail: KIUC@aol.com

COUNSEL FOR KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

May 7, 1999

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

May 6, 1999

Honorable Frank N. King
Attorney at Law
Dorsey, King, Gray & Norment
318 Second Street
Henderson, KY. 42420

Dean Stanley
General Manager
Green River Electric Corporation
3111 Fairview Drive
P. O. Box 1389
Owensboro, KY. 42302 1389

Charlye Jo Griggs
Director of Office Services
Henderson Union Electric
Cooperative Corporation
6402 Old Corydon Road
P. O. Box 18
Henderson, KY. 42420 0018

RE: Case No. 99-136

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

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 CONSOLIDATION	))))	CASE NO. 99-136

ORDER

IT IS ORDERED that Green River Electric Corporation ("Green River") and Henderson Union Electric Cooperative Corporation ("Henderson Union") (collectively "the Applicants") shall file the original and 8 copies of the following information with the Commission no later than May 17, 1999, with a copy to all parties of record. Each copy of the information requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet shall 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. Refer to Application, Exhibit 1 ("Consolidation Study"). Provide the following charts and narratives that were removed and replaced with the phrase "Intentionally Left Blank":

a. Current Director Compensation Package (page 11).

b. Recommended Job Description for the Special Advisor to the Board of Directors (pages16-17).

c. Comparison of Cooperative Compensation Plans (page 40).

d. Unidentified (page 41).

2. Refer to Consolidation Study at 35. Provide the schedule entitled "GREC and HUEC Existing and Recommended Benefits Plan Design" that includes the estimated cost components and annualized premiums.

3. Refer to Consolidation Study at 37. What actions, if any, have the Applicants taken to develop a Special Early Retirement Plan?

4. Refer to Consolidation Study at 44.

a. How long will management staff continue to operate out of the Owensboro office?

b. What options have the Applicants considered concerning the future of the Owensboro office?

5. At pages 45 through 51 of the Consolidation Study, the potential benefits from the consolidation in various operational areas are identified. For each identified area, describe the actions that the Applicants currently plan to implement.

6. Refer to Consolidation Study at 52 - 55.

a. What rotation cycle for general capital credit retirements is currently used by

(1) Green River?

(2) Henderson Union?

b. What rotation cycle for general capital credit retirement will Kenergy Corp. use?

c. Will Kenergy Corp.'s rotation cycle for general capital credit retirements need to be extended because of the 4 percent revenue reduction that the Applicants have proposed? Explain.

d. (1) In light of the proposed 4 percent revenue reduction, will Kenergy Corp. have adequate cash reserves to pay out the anticipated $6.68 million in capital credit retirements modeled for 1999?

(2) If no, what is the amount of capital credits that Kenergy Corp. expects to retire?

7. The Consolidation Study indicates that Green River systematically rotates capital credits and discounts its payments to estates, while Henderson Union does not engage in any systematic rotation and makes 100 percent payments to estates. In this study, the National Rural Electric Cooperative Association ("NRECA") recommends that the consolidated cooperative adopt Green River's general retirement methodology and Henderson Union's estate payment policy.

a. Explain the basis for each approach to capital credit payments to deceased estates.

b. Why does the NRECA advocate following Henderson Union's policy of retiring capital credits to estates at the 100 percent level?

c. Is the NRECA generally opposed to discounting capital credits paid to estates?

d. Why does the NRECA recommend the use of Green River's systematic capital credit rotation methodology and Henderson Union's policy of 100 percent payments to deceased estates?

e. Does Kenergy Corp. plan to adopt the study's recommendation?

8. a. State what approvals, if any, of the proposed consolidation are required from:

(1) the National Bank for Cooperatives ("CoBank").

(2) the National Rural Utilities Cooperative Finance Corporation ("CFC").

(3) the Rural Utilities Service ("RUS").

b. If the proposed consolidation requires approval from any of the entities listed above, state the status of the Applicants' request for that approval as of April 19, 1999.

9. Refer to Consolidation Study at 57 – 58.

a. How was the impact of the "Reimbursement of General Funds" incentive modeled in the study's scenarios? If this incentive was not incorporated into the scenarios, why not?

b. How was the impact of the "Deferments of Interest and Principal" incentive modeled in the study's scenarios? If this incentive was not incorporated into the scenarios, why not?

10. Refer to Consolidation Study at 77 - 85.

a. Why does Scenario 1 (Immediate Phase-In – Tab 4) not include an adjustment to the base case related to capital credit retirements while Scenarios 2 (5-Year Phase-In – Tab 5) and 3 (10-Year Phase-In – Tab 5) do?

b. Why do the scenario analyses included at Tabs 4 through 6 not incorporate the reduction in minimum Times Interest Earned Ratio ("TIER") available under the RUS incentives?

c. If the scenario analyses included at Tabs 4 through 6 had incorporated the reduced minimum TIER requirements, would any of these scenarios have shown that a rate increase was required during the study period? Explain.

d. Why, if the scenario analyses contained at Tabs 7 through 9 were prepared to only reflect the impact of the 4 percent retail rate reduction, were each of the following changes also made:

(1) The minimum TIER was lowered to 1.00.

(2) The capital retirements were reduced to $33 million over the ten-year period.

11. Refer to Consolidation Study at 86.

a. Using the format found at page 86, provide a summary of the combined actual consolidation costs incurred by Green River and Henderson Union, as of April 19, 1999 or the most recent financial period for which information is available.

b. How do the Applicants plan to address these costs (i.e., expensing these costs or deferring and amortizing them over a specific period of time)? Explain.

12. Refer to Consolidation Study at Tab 1 ("Financial Forecast – RUS Form 325A – Ratios"). Provide a schedule that compares the 1998 forecast for the 16 items listed with Green River's actual financial results for 1998.

13. Refer to Consolidation Study at Tab 2 ("Financial Forecast – RUS Form 325A – Ratios"). Prepare a schedule that compares the 1998 forecast for the 16 items listed with Henderson Union's actual financial results for 1998.

14. a. Why were the analyses included with Consolidation Study based on 1997 actual financial data instead of 1998 actual financial data?

b. Why was the forecast period not extended to 2008?

15. Refer to Application at 7. Applicants state that Kenergy Corp. intends "to provide rate parity for all members within two (2) years from the effective date of the consolidation." How will this objective be achieved?

16. Refer to Consolidation Study at 31.

a. What positions will the proposed attrition process (including the Special Early Retirement Plan) eliminate?

b. Describe how these positions relate to the consolidated cooperative's managerial, technical and financial expertise.

17. Refer to the Application, Exhibit 2B ("Bylaws of Kenergy Corp.") at 3. Kenergy Corp.'s Board of Directors appoints the 10-district Member Resource Committee which in turn prepares a list of nominees for membership to the Board of Directors. Describe how members to the Member Resource Committee will be appointed.

18. Assume the Commission approves the proposed consolidation and that the consolidation occurs on July 1, 1999.

a. Describe all special closing financial statements, based on the 6 months ended June 30, 1999, that the Applicants intend to file with the Commission.

b. (1) What period would Kenergy Corp.'s 1999 Annual Report cover?

(2) How would Kenergy Corp.'s 1999 Annual Report address the Applicants' operations prior to July 1, 1999?

c. What effect will the consolidation have on the Applicants' investments in and membership with:

(1) Kentucky Association of Electric Cooperatives.

(2) United Utility Supply.

(3) CoBank.

(4) CFC.

d. Pending completion of a full year of consolidated operations, how will the RUS determine Kenergy Corp.'s compliance with its RUS mortgage financial ratio requirements?

e. Green River's last authorized TIER differs from Henderson Union's last authorized TIER. Which TIER will the Applicants consider as Kenergy Corp.'s authorized TIER until the consolidated cooperative's first general rate adjustment proceeding? Explain.

19. a. Has the size or representation on Big Rivers Electric Corporation's ("Big Rivers") Board of Directors changed as a result of its bankruptcy restructuring? If yes, describe these changes.

b. How many representatives do Green River and Henderson Union each currently have on the Big Rivers' Board of Directors?

c. How many representatives will Kenergy Corp. have on Big Rivers' Board of Directors?

d. (1) Do Big Rivers' current bylaws provide for the consolidation of two member cooperatives?

(2) (a) If yes, how?

(b) If no, have any revisions to Big Rivers' bylaws been proposed to address the Applicants' consolidation?

20. Refer to the Application, Exhibit 2B ("Bylaws of Kenergy Corp."), at 8.

a. Do the Applicants' current bylaws permit a retiring director to serve as a "director emeritus"? If yes, identify the cooperative and provide the pertinent section of its bylaws.

b. Why was the position of "director emeritus" created?

c. How many of the directors currently sit on either Applicant's Board of Directors and who will not sit on Kenergy Corp.'s Board of Directors and will assume the position of "director emeritus"?

d. Are the Applicants aware that the Commission normally does not consider expenses associated with "directors emeritus" as reasonable utility expenses for rate-making purposes?

e. What are the expected annual costs associated with the establishment of "director emeritus" positions? List these costs.

Done at Frankfort, Kentucky, this 6th day of May, 1999.

By the Commission

ATTEST:

Helen C Helton

Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

April 29, 1999

Honorable Frank N. King
Attorney at Law
Dorsey, King, Gray & Norment
318 Second Street
Henderson, KY. 42420

Dean Stanley
General Manager
Green River Electric Corporation
3111 Fairview Drive
P. O. Box 1389
Owensboro, KY. 42302 1389

Charlye Jo Griggs
Director of Office Services
Henderson Union Electric
Cooperative Corporation
6402 Old Corydon Road
P. O. Box 18
Henderson, KY. 42420 0018

RE: Case No. 99-136

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GREEN RIVER ELECTRIC CORPORATION AND HENDERSON UNION ELECTRIC COOPERATIVE CORP. FOR APPROVAL OF CONSOLIDATION	))))	CASE NO. 99-136

ORDER

IT IS HEREBY ORDERED that:

1. A hearing in this matter shall be held on May 20, 1999 at 1:00 p.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky.

2. All requests for information to Green River Electric Corporation and Henderson Union Electric Cooperative Corporation ("Applicants") shall be served upon Applicants no later than May 6, 1999.

3. Applicants shall file with the Commission and serve upon all parties of record its responses to the requests for information no later than May 17, 1999.

4. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to the questions related to the information provided, with copies to all parties of record and 10 copies to the Commission.

5. Applicants shall give notice of the hearing in accordance with the provisions set out in 807 KAR 5:011, Section 8(5). At the time publication is requested, they shall forward a duplicate of the notice and request to the Commission.

6. At any hearing in this matter, neither opening statements nor summarization of direct testimony shall be permitted.

7. Motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

8. All documents that this Order requires to be filed with the Commission shall be served upon all other parties by first class mail or express mail.

9. To be timely filed with the Commission, a document must be received by the Secretary of the Commission within the specified time for filing except that any document shall be deemed timely filed if it has been transmitted by United States express mail, or by other recognized mail carriers, with the date the transmitting agency received said document from the sender noted by the transmitting agency on the outside of the container used for transmitting, within the time allowed for filing.

10. Service of any document or pleading shall be made in accordance with Administrative Regulation 807 KAR 5:001, Section 3(7), and Kentucky Civil Rule 5.02.

11. The record of Case No. 97-156[1] is incorporated by reference into the record of this proceeding.

Done at Frankfort, Kentucky, this 29th day of April, 1999.

By the Commission

ATTEST:

Executive Director

[1] Case No. 97-156, The Application of Green River Electric Corporation and Henderson Union Electric Corporation for Approval of Consolidation.

DORSEY, KING, GRAY & NORMENT
ATTORNEYS-AT-LAW
318 SECOND STREET
HENDERSON, KENTUCKY 42420

JOHN DORSEY (1920-1986)
FRANK N. KING, JR.
STEPHEN D. GRAY
WILLIAM B. NORMENT, JR.
J. CHRISTOPHER HOPGOOD

TELEPHONE
(502) 826-3965
TELEFAX
(502) 826-6672

April 27, 1999

FAX NO. 502 - 564-7279
and CONVENTIONAL MAIL

Ms. Helen C. Helton
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40601

Re: Erratum Notice
Case No. 99-136

Dear Ms. Helton:

In reviewing the Application filed in this case we see that section (o) appears twice. The section (o) beginning at the bottom of page 8 was inadvertently included. We enclose herewith for filing new pages 8 and 9 of the application. Thank you for your assistance.

Very truly yours,

DORSEY, KING, GRAY & NORMENT

By Frank N. King

Frank N. King, Jr.

FNKJr/cds
Encls.
Copy/w/encls.: Mr. Dean Stanley
Mr. John West

accordance with law, for a proper purpose and is consistent with the public interest. Each of these categories is easily satisfied in the instant situation.

(n) Financially the new entity will inherit the strong financial positions of both applicants, intact. Following is some relevant financial information that has been extracted from the respective balance sheets:

	GREC	HUEC
Margins		
1998*	$3,507,583	$1,107,292
1997	$2,894,619	$ 934,938

*Excluding extraordinary non-cash deduction relating to write off of Big Rivers' capital credits.

	GREC	HUEC
Times Interest Earned Ratio (TIER)		
1998	2.62	1.92
1997	2.48	1.82
Average	2.55	1.87
Equity/Total Capital (Excluding G&T Capital Credits) @ December 31, 1998	42.64%	38.3%
Liquid Cash @ December 31, 1998	$4,519,912	$1,845,871

The applicants' balance sheets are on file with the Commission if review is desired. Obviously, with substantial savings expected in the future, Kenergy Corp. will have the financial ability to provide reasonable service.

(INTENTIONALLY LEFT BLANK)

(o) Following is a list with comment of some of the applicants' more significant assets that are technical in nature:

SCADA - GREC purchased a new SCADA System in the first quarter of 1996. The system consists of an Advanced Control Systems dual master station, front end processor and 24 Remote Terminal Units monitoring 23 substations. The Ethernet network system is an open system based on HP-UX 10.04 UNIX, with inter-networking with the Novell Network accomplished through a HP Bridge/Router. Oracle Relational Database

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

April 22, 1999

Honorable Frank N. King
Attorney at Law
Dorsey, King, Gray & Norment
318 Second Street
Henderson, KY. 42420

Dean Stanley
General Manager
Green River Electric Corporation
3111 Fairview Drive
P. O. Box 1389
Owensboro, KY. 42302 1389

Charlye Jo Griggs
Director of Office Services
Henderson Union Electric
Cooperative Corporation
6402 Old Corydon Road
P. O. Box 18
Henderson, KY. 42420 0018

RE: Case No. 99-136
GREEN RIVER ELECTRIC CORPORATION

The Commission staff has reviewed your application in the above case and finds that it meets the minimum filing requirements. Enclosed please find a stamped filed copy of the first page of your filing. This case has been docketed and will be processed as expeditiously as possible.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

Stephanie J. Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

DORSEY, KING, GRAY & NORMENT
ATTORNEYS-AT-LAW
318 SECOND STREET
HENDERSON, KENTUCKY 42420

JOHN DORSEY (1920-1986)
FRANK N. KING, JR.
STEPHEN D. GRAY
WILLIAM B. NORMENT, JR.
J. CHRISTOPHER HOPGOOD

TELEPHONE
(502) 826-3965
TELEFAX
(502) 826-6672

RECEIVED
APR 19 1999
PUBLIC SERVICE COMMISSION

FILED
APR 19 1999
PUBLIC SERVICE COMMISSION

April 16, 1999

FEDERAL EXPRESS

Ms. Helen C. Helton
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40601

Case No. 99-136

Re: Green River Electric Corporation and Henderson Union Electric Cooperative Corp.

Application for Consolidation

Dear Ms. Helton:

The members of both of the captioned cooperatives have approved consolidation and we enclose herewith application to the Commission for its approval. Ten (10) copies are being sent to you under separate cover.

Thank you for your assistance.

Very truly yours,

DORSEY, KING, GRAY & NORMENT

By Frank N. King

Frank N. King, Jr.

FNKJr/cds
Encls. -
Copy: Mr. John West
Mr. Dean Stanley

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-3460

Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

April 21, 1999

Frank N. King, Esq.
Dorsey, King, Gray & Norment
318 Second Street
Henderson, Kentucky 42420

Re: Case No. 99-136
Case No. 99-162
Green River Electric Corporation
Henderson Union Electric Cooperative Corporation

Dear Mr. King:

This letter confirms your telephone conversation of today with Susan Hutcherson regarding the above referenced cases. The Commission has established separate proceedings to address the proposed rate adjustment application and the proposed consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation. The utilities' joint application for Commission approval of their proposed consolidation has been docketed as Case No. 99-136. The proposed application for rate adjustment has been docketed as Case No. 99-162.

Any questions concerning this matter should be directed to Susan Hutcherson at 502-564-3940, Extension 215 or Gerald Wuetcher, Commission counsel at 502-564-3940, Extension 259.

Sincerely,

Stephanie J. Bell
Stephanie Bell
Secretary of the Commission

sh
cc: Dean Stanley
Charlye Jo Griggs

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

April 20, 1999

Honorable Frank N. King
Attorney at Law
Dorsey, King, Gray & Norment
318 Second Street
Henderson, KY. 42420

Dean Stanley
General Manager
Green River Electric Corporation
3111 Fairview Drive
P. O. Box 1389
Owensboro, KY. 42302 1389

Charlye Jo Griggs
Director of Office Services
Henderson Union Electric
Cooperative Corporation
6402 Old Corydon Road
P. O. Box 18
Henderson, KY. 42420 0018

RE: Case No. 99-136
GREEN RIVER ELECTRIC CORPORATION
(Transfer/Sale/Purchase/Merger) AND HENDERSON UNION ELECTRIC

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received April 2, 1999 and has been assigned Case No. 99-136. In all future correspondence or filings in connection with this case, please reference the above case number.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/jc

DORSEY, KING, GRAY & NORMENT
ATTORNEYS-AT-LAW
318 SECOND STREET
HENDERSON, KENTUCKY 42420
TELEPHONE
(502) 826-3965
TELEFAX
(502) 826-6672

JOHN DORSEY (1920-1986)
FRANK N. KING, JR.
STEPHEN D. GRAY
WILLIAM B. NORMENT, JR.
J. CHRISTOPHER HOPGOOD

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APR 19 1999
PUBLIC SERVICE COMMISSION

FILED
APR 19 1999
PUBLIC SERVICE COMMISSION

April 16, 1999

FEDERAL EXPRESS

Ms. Helen C. Helton
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40601

Case No. 99-136

Re: Green River Electric Corporation and Henderson Union Electric Cooperative Corp.

Application for Consolidation

Dear Ms. Helton:

The members of both of the captioned cooperatives have approved consolidation and we enclose herewith application to the Commission for its approval. Ten (10) copies are being sent to you under separate cover.

Thank you for your assistance.

Very truly yours,

DORSEY, KING, GRAY & NORMENT

By Frank N. King

Frank N. King, Jr.

FNKJr/cds
Encls. -
Copy: Mr. John West
Mr. Dean Stanley

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

RECEIVED
APR 1 9 1999
PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
GREEN RIVER ELECTRIC CORPORATION AND) **CASE NO.** 99-136
HENDERSON UNION ELECTRIC COOPERATIVE)
CORP. FOR APPROVAL OF CONSOLIDATION)

A P P L I C A T I O N

The petition of **GREEN RIVER ELECTRIC CORPORATION** and **HENDERSON UNION ELECTRIC COOPERATIVE CORP.** respectfully shows:

(a) Applicant Green River Electric Corporation ("GREC") is a nonprofit electric cooperative organized under KRS Chapter 279 and is engaged in the business of distributing retail electric power to member consumers in the Kentucky counties of Daviess, Hancock, Henderson, Hopkins, McLean, Muhlenberg, Ohio, Webster and Breckinridge.

Applicant Henderson Union Electric Cooperative Corp. ("HUEC") is a nonprofit electric cooperative organized under KRS Chapter 279 and is engaged in the business of distributing retail electric power to member consumers in the Kentucky counties of Henderson, Union, Webster, Hopkins, Crittenden, Caldwell, Lyon and Livingston.

(b) The post office address of GREC is Post Office Box 1389, Owensboro, Kentucky 42302-1389.

The post office address of applicant HUEC is Post Office Box 18, Henderson, Kentucky 42419-018.

(c) GREC's articles of incorporation, along with any amendments thereto, have been previously filed with the Public Service Commission of Kentucky (hereinafter "Commission") in Case No. 9439 and therefore are not annexed hereto.

HUEC's articles of incorporation, along with any amendments thereto, have been previously filed with the Commission in Case No. 91-334 and therefore are not annexed hereto.

Introduction

(d) In 1992 Congress adopted the Energy Policy Act which authorized and directed the Federal Energy Regulatory Commission's Orders No. 888 and 889, issued in April 1996. This legislation and the resulting orders intend to open transmission lines, generation and wholesale electric power to full competition. An increase in retail electric competition, commonly referred to as "retail wheeling," appears to be on the immediate horizon in some form or the other. Regardless of what the future holds for retail wheeling in Kentucky, competition will be more intense. Consolidation will enable the applicants to better compete in this environment.

(e) As of the end of 1998 GREC billed 30,378 consumers and HUEC billed 18,099 consumers, for a combined billing of 48,477 consumers. The applicants are each parties to long-term all requirements contracts (except for retail sales to two smelter customers whose contracts expire in the years 2010 and 2011) with their wholesale power supplier Big Rivers Electric Corporation

("Big Rivers"), both contracts expiring in the year 2023. Thus, the applicants' cost of wholesale power from Big Rivers is locked in for the foreseeable future.

(f) Applicants respectfully submit that a consolidation will lead to cost savings, efficiencies and improved centralized services through economies of scale. This will enable the applicants, as a unified entity to survive and better succeed in the rapidly developing retail electric market place, which will be beneficial to and in the best interests of the applicants' members.

Applicants' Previous Attempt to Consolidate

(g) The applicants sought approval of consolidation in 1997. The Commission approved consolidation by order dated May 27, 1997, in Case No. 97-156. However, consolidation was not approved by a majority of the members of each cooperative who subsequently voted on the issue; GREC's members approved the measure by a 468 to 170 vote, but HUEC's members failed to approve it, voting 230 against and only 217 in favor. In accordance with KRS 279.170, as it read in 1997, the members were required to be present and to vote at a meeting at which proposed consolidation was voted upon.

(As hereinafter set forth in paragraph (l), the members of both applicants have already approved the instant consolidation proposal.)

The Consolidation Study

(h) In the previous consolidation attempt National Rural Electric Cooperative Association ("NRECA") issued a Consolidation Study in October 1996. This study was revised and updated in January 1999 ("1999 Consolidation Study") in connection with the instant effort to consolidate. A copy of the 1999 Consolidation Study is appended hereto and incorporated by reference, marked "Exhibit 1."

(i) Three (3) consolidation model scenarios are developed in the 1999 Consolidation Study. Scenario 1 reflects the immediate impact of consolidation from year 1 through year 10 of the forecast period. This scenario projects a savings of $23,619,693. (See pages 77-78 and Tab 4 of 1999 Consolidation Study.)

Scenario 2 assumes a graduated ramping period of five (5) years to full realization of the expected benefits of the consolidation. A savings of $19,930,789 is projected. (See pages 79-80 and Tab 5 of 1999 Consolidation Study.)

Scenario 3 assumes a graduated ramping period of 10 years to the full realization. A savings of $14,517,340 is projected. (See pages 80-82 and Tab 6 of 1999 Consolidation Study.)

Consolidation Committee

(j) A Consolidation Committee was formed in November 1998 to again explore the consolidation of GREC and HUEC.

The Consolidation Committee was composed of two (2) members from each of the applicants' boards. The board chairmen and presidents of each applicant served as ex-officio members of the committee. The committee explored each facet of the proposed consolidation and made reports and recommendations to the respective boards. The committee's studies included initial and future composition of the new board of directors; proposed consolidation agreement, articles of consolidation and bylaws; the involvement of the Commission in the process; organizational structure; employee retention and compensation of benefits packages for employees; capital credits policy; potential tax consequences, if any (there are none); interplay with wholesale power supplier Big Rivers; electrical inspections; rates and services; centralization of services; and elimination of duplication.

<u>Consolidation Agreement</u>

(k) On January 23, 1999, NRECA consultant Austin Joseph Slater, Jr. presented the 1999 Consolidation Study to the joint boards, and following the presentation the applicants' respective boards of directors approved and authorized the applicants to enter into a Consolidation Agreement, an executed copy of which is appended hereto and made a part hereof marked "Exhibit 2." This Consolidation Agreement satisfies the requirements of KRS 279.170 and includes provisions for the following:

- The name of the proposed new entity is Kenergy Corp.

- The effective date of the consolidation will be the 1st day of July, 1999, subject to the Commission's approval.
- The principal place of business shall be the existing headquarters of HUEC, 6402 Old Corydon Road, Henderson, Kentucky 42420.
- The board of directors initially shall consist of the 17 members of the applicants' respective boards on the effective date of consolidation; under Article III, Section 2 of the proposed bylaws, which are attached as an exhibit to the Consolidation Agreement, the initial board shall serve until the third annual members' meeting following the consolidation, at which time the board will be reduced to 11 members, being 10 directors elected from districts and one (1) industrial director. The district directors initially will have one (1), two (2) and three (3) year terms and then staggered three (3) year terms thereafter; the industrial director will have a three (3) year term.
- GREC's current president and CEO, Dean Stanley, shall be the initial president and CEO. HUEC's current president and CEO John West shall serve as a special advisor to the board, at the pleasure of the board, following his retirement on July 1, 1999.
- All existing employees of GREC and HUEC initially shall be employees of the consolidated corporation; all pension plans and benefit packages shall remain intact.

- All capital credits which have been earned by the members of GREC and HUEC prior to the effective date of the consolidation shall be preserved unimpaired.
- Subject to Commission approval, rates for all non-direct served members will be reduced 4% for five (5) years after the effective date of consolidation (applicants have filed notice of intent to file application for rate reduction; the application for rate reduction will be filed as allowed by law). It is the objective of the new entity to provide rate parity for all members within a period of two (2) years from the effective date of consolidation.

Members Have Approved Instant Consolidation

(l) In the instant consolidation attempt the applicants submitted the issue to their respective members prior to filing this application with the Commission. The members were allowed to vote by mail ballot pursuant to an amendment to KRS 279.170 last year. The votes were tabulated on April 15, 1999, and the majority of the members voting on the issue from each applicant approved consolidation. GREC's vote was 11,346 to 1,283; HUEC's vote was 4,478 to 3,182.

The Requirements of KRS 278.020 Are Satisfied

(m) KRS 278.020(4) requires the Commission to grant its approval if the new entity has the financial, technical and managerial abilities to provide reasonable service. KRS 278.020(5) requires such approval if the consolidation is to be made in accordance with law, for a proper purpose and is consistent with the public interest. Each of these categories is easily satisfied in the instant situation.

(n) Financially the new entity will inherit the strong financial positions of both applicants, intact. Following is some relevant financial information that has been extracted from the respective balance sheets:

	GREC	HUEC
Margins		
1998*	$3,507,583	$1,107,292
1997	$2,894,619	$ 934,938

*Excluding extraordinary non-cash deduction relating to write off of Big Rivers' capital credits.

	GREC	HUEC
Times Interest Earned Ratio (TIER)		
1998	2.62	1.92
1997	2.48	1.82
Average	2.55	1.87
Equity/Total Capital (Excluding G&T Capital Credits) @ December 31, 1998	42.64%	38.3%
Liquid Cash @ December 31, 1998	$4,519,912	$1,845,871

The applicants' balance sheets are on file with the Commission if review is desired. Obviously, with substantial savings expected in the future, Kenergy Corp. will have the financial ability to provide reasonable service.

(o) Following is a list with comment of some of the applicants' more significant assets that are technical in nature:

SCADA - GREC purchased a new SCADA System in the first quarter of 1996. The system consists of an Advanced Control Systems dual master station, front end processor and 23 Remote Terminal Units monitoring 22 substations. The Ethernet network system is an open system based on HP-UX 9.0 UNIX, with internetworking with the Novell Network accomplished through a HP Bridge/Router. Oracle Relational Database Management System software is used to retain Historical data. HUEC purchased a SCADA system upgrade in the first quarter of 1996. The system consists of a Landis and Gyr master station and 22 Remote Terminal Units monitoring 15 substations. Both systems communicate with the Remote Terminal Units through each corporation's 2 GHZ. Microwave system. The systems are linked through a wide area network with Big Rivers' Harris EMS system.

(o) Following is a list with comment of some of the applicants' more significant assets that are technical in nature:

SCADA - GREC purchased a new SCADA System in the first quarter of 1996. The system consists of an Advanced Control Systems dual master station, front end processor and 24 Remote Terminal Units monitoring 23 substations. The Ethernet network system is an open system based on HP-UX 10.04 UNIX, with inter-networking with the Novell Network accomplished through a HP Bridge/Router. Oracle Relational Database

Management System software is used to retain Historical data. HUEC purchased a SCADA system upgrade in the first quarter of 1996. The system consists of a Landis and Gyr master station and 22 Remote Terminal Units monitoring 15 substations. Both systems communicate with the Remote Terminal Units through each corporation's 2 Ghz microwave system. The systems are linked through a wide area network with Big Rivers' Harris EMS system. Both GREC and HUEC are in process of upgrading for Y2K readiness.

LOCAL AREA NETWORK - GREC's corporate Local Area Network (LAN) consists of a 50 user Novell 4.01 server for printer, file, and shared services and a 25 user Novell 3.12 server for Geographic Information System and Oracle Relational Database services. HUEC's corporate Local Area Network consists of a 20 user Novell 3. 11 server for Geographic Information System and Oracle Relational Database Services. The file server is scheduled for replacement in Spring 1999 to a Windows NT 4.0 platform with 25 users. Both systems are 16 Mbps Token Ring networks, and have terminal and data transfer access with each corporation's AS-400 mini computer system, GREC also being able to transfer data with the SCADA system. Four of GREC's network terminals can also provide X Window terminals to the SCADA system. Internet access is available to network users at both GREC and HUEC.

AS-400 - Both GREC and HUEC utilize AS-400 mini computers for Membership, General Ledger, Accounts Receivable, Accounts Payable, Purchasing, Project Accounting, Engineering, Metering, Marketing, Outage, Transformer, and Vehicle programs are also in place at both locations. Both systems are connected to Big Rivers through microwave communications. Big Rivers provides all AS-400 programming for both corporations, utilizing the same data structures and menu's for both.

GEOGRAPHIC INFORMATION SYSTEM (GIS) - Both applicants have a GIS based on software purchased through Central Area Data Processing Cooperative. AutoCAD is used as the graphical input to the Oracle relational database network server. The GIS systems are used to provide maps of all types, engineering data, support system load studies, provide data for support of marketing, accounting and data exchange with the AS-400 system. GREC's system has the capability to share GIS information with the SCADA system through internetwork queries of the Oracle Database Servers.

MICROWAVE SYSTEM -The GREC 2 Ghz microwave system uses a Big Rivers' super group as a backbone to service three branch offices, 3 mobile radio repeaters, and 22 substations. There are 38 channels of the 56 channel system in use with 28 hops. The HUEC 2 Ghz microwave system uses a Big Rivers' super group as a backbone to service one branch office, 4 mobile radio repeaters, and 14 substations. There are 25 channels of the

48 channel system in use with 14 hops. A 960 MHZ microwave hop is used to communicate with a 15th substation.

MOBILE RADIO SYSTEM - HUEC mobile radio system is a 4 voting repeater system with one as spare operating at 800 MHz using two sets of frequencies. There are 56 mobile units and 13 hand held units. GREC mobile radio consists of four repeaters operating at 450 MHz using two sets of frequencies. There are 76 mobile units and 26 hand held units.

TELEPHONE SYSTEM - HUEC PBX is digital with 48 digital extensions, 40 analog connections and 12 incoming lines. HUEC has 1 tie line to Big Rivers and 2 tie lines to its Marion office. GREC PBX is digital with 111 extensions, 84 other connections and 41 incoming lines. The existing unit can be expanded to 432 line connections. GREC has 3 tie lines to BREC and 2 data lines to each branch office. GREC has electronic voice mail for each extension. GREC PBX has 18 ACD (automated call distribution) groups.

Consolidation of the two systems would offer many technological advantages. The applicants see an opportunity to greatly enhance customer service by creating a centralized "on-call" center. This center could serve as a central dispatch where service restoration for customers as well as other service requests are coordinated. This center would be equipped with a SCADA (Supervisory Control and Data Acquisition system), a two-way radio system, and other equipment which would result in faster service restoration, better response to construction requirements and more effective day-to-day operation.

Construction/System Improvement - Combining the two organizations would result in 8 bucket trucks and 14 digger derrick trucks, all committed to construction and maintenance. There would be 2 track vehicles with bucket attachments used for off-road construction and maintenance, resulting in a high degree of flexibility during inclement weather or poor ground conditions; 6 trenchers with trailers, and 1 backhoe used in underground construction and maintenance along with other miscellaneous equipment such as cable fault finding equipment and cable locators. Combining this equipment would result in more efficient use of resources and better service to the customer.

Right-of-Way Maintenance - Consolidating the right-of-way maintenance programs and developing a system-wide approach to clearing would result in more efficient use of personnel and equipment. Presently, 5 bucket trucks equipped with chippers, 1 spare chipper, 1 split dump truck, 1 Klearway machine (10' cutter head), 2 tractor trailer vehicles with 70 ton plus capacity, 2 chemical spray rigs mounted on 2 four-wheel drive vehicles & 1 portable spray rig, 1 four-wheel drive 3/4 ton pick up truck, and other chemical application equipment are being used.

Customer Service - Combining these two areas would result in the availability of 7 small bucket trucks (less than 40' height), 14 service trucks, 3 all-terrain six-wheel drive vehicles, 1 small track vehicle, and numerous other items. Coordinating the use of this equipment under a combined system would result in better utilization and could result in less equipment needs.

Substation and Oil Circuit Recloser Maintenance - Both systems own equipment to service and maintain oil circuit reclosers. Electronic equipment used to test, coordinate, and operate substation transformers, regulators, and oil circuit reclosers, SCADA, and microwave systems are being utilized by technicians to maintain the system coordination and operations. Some reduction in equipment could result in a consolidated system. At present, 2 portable substation transformers are available in the two systems (1 with a maximum of 20 MVA capacity and the other with 12 MVA capacity). These two units give the combined system a high degree of flexibility and customer service reliability.

Metering - Meter installation, testing, and maintenance is performed by in-house personnel at GREC. HUEC functions similarly, except their residential meters are tested by an outside contractor. Two fixed meter testing facilities and 2 portable test units are being used by personnel to maintain meter accuracy and to comply with regulatory requirements. Four vehicles are assigned to this section.

Electronic Technicians - Electronic technicians are responsible for installation and maintenance of all electronic equipment. Numerous electronic test equipment exists and is being used daily to maintain the accuracy of the electronic equipment for both in-house and field installations.

Clearly, Kenergy Corp. will have the technical ability to provide reasonable service.

(p) Managerially the new entity initially will benefit from the combined experience of Dean Stanley and John West who have combined management experience in the electric cooperative program of approximately 54 years. Mr. Stanley will become president and CEO of Kenergy and Mr. West will serve as advisor to the board, at the pleasure of the board, following his retirement on July 1, 1999. The requirement to have management ability to provide reasonable service is satisfied beyond question.

(q) The consolidation is being made in accordance with law. KRS 279.170 addresses the consolidation of cooperatives. Initially Kenergy Corp. will have 17 directors whose names appear in the Consolidation Agreement. Eventually this number will be reduced to 11. Annual meetings of the members are addressed in the proposed bylaws. The members of the applicants have approved consolidation by a majority vote of the members of each applicant voting by mail ballot, as permitted under the respective bylaws of each applicant. The proposed articles of consolidation are attached as "Exhibit A" to the Consolidation Agreement and the proposed bylaws are attached as "Exhibit B."

The Commission's approval of the consolidation will complete the prerequisites for the consolidation being made in accordance with the law.

(r) The consolidation will lead to cost savings, efficiencies and improved centralized services through economies of scale. The applicants do not perceive any negative factors associated with the proposed consolidation. Clearly the consolidation is to be made for a proper purpose and will be consistent with the public interest.

Information to Members

(s) Prior to the ballots being mailed to the members, the applicants conducted a media campaign to inform members about the proposed consolidation. Preston-Osborn Research of Lexington, Kentucky, was hired to conduct this campaign, which included bill-inserts, direct mail to members, information in the monthly magazine Kentucky Living, telephone banks and radio and newspaper advertising. Presentations were also made to local civic clubs. The customer information campaign resulted in 51% of the GREC members voting and 55% of the HUEC members voting.

Filed Testimony

(t) The applicants tender herewith the testimonies of John West ("Exhibit 3") and Dean Stanley ("Exhibit 4"). These testimonies supplement the contents of this application which is verified under oath by these two (2) persons. The testimonies offer the personal views on relevant matters and conclude with the opinions that the consolidation will be in the best interest of the members.

WHEREFORE, applicants respectfully request that the Commission enter an order granting approval of the proposed consolidation and the applicants further request all proper relief.

DORSEY, KING, GRAY & NORMENT
318 Second Street
Henderson, Kentucky 42420
(502) 826-3965 Telephone
(502) 816-6672 Telefax
Attorneys for Applicants

By Frank N. King
FRANK N. KING, JR.

VERIFICATION

The undersigned, DEAN STANLEY, being first duly sworn states that he is the Manager and Chief Executive Officer of Green River Electric Corporation; that he has personal knowledge of the matters set forth in the foregoing application; and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

Dean Stanley
Dean Stanley

STATE OF KENTUCKY

COUNTY OF DAVIESS

Subscribed, sworn to and acknowledged before me by DEAN STANLEY this 15th day of April, 1999.

My commission expires September 29, 2001

Charla D. Smithhart

Notary Public, State of Kentucky at Large

(seal)

VERIFICATION

The undersigned, JOHN WEST, being first duly sworn states that he is the President and Chief Executive Officer of Henderson Union Electric Cooperative Corp.; that he has personal knowledge of the matters set forth in the foregoing application; and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

John West

John West

STATE OF KENTUCKY

COUNTY OF HENDERSON

Subscribed, sworn to and acknowledged before me by JOHN WEST this 15th day of April, 1999.

My commission expires September 29, 2001

Charla D. Smithhart

Notary Public, State of Kentucky at Large

(seal)

RECEIVED
APR 1 9 1999
PUBLIC SERVICE COMMISSION

99-136

Green River Electric Corporation

and

Henderson Union Electric Cooperative

Consolidation Study

Issued: **October 1996**
Revised & Updated: **January 1999**

National Rural Electric Cooperative Association
4301 Wilson Blvd.
Arlington, VA 22203

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Introduction

The electric industry in the United States is rapidly undergoing fundamental change and re-regulation towards a competitive or market based environment, driven in large part by expected price cuts to commercial and industrial customers. Much of the current restructuring began with the Public Utilities and Regulatory Policies Act (PURPA) of 1978 enabling non-utility generators to provide electric energy to the nation's power grid. More recently and significantly, in 1992 Congress adopted the Energy Policy Act (EPAct) which directed and authorized the Federal Energy Regulatory Commission's Orders number 888 and 889, issued in February 1996. This legislation and the resulting orders intend to open transmission lines, generation and wholesale electric power to full competition. As the much anticipated benefits of competitively priced wholesale power develop, state legislators and regulatory commissions are moving at various speeds to the consideration and/or adoption of retail electric competition (also referred to as "retail wheeling"). California, Pennsylvania, Rhode Island and Michigan are among states that have now adopted retail competition. Virtually every state has ongoing legislative or regulatory study groups evaluating retail competition. Federal legislation to mandate nationwide retail competition, entirely eclipsing the state movement to this end, is also gaining momentum. Kentucky has an active study committee looking into restructuring.

The electric utility industry is responding to the introduction of direct competition in a variety of fashions. In particular, cost reduction and price control is one strategy considered essential to success and survival in the rapidly developing retail electric market place. Economies of scale are proven and documented in the electric industry, and most especially for rural electric cooperatives. Industry cost-curves demonstrate the significant and precipitous reduction in cost in a variety of expense categories as size (measured in number of customers) increases. CFC alone advises that merger activity among its cooperative members is at an all-time high. Many of these studies moved forward to successfully embrace real cost savings through consolidation. In addition to cost savings, industry leaders also visualize the qualitative aspects of increased mass and specialization, realizing improved customer service and enhanced system reliability.

The notion of exploring the attributes of a potential consolidation of Green River Electric Corporation (GREC) and Henderson Union Electric Cooperative (HUEC) did indeed begin with two industry leaders: Dean Stanley and John West, Managers of the two systems. Informal discussions between the managers, and with Board Members who were similarly compelled to consider consolidation as a means to further identify both cost savings and service improvements for their members, led to the consideration of further analysis of the combination.

As a result, on May 31, 1996 representatives from NRECA and CFC were invited to make presentations to a specially called joint-Board meeting of the two cooperatives. Both General Managers and the executive staff of each organization also participated in this first meeting. CFC representatives led with a presentation of the results of their consolidation model. This model outlined significant cost savings as a combined GREC - HUEC organization. NRECA representatives then reviewed their methodology for professional study and implementation consultation services. This initial CFC/NRECA analysis and presentation is considered Phase I of a five-phase process. Given the strong evidence of value and reasonable potential presented at this meeting, after brief individual meetings, the two Boards voted to secure NRECA's services and initiate the detailed study of a proposed consolidation. This report (updated and revised January, 1999) is the product of the Phase II and elements of the Phase III consolidation study.

A separate survey of the two Boards was conducted by NRECA and delivered during the study period. Topics such as Board structure, organizational alignment, management and personnel considerations, and industry issues were explored with each Board member. Opinions and experiences were offered by the Board Members which were extremely valuable in reaching many of the recommendations presented herein.

Both GREC and HUEC Boards negotiated and adopted a merger agreement. The respective memberships were presented with this question for a vote at separate annual meetings in June 1997. The GREC membership adopted the merger by a wide majority; however, the HUEC vote was approximately 13 votes short of adoption. Limited participation in the vote, as a result of the requirement to vote "in person", was noted as a shortcoming in the process. Legislative changes were made to allow for "mail-in" voting in order to allow a larger number of members to participate in the vote. Subsequently, the Boards and CEO's of GREC and HUEC reinitiated merger discussions and requested NRECA to revise and update the consolidation study.

This report presents the revised and updated findings and recommendations of the NRECA Management Consulting Group, Merger and Consolidation Team on the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative.

Special legal consultation was provided by Frank N. King, Jr., Esquire, legal counsel for the two cooperatives. His professional and thoughtful assistance are greatly appreciated.

Most important and critical throughout the development of this study, however, has been the unselfish and tireless cooperation of the staff and employees of GREC and HUEC. The professionalism and insightful contribution by the personnel of these two fine cooperatives was truly exceptional.

Organizational Elements

Bylaws

The following analysis and commentary was prepared by Frank N. King, Jr., Esquire of Dorsey, Sullivan, King, Gray & Norment, Henderson, Kentucky.

There are many similarities between the bylaws of the two cooperatives. Among the similarities are the following (some of these provisions are required by law, others are optional):

- Annual meeting of members
- Special meeting of members following notice
- Nomination of Board members may be made by 15 members
- Creation of a credentials and election committee if a race is contested
- Board members are voted on by written ballot; proxy voting prohibited
- Board member has three-year term
- Board of Directors has monthly meetings
- Manager is called President

Set forth below are the headings of articles from each set of bylaws and a listing of the differences that need to be reconciled in the event of consolidation.

Article	GREC	HUEC
Members (GREC Art. 1 and HUEC Art. I)	Person automatically becomes a member when electric service is rendered	Outlines procedure for becoming a member
	Membership fee is stated	Membership fee is not

Article	GREC	HUEC
	to be $5.00	stated but determined by resolution (currently $25)
	Nothing stated about husband and wife being joint members	Provides for joint members
	Nothing stated	Members able to remove Directors for cause provided petition signed by at least 10% of the members and a hearing procedure is followed
	Quorum = 75 members	Quorum = 150
Meetings of Members		
(GREC Art. II and HUEC Art. II	Chairman, Board of Directors or 10% of members may call special meeting	At least three Directors or 10% of members may call special meeting
	Notice of meeting is given by newspaper ad in each county of service at least 5 days but not more than 30 days preceding meeting	Notice may be given personally or by mail not less than 14 nor more than 30 days before the meeting
	Voting by mail ballot allowed. Voting by proxy prohibited.	Voting by mail ballot allowed.
	No provision	Provision for "legitimate proposal" to be placed on the agenda of an annual meeting by a member filing such not more than 120 days nor less than 85 days prior to the meeting
Directors (GREC Art. III and HUEC Art. III)	8 Directors, 7 territorial and 1 industrial	9 Directors, 3 from each of 3 districts
	Provision for a retiring	No provision

Article	GREC	HUEC
	Director/emeritus	
	Nominations by the district and industrial resource committees	Nominations by petition only; not more than 120 days nor less than 85 days prior to the annual meeting.
Meetings of Directors (GREC Art. IV and HUEC Art. IV)	Monthly meeting date stated	Directors decide the meeting date by resolution
	Special meetings may be called by the chairman or any two Directors	Special meetings may be called by the chairman or any three Directors
	Two day notice for special meeting	Five day notice for a special meeting
Officers (GREC Art. V and HUEC Art. V)	Provides for president (act as chief executive), chairman, vice chairman, secretary, treasurer and assistant secretary; President and assistant secretary do not have to be members of the Board.	Provides for president (designated CEO), chairman, vice chairman, secretary and treasurer; all officers must be members of the Board of Directors except the president
	Salaries of the officers fixed by the Board of Directors	No comparable provision

Contracts, checks and deposits (GREC Art. VI and HUEC Art. VI)	Differences insignificant	Differences insignificant
Membership (GREC Art. VII, Membership Certificates HUEC Art. VII)	Does not provide for repayment to member upon withdrawal or termination of membership (in practice repayments are made)	Provided
Nonprofit Operation (GREC Art. VIII Revenues and receipts	Very detailed and specific about patronage capital	General and abbreviated

HUEC Art. VIII)		
	No provision	Provision for patronage refunds in connection with furnishing goods and services other than electric energy
Waiver of Notice (GREC Art. IX and HUEC Art. IX)	Differences in wording, substance the same	Differences in wording, substance the same
Fiscal Year (GREC Art. X and HUEC Art. XI)	Calendar year	Calendar year
Seal (GREC Art. XI and HUEC Art. XIII)	Identical corporate seal	Identical corporate seal
Amendments (GREC Art. XII and HUEC Art. XIV)	No requirement	Notice of intended amendment to be in the notice of the meeting
Indemnification of Directors, etc. (GREC Art. XIII)	Provisions for indemnification, advance of expenses and purchase of insurance	No comparable article
Disposition of property (HUEC Art. X)	No comparable article	Restricts its ability to sell, mortgage, lease or encumber any of its property
Member in other organizations (HUEC Art. XII)	No comparable article	May not purchase stock in any for profit organization without an affirmative vote of the Board
Rules of order (HUEC Art. XV)	No comparable article	Roberts Rules of Order

Board of Directors

The following table lists the number and representation of the current Board structure.

	GREC	HUEC
Directors	7 territorial 1 Industrial Representative	9 territorial
Representation	7 districts, 1 Director/district	3 districts, 3 Directors/district
Term Limits	No	No

The consolidated organization should have a Board of Directors comprised of both current Boards of GREC and HUEC. The practice of appointing an Industrial Representative to the Board (although a recent action) should continue, bringing the total to 17 Board members of the combined organizations.

As part of the consolidation agreement, the Boards have agreed to serve for a period of three years to ensure a smooth transition to the consolidated structure. At the end of three years the Board will reduce in size to 11 members total (ten elected Directors). This will be accomplished by holding an election for all elected Directors at the third annual meeting following consolidation. At that time four Directors should be elected for a 1-year term, three Directors elected for a 2-year term and three Directors elected for a 3-year term.

Year	1999	2000	2001	2002
	1	2	3	4
Elected Directors	16	16	16	10 Note: 3@1 -year terms 3@ 2-year terms 4@ 3-year terms
Industrial Representative	1	1	1	1
Total Directors	17	17	17	11

In preparation for the transition to a ten-member elected Board, a Board committee should be established to design one district for each of the ten elected Directors. Each district should be based on population and should represent one-tenth of the total membership of the consolidated cooperative, following boundaries of political sub-divisions and geographic features to the extent practicable. John West, in his recommended capacity as Special Advisor to the Board of Directors, may head-up this project.

Director Compensation and Benefits

The current Director compensation package is illustrated in the following table. There are some differences which should be addressed for all of the Directors of the consolidated organization.

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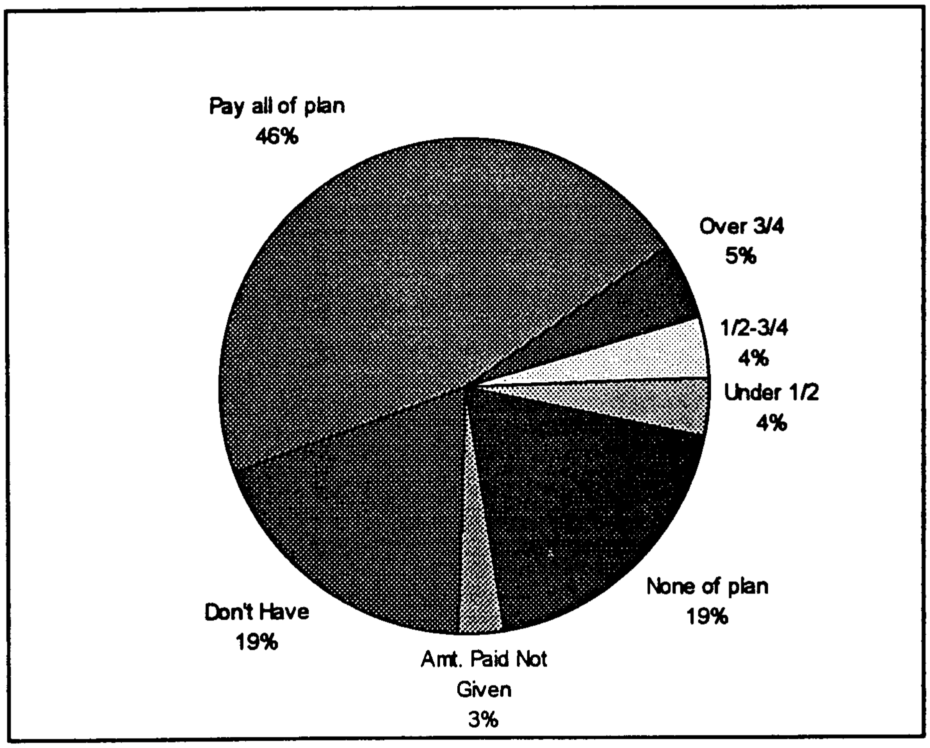
GREC and HUEC Director compensation packages can be compared with results from the 1995 NRECA Director's Compensation and Benefits Survey.

Regular Board Meeting Compensation

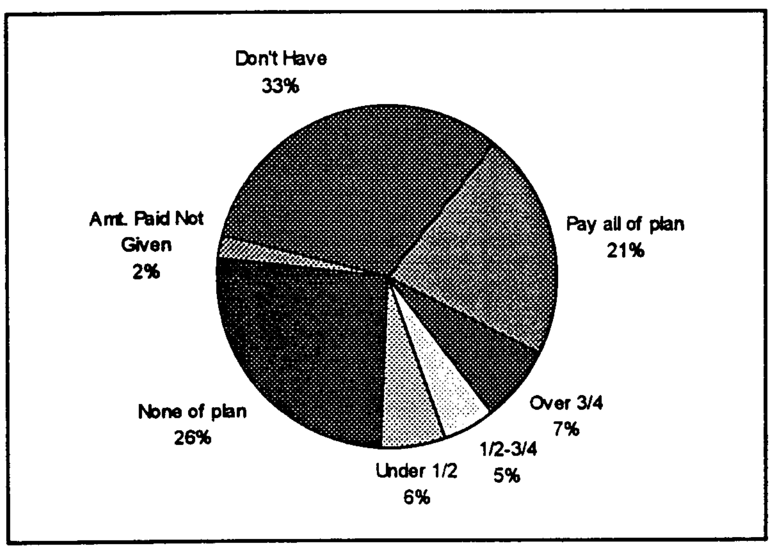
Category	Count	Percent
None	3	.4%
$75 or less	144	21.5%
$76 - $100	178	26.5%
$101 - $125	78	11.6%
$126-$200	174	25.9%
Over $200	75	11.2%
No Response	19	2.8%
Total	671	100.0%

Insurance Plan Availability for Directors
How Much Does the Cooperative Pay?

Insurance Plan Availability for Directors
How Much Does the Cooperative Pay?



Insurance Plan Availability for Dependents of Directors
How Much Does the Cooperative Pay?



Review of the survey data indicate that GREC and HUEC's current plans with respect to payment of insurance premiums and compensation is at a reasonable and competitive level (approximately third quartile).

The Director compensation and benefit package for the consolidated organization should be designed to encompass the best features from the current plans at GREC and HUEC (see RS&I proposal). The policy should be honored for currently qualified incumbents but future obligations under this policy should be eliminated.

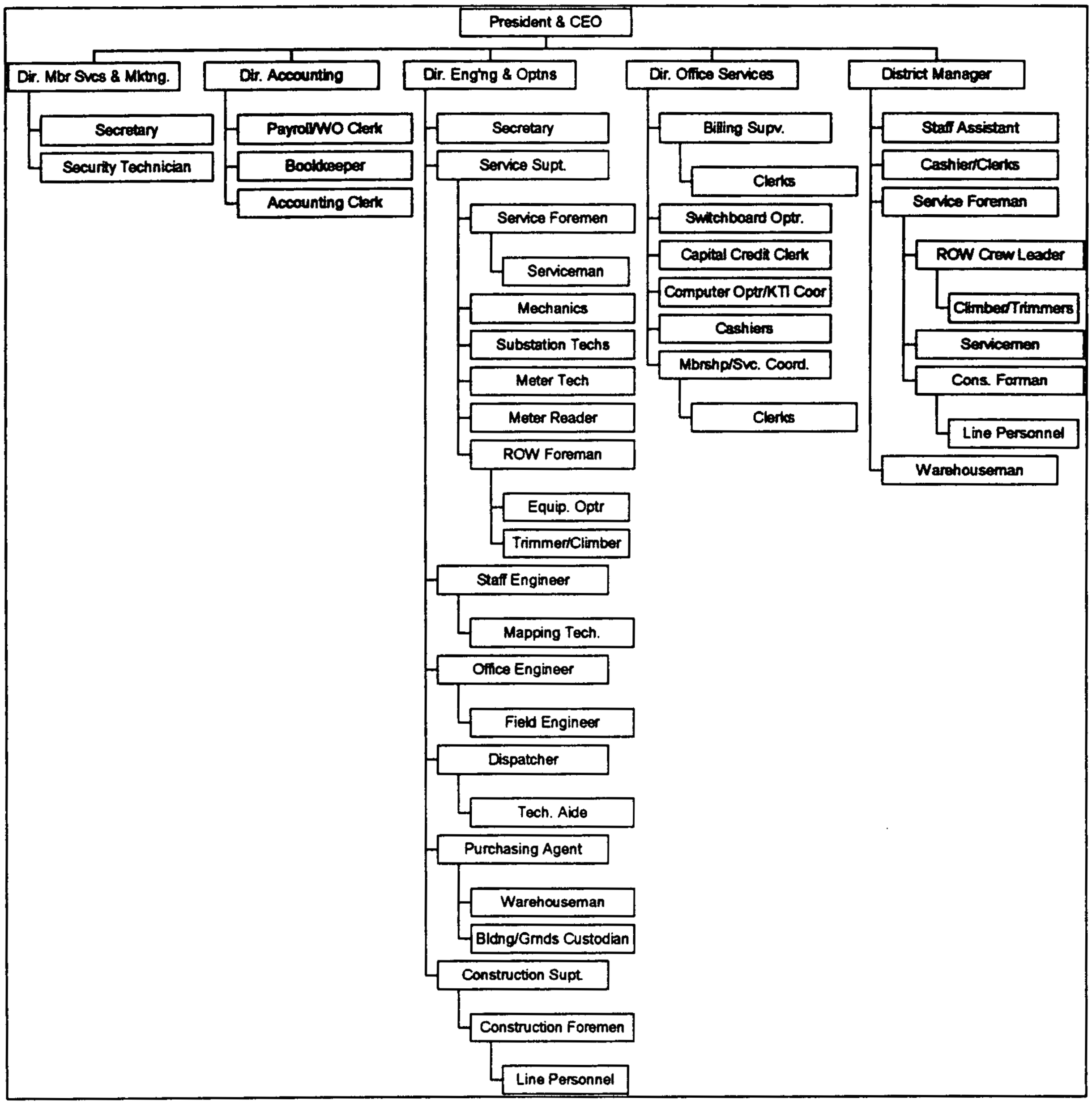
Recommended Compensation and Benefits Plan

Type	Benefit
Medical	100% premiums paid for Director and dependents
Dental	Co-op paid for Director, 1/2 premium for dependents
24 hr accident	$10,000
Business travel	$100,000
Compensation	$200/Board meeting $100/travel day
Per diem	Expenses paid. IRS allowed mileage rate for business travel
Life	$5,000

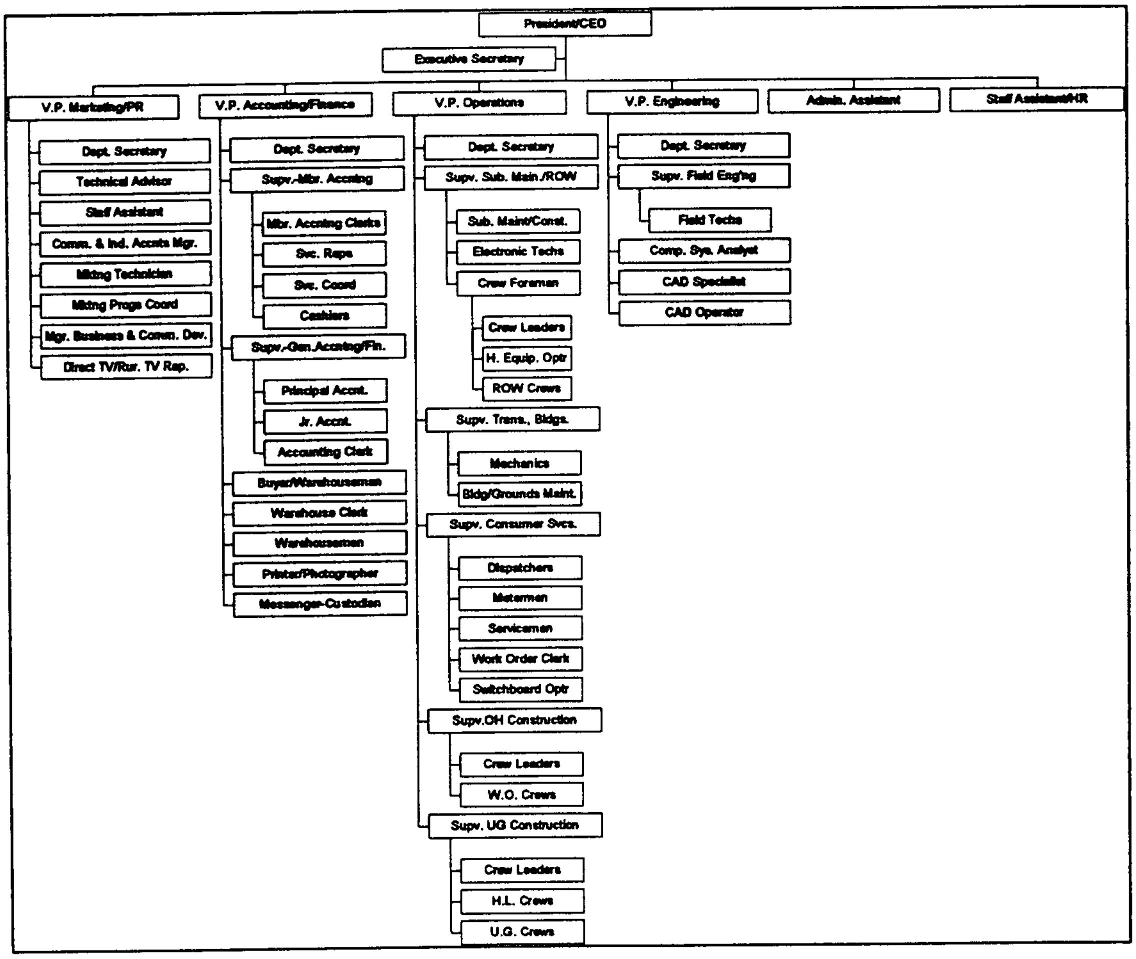
Organizational Structure

Current Organization Structure

HUEC Organization Structure



GREC Organization Structure

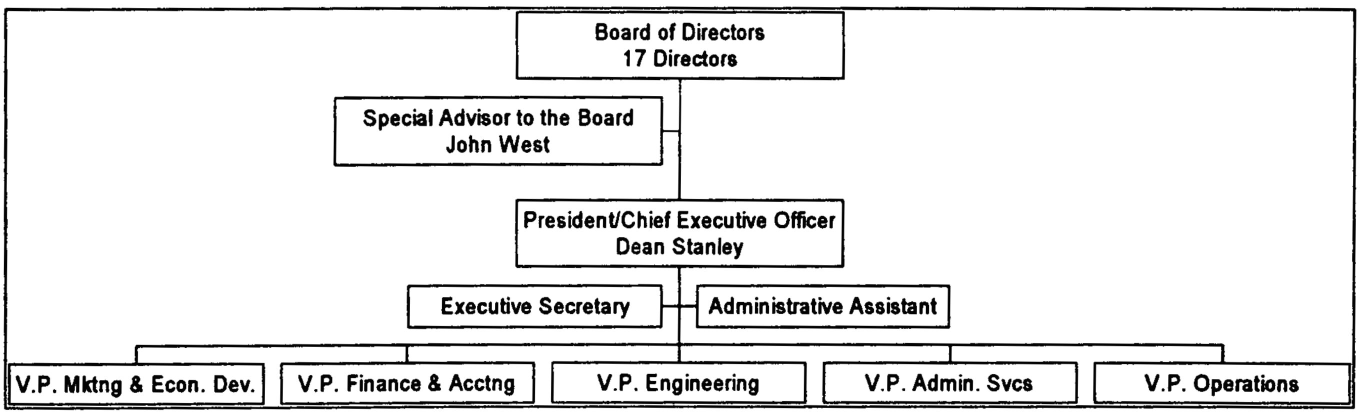


Proposed Executive Tier

Currently HUEC operates an executive level with five direct report positions while GREC functions similarly, but with seven direct report positions. The following recommended structure features executive positions for both of the incumbent managers with a Chief Executive Officer (CEO) and seven direct report positions.

Based on discussions with both Boards, we recommend that the Chief Executive Officer be Dean Stanley with an executive level utilizing the following initial management structure.

Combined Organizations
Initial Management Structure



In deference to Mr. West's intention to retire in 1999 his skills should be retained into the new organization with a role as Special Advisor to the Board of Directors for a period of one year. A recommended job description follows:

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Proposed Organizational Structure

One of the most significant cost savings realized from a consolidation comes from the reduction in human resource requirements for the new organization. Since there is an understanding that there would be no staff reduction as a result of a consolidation we have combined the two organizations using the current number of incumbents without any reduction in workforce. By the end of the study period (2007), however, we anticipate a reduction of the direct report and other positions to reflect an organizational streamlining and a realization of the human resource savings of consolidation (see future organization schematic).

In the following schematic our objective was to utilize all employees and where possible, add services to the consumer with a minimal disruption of the work force. Initially, it should be understood that there could be job changes or re-classifications and/or transfers in location. Other than the CEO, no assumptions have been made regarding the incumbents of the combined organization structure. Only the CEO of the new organization should make the decision on individual assignments.

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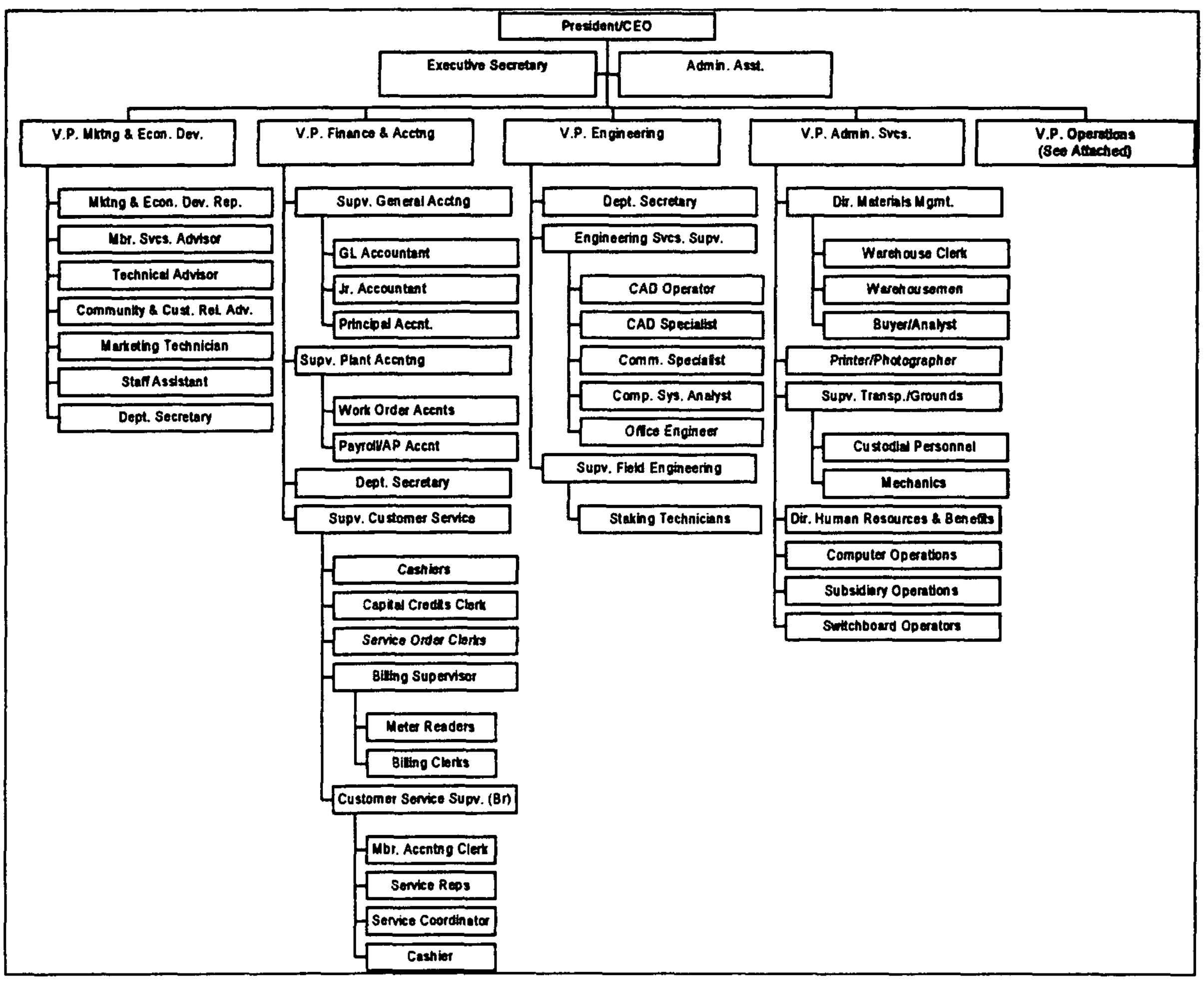
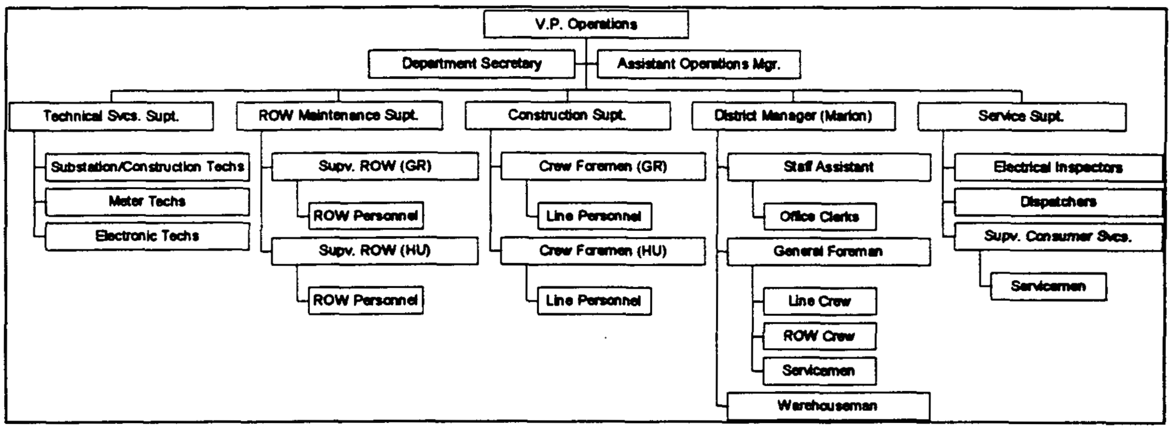
GREC/HUEC
Consolidated Organization Schematic





Base Case Employee Growth by 2005

The utilization of the consumers per employee ratio provides the best common denominator for comparison and anticipating future employee requirements. Combining the 1997 Power Requirements Study from each respective system projected consumer size provides the basis for calculating the "base case" employee requirements.

GREC's historical and forecasted consumer growth is displayed in the following table. Currently, GREC operates with a consumers/employee ratio of 262. Assuming that GREC would have maintained a similar ratio, we can forecast the number of employees for each year, reaching a total projected employee size of 139 by the year 2007.

GREC Historical and Projected Employee Size
(Constant Consumers/Employee Ratio)

GREC		Consumers	GREC Employees	Con/Employee
Reported	1997	29,288	112	262
Forecasted	1998	30,066	115	262
Forecasted	1999	30,851	118	262
Forecasted	2000	31,559	121	262
Forecasted	2001	32,283	123	262
Forecasted	2002	32,958	126	262
Forecasted	2003	33,645	129	262
Forecasted	2004	34,342	131	262

GREC		Consumers	GREC Employees	Con/Employee
Forecasted	2005	35,052	134	262
Forecasted	2006	35,773	137	262
Forecasted	2007	36,438	139	262

HUEC's historical and forecasted consumer growth is also displayed in the following table. Currently, HUEC operates with a consumers/employee ratio of 226. Assuming that HUEC would have maintained a similar ratio, we can forecast the number of employees for each year, reaching a total projected employee size of 92 by the year 2007.

HUEC Historical and Projected Employee Size
(Constant Consumers/Employee Ratio)

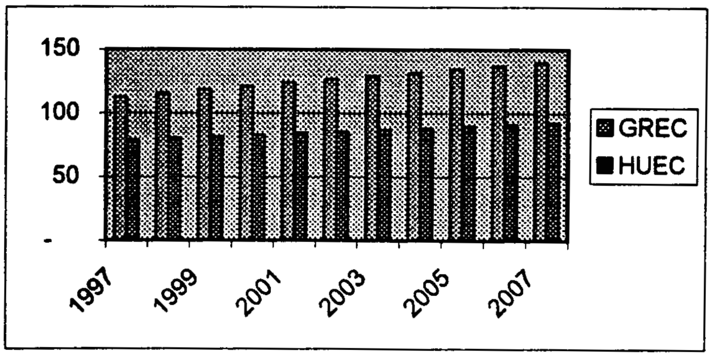
HUEC		Consumers	HUEC Employees	Con/Employee
Reported	1997	17,823	79	226
Forecasted	1998	18,189	80	226
Forecasted	1999	18,483	82	226
Forecasted	2000	18,781	83	226
Forecasted	2001	19,083	84	226
Forecasted	2002	19,367	86	226
Forecasted	2003	19,657	87	226
Forecasted	2004	19,949	88	226
Forecasted	2005	20,246	90	226
Forecasted	2006	20,548	91	226
Forecasted	2007	20,830	92	226

Combining the forecasted employee sizes for both organizations establishes a "base case" organizational size of 224 by 2005; assuming no consolidation would have occurred and the consumers per employee ratios remain relatively the same as now.

Combined Systems Employee Forecast

GREC					HUEC			Combined	Combined
		Consumers	REC Employee	Con/Employee	Consumers	HUEC Employees	Con/Employee	Consumers	Employees
Reported	1997	29,288	112	262	17,823	79	226	47,111	191
Forecasted	1998	30,066	115	262	18,189	80	226	48,255	195
Forecasted	1999	30,851	118	262	18,483	82	226	49,334	200
Forecasted	2000	31,559	121	262	18,781	83	226	50,340	204
Forecasted	2001	32,283	123	262	19,083	84	226	51,366	208
Forecasted	2002	32,958	126	262	19,367	86	226	52,325	212
Forecasted	2003	33,645	129	262	19,657	87	226	53,302	216
Forecasted	2004	34,342	131	262	19,949	88	226	54,291	220
Forecasted	2005	35,052	134	262	20,246	90	226	55,298	224
Forecasted	2006	35,773	137	262	20,548	91	226	56,321	228
Forecasted	2007	36,438	139	262	20,830	92	226	57,268	232

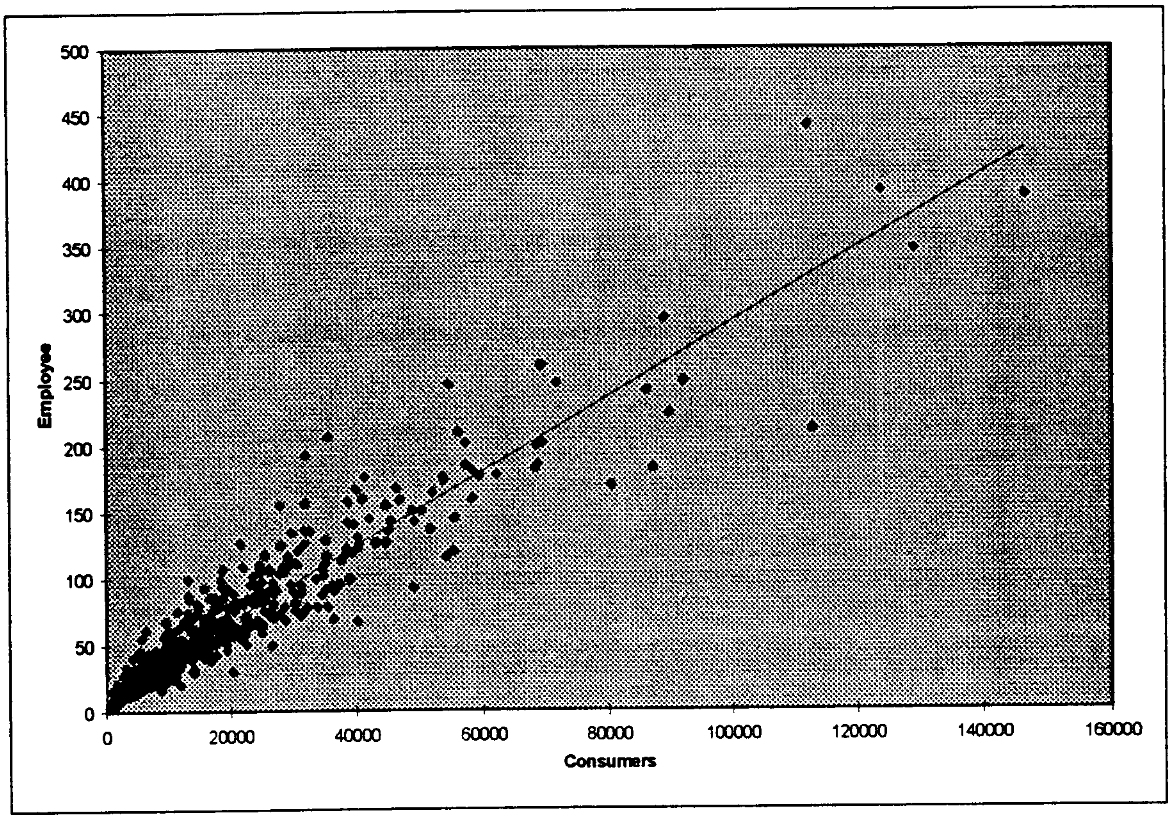
Projection of Employees 1997-2007



Recommended Staffing Level and Potential HR Savings

Summing the projected employee levels for each organization to calculate the combined future organization size does not consider the impact of increased efficiencies due to economies of scale. Analysis of the consumers per employee ratios for all systems between 17,000 and 55,000 allows the generation of a regression line which will define an appropriate ratio for the combined organization at the anticipated consumer levels.

Regression Analysis of Consumers and Employee



Source: 1997 RUS 1-1 database, 709 systems reporting

The development of a regression line allows the anticipation of the average number of employees based on consumer size for each year of the study period. (Bear in mind that differences in contracting levels can play a significant role in determining employee levels.)

Estimation of HR Savings from Combined Systems

	Combined	Combined	Regression Line		Variance from	
	Consumers	Employees	Con./Employee	EE's (p)	Combined	Savings
1997	47,111	191	327	144	47	
1998	48,255	195	327	147	49	$ 2,450,000
1999	49,334	200	328	150	50	$ 2,500,000
2000	50,340	204	329	153	51	$ 2,550,000
2001	51,366	208	329	156	52	$ 2,600,000
2002	52,325	212	330	159	53	$ 2,650,000
2003	53,302	216	330	161	55	$ 2,750,000
2004	54,291	220	330	164	56	$ 2,800,000
2005	55,298	224	331	167	57	$ 2,850,000
2006	56,321	228	331	170	58	$ 2,900,000
2007	57,268	232	332	173	59	$ 2,950,000
						$ 27,000,000

According to this model there is a potential variance of approximately 49 employees between the current employee levels and the projected requirements at year 1 of the consolidation. This variance from the "base case" projection increases throughout the study period up to 59 employees by 2007. Assuming an average cost of $50,000 per employee (payroll and benefits) a potential savings can be estimated.

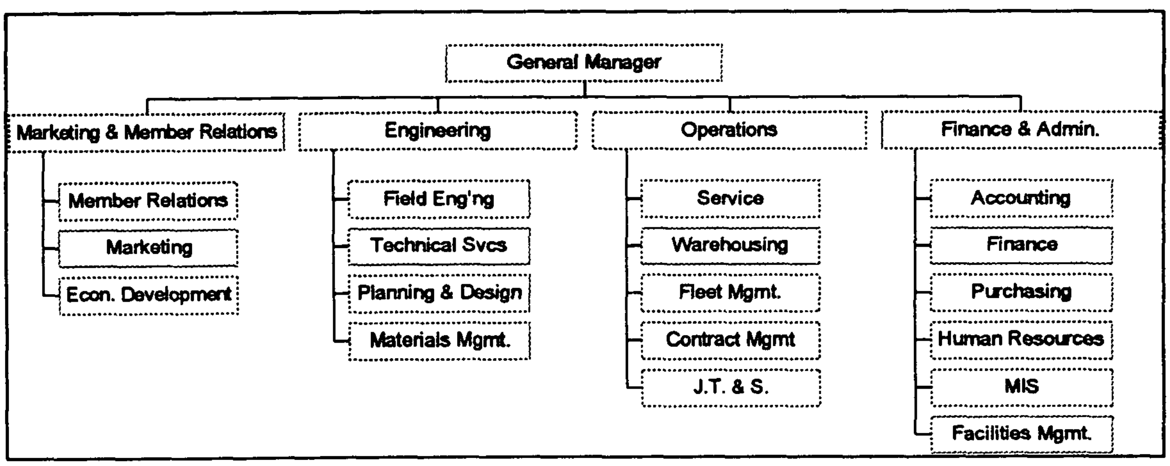
The savings estimate of $27.0 million is based on an observed average compensation level of combined GREC and HUEC personnel of $38,200 per employee, plus benefit loading of 31%[1], for a combined average cost per employee of $50,000. It should be noted that this absolute value will not be realized as an operating expense reduction, as a significant portion of labor costs are capitalized (generally ranging from 25% to 35% of total labor). Additionally, it can be assumed that some level of outsourcing (contracted services) is substituted for full time employees in the sample group utilized for this projection.

[1] Excludes compensated timeoff for holidays and leaves

Proposed Future Functional Structure

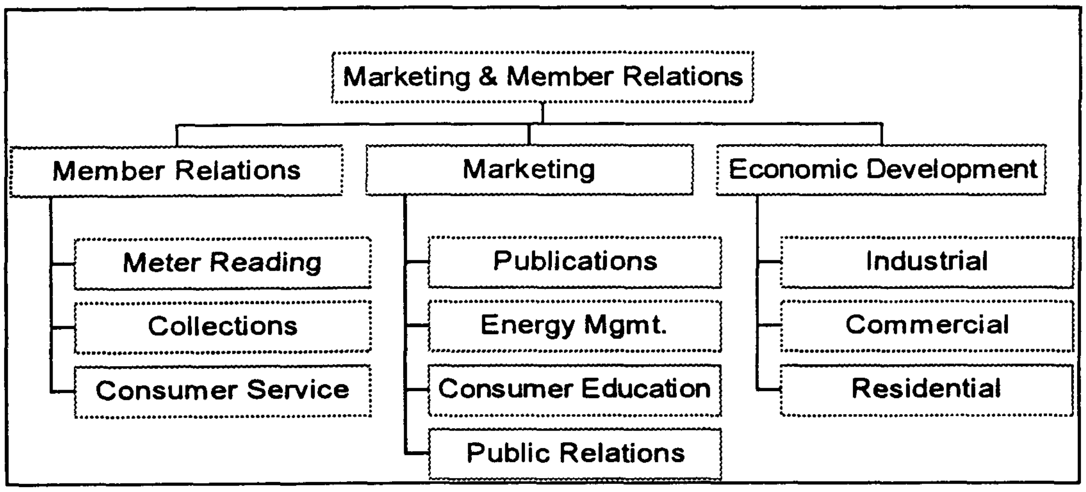
Effective operation of the combined systems requires grouping tasks and responsibilities in such a way as to complement the organization's personnel, skills and abilities. Ideally, there will be a minimal overlap of departments while maintaining compatible relationships where information flow is essential.

The proposed consolidated organization chart will be established to represent four major functional areas: Marketing and Member Relations, Engineering, Operations and Finance and Administration. A functional organization chart should not be confused with an incumbent staffing chart. Final staffing decisions will be determined by management at the appropriate time.



Typical Marketing and Member Relations Functions

The Marketing and Member Relations function is usually organized into three functions with respective sub-functions. The increasing importance of consumer contact along with the sensitivity of consumer billing has moved the consumer account function into the area of Member Relations. Meter reading is the foundation of the accounts receivable activity and incumbents serve as front line contacts with the members. By accurately reading consumer meters, billing adjustments can be virtually eliminated, thereby improving member relations.

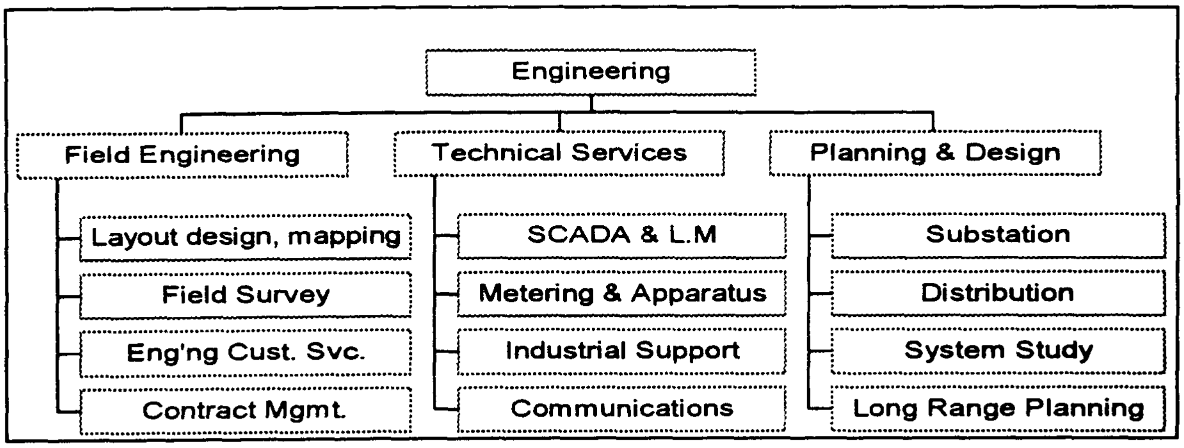


Collections are always a sensitive area which requires the utmost application of tact and diplomacy in order to achieve good results. Well-trained employees who have an emphasis in the concept of member relations can turn an unpleasant experience into a useful member contact. The Consumer Service activity is the sub-function where the organization establishes the long term relationship with the new or potential member. This area is charged to ensure that the cooperative is responsive to member requests for service and should monitor how members feel about the current activities at the cooperative.

Marketing at the utility is the activity that provides information to every facet of the membership. Publications provide information as to how and what the cooperative is doing while Energy Management communicates the cooperative's philosophy on power use. Load management, conservation, rates, energy efficiency and other programs send a signal to the consumer regarding their decisions on power use. Consumer education, both formal and informal is important in assuring consumer support and is a vital area of the Public Relations activity. The importance of a positive public opinion for the operation of the cooperative is critical to ensure that the organization will have strong allies in times of need.

Economic Development includes the activities of industrial, commercial and residential development. Industrial relations for existing and potential consumers is critical in the financial and technical performance of the utility. A strong industrial marketing plan may mean success or failure in the future. The more the utility can be involved in commercial and residential planning and development, the better prepared it will be to accommodate the subsequent growth. Overall, Economic Development should assist the utility in balancing an appropriate mix of consumers.

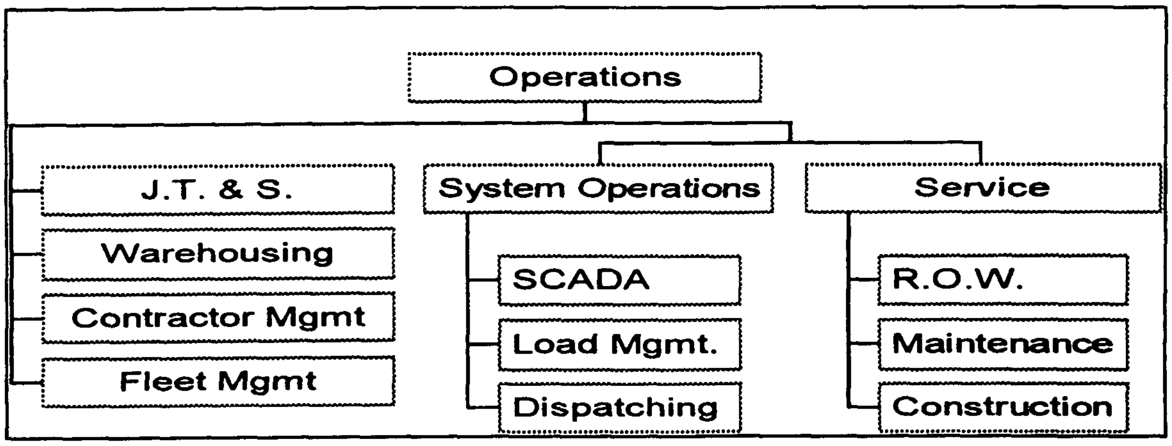
Typical Engineering Functions



Engineering is typically divided into the areas of Field Engineering, Technical Services, and Planning & Design. The field engineering section is the group having direct contact with existing and potential consumers. The activities of this area provide the permanent records of the electrical facilities through work orders, maps and contracts. Field Engineering is the control function for construction being performed by cooperative and contractor personnel. Greater levels of automation and electronics in systems are causing utilities to have in-house technical expertise in the installation and repair of electronic system components. The planning group is responsible to conduct and/or oversee studies and systems analysis. In the future it will be imperative to assure in-house control of study activities and results analysis.

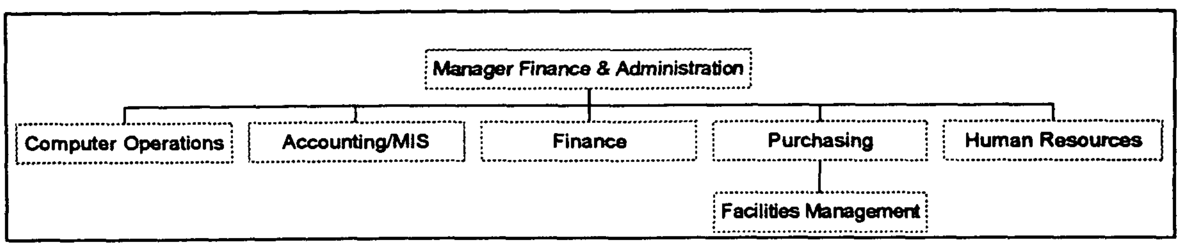
Typical Operations Functions

System operations include the areas of Service, System Operations, Job Training & Safety, Warehousing, Contractor Management and Fleet Management. The backbone of electrical operations and the majority of expenditures in the utility take place in the Service activity. ROW, maintenance and construction will continue to absorb a large amount of the cooperative's resources in view of the projected service area growth. System Operations will be devoted to system information, communications, and load manipulation. All other illustrated activities fit together to support the System Operations and Service functions.



Over the course of this study we do not recommend a major increase in staff or equipment. This should not be interpreted to indicate that the organizations are presently overstaffed. We anticipate an enrichment of current jobs which will increase productivity and capability. To be competitive, the new organization will need to strengthen the level of technological ability in the operations department. Personnel will be required to shift from craftsmen to technicians, while technicians will make a transition to the professional group.

Typical Finance and Administration Functions

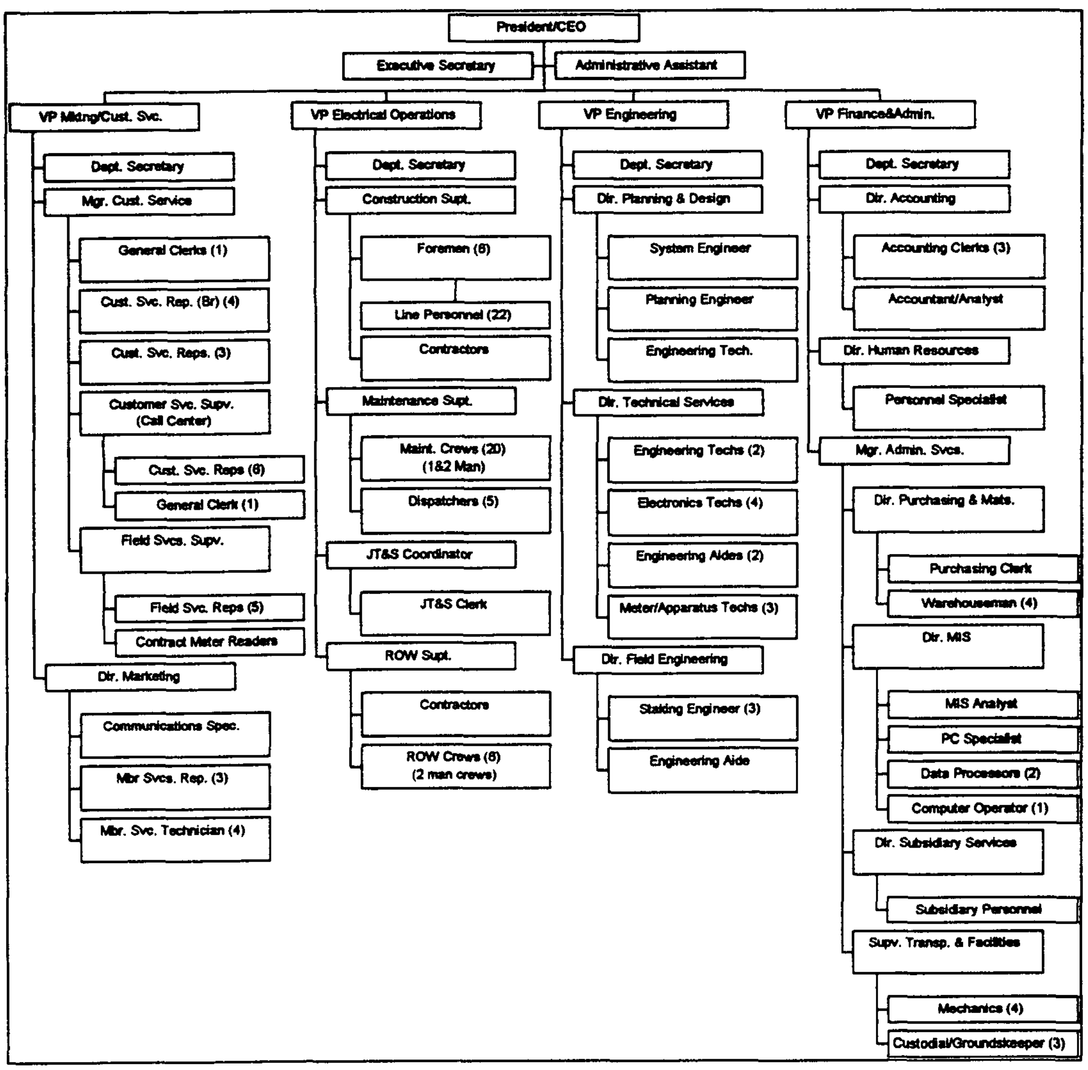


These functions are established to provide support and management control for the entire organization. The Computer Operations provides for the functioning of the computer system, both mainframe and PC. As the accounting system becomes more automated and integrated, this section will gravitate toward a Management Information Systems (MIS) group. Finance as a function will become more technical as the organization requires the ability to analyze various financial options and determine the most appropriate direction to follow.

Proposed Future Organization Structure

According to the aforementioned calculations the HUEC/GREC combined system will reach 54,291 consumers by the year 2004. The average number of employees expected for a typical cooperative of this size would be 164. Assuming a typical organizational structure with an emphasis on a centralized, functional relationship between positions, the following structure can be anticipated. Supervision in the branch location will be minimal (after transition between both organizations has occurred) with moderate growth in human resources is expected in all functional areas.

<u>Proposed Future Structure (2004)</u>
164 Employees



Functions of New or Modified Positions

Position	Function
JT&S Coordinator	Plans, coordinates and presents job training, safety and loss control programs.
Field Service Representative	Responsible for reading meters, collections, connection and disconnection of meters.
PC Specialist	Provides support in the installation and operation of personal computer hardware, networking and software. Provides training in software applications and minor repairs on hardware.
Data Processor	Responsible for entering, verifying and correcting information on computer terminals. May edit, interpret and process consumer bills.
MIS Analyst	Consolidates and standardizes data between departments. Develops performance reports for management. Analyzes data flows and aligns them with work process requirements.
Customer Service Representative (levels 1, 2, 3)	Receives payments for bills. Provides additional support in the area of bill preparation, adjustment and/or support of cooperative accounting functions. Incumbent should be able to present cooperative marketing programs. Must have a complete understanding and ability to perform all the components of the customer records and billing process. Activities include; new services, capital credits, change of name, high bill inquiries, etc. Incumbent must be able to handle situations which require the highest level of diplomacy and tact. Performs complex, specialized tasks which require theoretical knowledge of the specialty and a thorough knowledge of applicable company policies and practices.
Personnel Specialist	Responsible for administrative support of the cooperative's employment, wage and salary and benefits programs. May assist in writing policies and job descriptions and other duties related to

Position	Function
	personnel matters.
Customer Service Supervisor	Provides supervision, direction, scheduling, and management control of the consumer service call center. Also assists in the planning and budgeting activities for the department. (see comments under "Call Center.")

Achieving Economies of Scale

Centralized call center

Current customer service employees are presently handling a wide variety of tasks both in administering call-in and walk-in customer service, including connects, disconnects, address changes, trouble calls, special services (levelized billing, line of credit, etc.), and payments. Many utilities have discovered that emphasizing telephone based customer service through a dedicated call-center customer service group has resulted in improved customer service with fewer personnel.

We recommend the establishment of a dedicated "Call-Center" for handling all incoming calls. Critical steps include the following:

(1) Identify the staffing level necessary to adequately staff the call center, through analysis of service request activity logs and telephone traffic. Employees may need to be shifted to staff the Call Center.

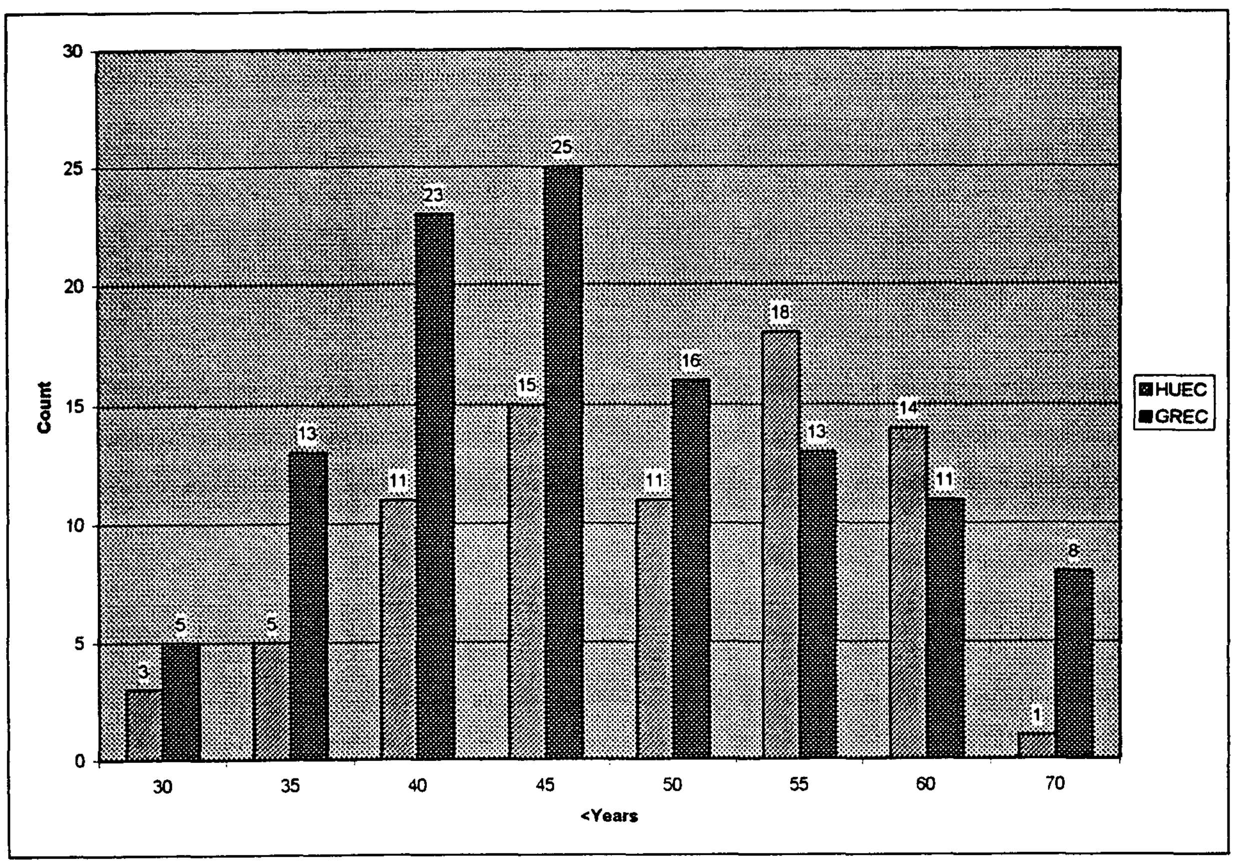
(2) Redirect all calls to flow through the call center, with the Customer Service Representatives (CSR's) handling all customer contact and forwarding other calls for staff.

(3) Identify and implement a system wide telephone system that will provide a seamless interface between all facilities and provide hardware and technology to support the Call Center (i.e.- voice recording, hunt groups, incoming call traffic monitoring and reporting), and one offering improved functionality.

Retirements

Although there is no immediate involuntary general reduction in force anticipated for the consolidated organizations normal attrition rates will be a mechanism to achieving the targeted employee numbers. Currently there are approximately 34 employees between both GREC and HUEC who are 55 years of age and over. Because individual circumstances vary significantly, it is difficult to anticipate how many in that group would opt for retirement in the near future. The implementation of a Special Early Retirement Plan (SERP) could advance progress to the desired employee level if it were funded at a level which would meet incumbent financial thresholds.

GREC/HUEC Employee Age Distribution
(GREC Average age = 44.4 years)
(HUEC Average age = 46.6 years)



Outsourcing

The balance of outsourcing versus internal resources should be carefully evaluated to ensure that the level meets the strategic criteria of the organization considering both control and cost. Significant reductions in full-time staff can be achieved by the use of external contractual employees in the areas of ROW maintenance, meter reading, construction and heavy maintenance. ROW maintenance, in particular is becoming a primary area of outsourcing due to cost effective pricing by contractors and the liability involved with this activity.

The rate at which the combined organization replaces internal resources with external contractual employees will determine how rapidly management will be able to realize the consolidation savings attributable to human resource reductions.

Employee Transfers

When a headquarters location is determined, some positions may face an immediate need to transfer. Other changes will be transitional and should take place within 6 months after a consolidation agreement is ratified. Individual supervisory control issues and functional requirements should determine the extent and immediacy of employee transfers. Some transfers may be unacceptable to employees for various reasons and could be a source of increased turnover and streamlining.

Employee Compensation and Benefits

Employee benefits are competitive and similar in nature but different in magnitude. In order to ensure equity as well as deference to the sentiment that negative employee impact due to consolidation should be minimized, all benefits should be reviewed and a common level of benefits should be identified. Both systems should be adjusted accordingly. A sampling of the most significant benefits is represented in the following tables. Two sample proposals, consider the best features from both systems and constructs a cost scenario for a common pension, medical, dental, life, and disability program.

Current Benefits Package and Consolidation

	Green River	Henderson-Union
Section 125	Dental premiums and out-of-pocket medical expenses	Premiums only: Cancer Insurance Intensive Care Insurance Dental insurance (employee paid)
Business travel		$100,000 department heads, $50,000 employees
Life insurance	3 times salary	2 times salary
Dependent life	$10,000 spouse $4,000 child	N/A
Uniforms	Provided for outside personnel	Provided for outside personnel 50% safety boots 50% glasses
Tuition Assistance	Yes	Yes
Employee Assistance Program	6 visits	6 visits
Short Term Disability	No insurance (utilize accumulated sick leave)	$100/week
Long Term Disability	66 2/3% max all sources	60% monthly pay
Vacation days	Paid Time Off (PTO) 1-9 yrs.........14 days 10-19 yrs......19 days 20 yrs +....... 24 days Note- 32 hours for physician and dental visits, non-family funerals	10 days/year < 7 years After 7 yrs, 1 day/yr 20 days after 17 years
Holidays	9	10
Sick leave	10 days per year added to bank. Restricted to extended illnesses (3 days or more, certified)	1 day/month Dollar banking, 50% limit, 180 day accrual *(effective 1/1/99)*

Medical	100% premiums paid for employee and dependents $200 deductible No vision	100% premiums paid for employee and dependents *(Jan 1999 premium increase of 16% was split 13% Board member/employee, 3% coop)* $300 deductible No vision
Post retirement medical	Employee paid premiums	Premium paid to age 65, maximum of 5 years
Dental	Employer paid for employee and 1/2 dependent	Employee paid premiums

Perhaps the most significant non-pension plan difference is in the sick leave policy. In most cases, we recommend bringing fringe benefit levels up to the "highest common denominator;" however, HUEC's sick leave policy of 50% dollar banking is somewhat dated in benefit design. Although the dollar banking accrual may have been appropriate in the past, many systems have removed sick leave dollar banking completely and replaced it with other types of benefits. We recommend that this program be capped for all current incumbents and terminated. GREC's recent adoption of a Paid Time Off policy (PTO), designed to contain leave abuse while offering flexibility to employees should be the basis for the consolidated organization's leave plan.

Another difference is employer payment of medical premiums. It is recommended to pay 100% of employee premiums under the consolidated organization.

The following table illustrates the existing structure of the benefits program and a proposed configuration for the merged organization. Details and premiums will be submitted under a separate cover from RS&I.

GREC and HUEC Existing and Recommended Benefits Plan Design

	Merger Rates		Estd. Cost	Current Plans and Rates Green River		Estd. Cost	Henderson Union		Estd. Cost
Medical	ElectREmed 300 with: $5,000 Coinsurance, SHARE, PCS, 6% Wellness, 1st $10,000 of Inpatient Hospital Expenses Benefit	EE DEP MED		ElectREmed 200 with: $5,000 Coinsurance, SHARE, PCS, 6% Wellness	EE DEP MED		ElectREmed 300 with: $5,000 Coinsurance, SHARE, PCS, 6% Wellness, 1st $10,000 of Inpatient Hospital Expenses Benefit	EE DEP MED	
Dental	R&C 100 with Adult Orthodontics	EE DEP		R&C 100 with Adult Orthodontics	EE DEP		No dental *The following Benefits are not with NRECA*		
Life Plans	Basic Life - 3x Annual Salary (w/ AD&D)			Basic Life - 3x Annual Salary			Basic Life - 2x Annual Salary (No AD&D) AD&D - 2x Annual Salary		
	Dependent Life - $10,000 Spouse Benefit*			Dependent Life - $10,000 Spouse Benefit			No Dependent Life		
	Director Life - Flat $5,000 Benefit**			Director Life - Flat $5,000 Benefit			No Director Life		
Disability Plans	A&S (STD) 66 2/3% of weekly earnings, 26 Week Benefit Period*** $300 Weekly Maximum Benefit**** $500 Weekly Maximum Benefit			No short term disability			STD 70% of weekly earnings, $100 Weekly Maximum Benefit, 26 Week Benefit Period		
	Long Term Disability - 66 2/3% of Monthly Earnings, $15,000 Maximum Monthly Benefit, 26 Week Waiting Period			Long Term Disability - 66 2/3% of Monthly Earnings, $15,000 Maximum Monthly Benefit, 26 Week Waiting Period			Long Term Disability - 60% of Monthly Earnings, $2,500 Maximum Monthly Benefit, 26 Week Waiting Period		
	Total Est Annualized Premium			*Total Est Annualized Premium*			*Total Est Annualized Premium*		

Pension Plan Synopsis

	Green River	Henderson-Union
Retirement Funding	Defined Benefit Plan (Only employees with service < Jan. 1, 1987 eligible) Retirement age: 65 2.3 benefit level (max 25 year's service) Defined contribution plan Funding: 6% of straight-time compensation, plus 401(k), 50% match (up to 5% max) 7 year vesting (Greatest benefit to pre '87 employees applies)	Defined Benefit Plan Retirement age: 62 1.7 benefit level No cola
401 (k)	50% matching contribution up to 5%. NOTE: Matching monies considered as retirement funds in the offset of benefits from the defined benefit plan.	Up to 3% employer match, minimum 1% No after tax voluntary No loans

Perhaps the most significant difference in employee benefit programs between HUEC and GREC is in the pension and 401(k) plans. Although different in features, both plans provide varying benefit levels to the employee, dependent on age at participation and service at age 62. Rather than manage several different pension plans within one organization it is recommended that a common pension plan be established which would approximate the best features of both plans. Alternately, this may best be launched by freezing existing plans and adopting the common plan on an "as of" date or for all new employees. Such a decision would foster a sense of equity among both employee bases as well as minimize administrative support costs of maintaining multiple pension programs.

It is recommended that the consolidated organization adopt a defined contribution plan, similar to that in place at Green River Electric. Interestingly, the funding level of 11% (6% in defined contribution plan and 5% match on 401-k) represents the same funding level that HUEC funds their defined benefit plan; therefore, there will be no additional cost to the consolidated organization.

A transition plan feature would be the consideration of a Special Early Retirement Plan (SERP). A SERP is an excellent vehicle to accelerate the pace of employee attrition rate. We are recommending a SERP be seriously considered with the following attributes at HUEC:

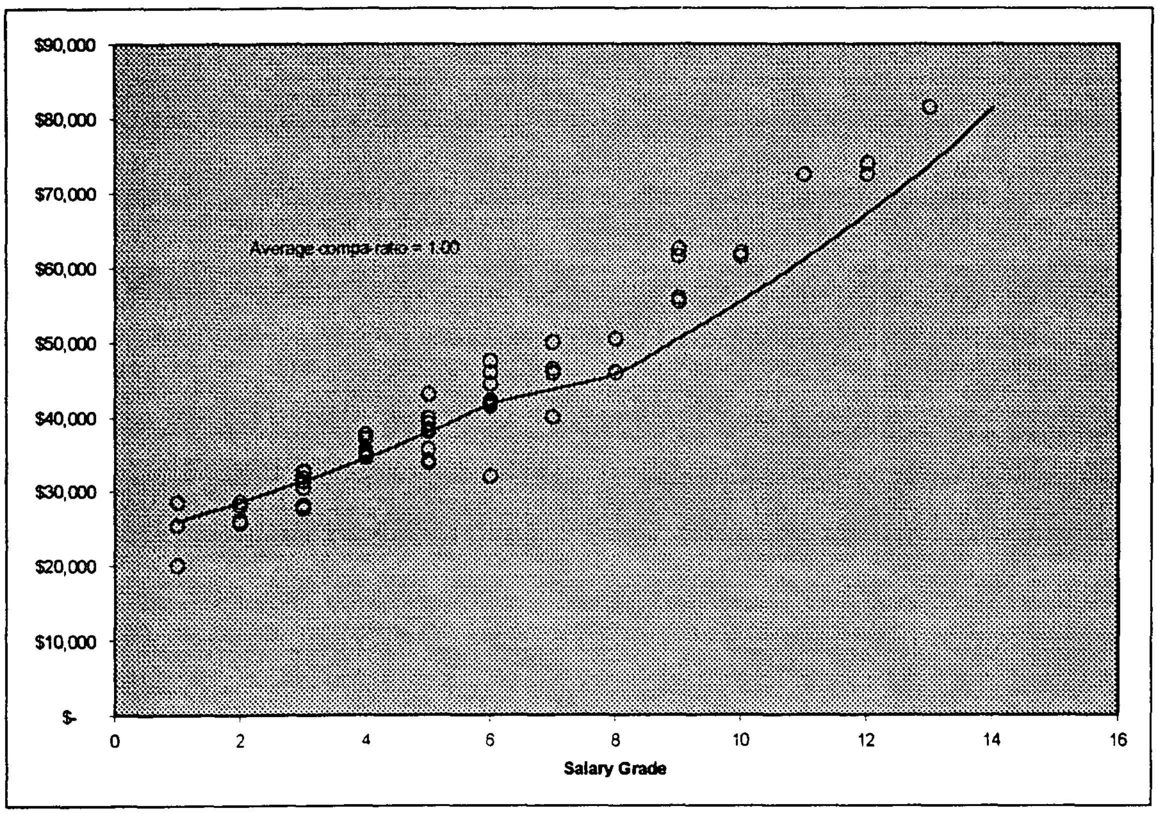
- ✓ Available to all employees 55 years of age (at 7/1/99)
- ✓ Credit up to 7 years of service (max at age 62)
- ✓ Paid health premiums up to 10 years (terminate at age 65)

As noted above, GREC has both defined benefit and contribution plans to address when designing the SERP. GREC should adopt a plan that will target the same age group with an equivalent pension benefit.

Employee Compensation

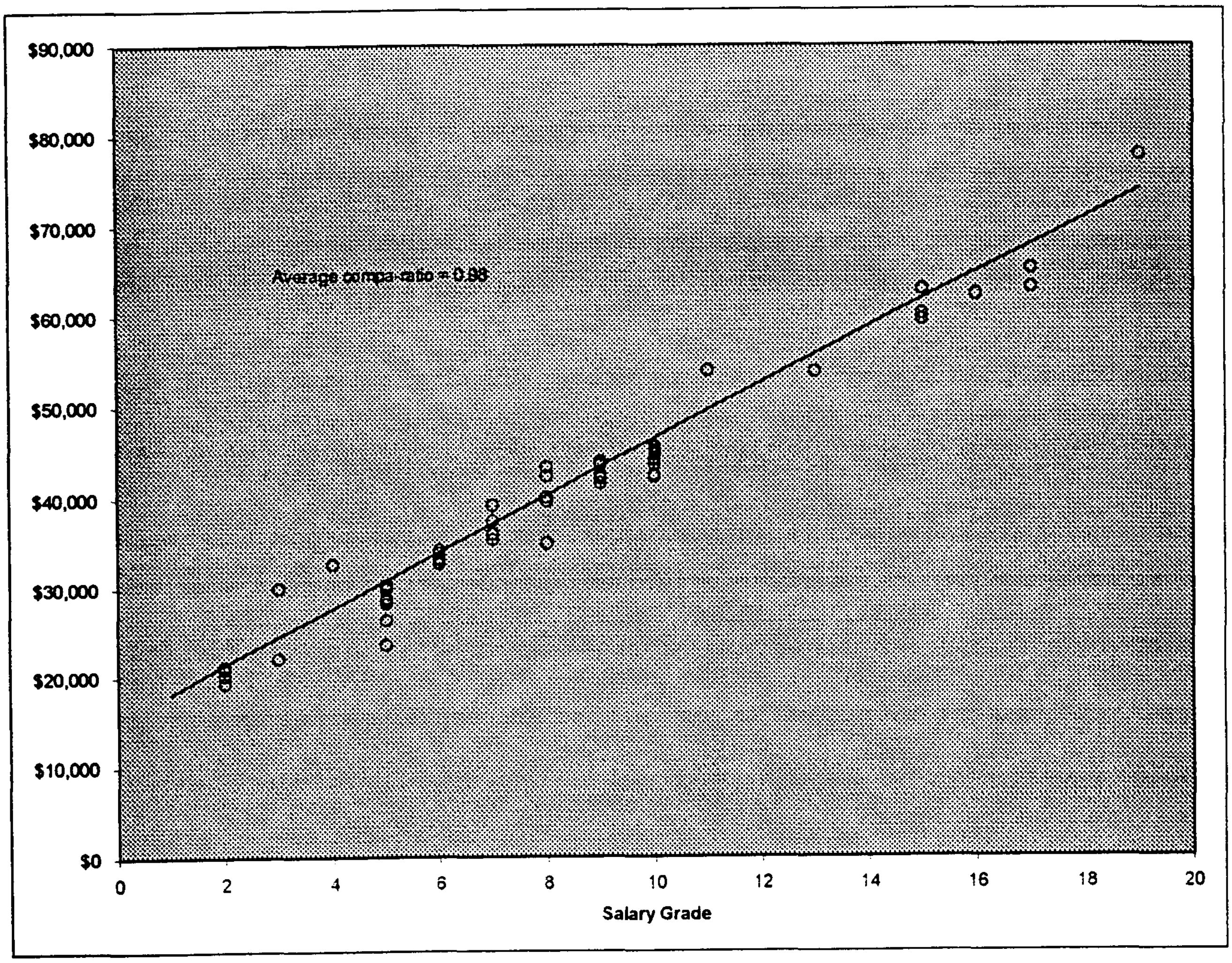
Both GREC and HUEC have formal wage and salary systems that are based on market values of comparable positions. Analysis of compa-ratio[2] levels reflect the effectiveness of salary administration within each respective plan. The following charts indicate that incumbents are being compensated at a similar and reasonable level (considering an overall average compa-ratio of 1.00 for GREC and 0.98 for HUEC) within their respective ranges and pay plans. Each circle on the following charts represents a current incumbent (Illustrated pay lines represent relative midpoint values.).

Green River Electric Co-op Incumbent Display
Average compa-ratio = 1.00



[2] A compa-ratio is calculated by dividing the incumbent's current salary by the midpoint value of their respective grade. The ratio indicates percentage of range penetration.

Henderson Union Compensation Plan Incumbent Display
Average compa-ratio = 0.98



The two salary plans can be compared by modeling each organization's pay curve utilizing jobs which both organizations have in common. Although the following job matches are not perfectly aligned in function or scope, the analysis should provide a reasonable comparison between the two plans. By assigning HUEC point values to similar positions at GREC it is possible to calculate a similar salary curve to model and compare the two plans.

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The regression curve for each organization's current salary plan, generated by the comparative model suggests that the overall average variance between HUEC and GREC's salary plans is 6.27%; however, significant variations are apparent.

The most significant difference in percentage between the two plans resides in the lowest grades of the organization, which represents the lowest dollar values of both plans; however, the largest numbers of incumbents are in these salary ranges.

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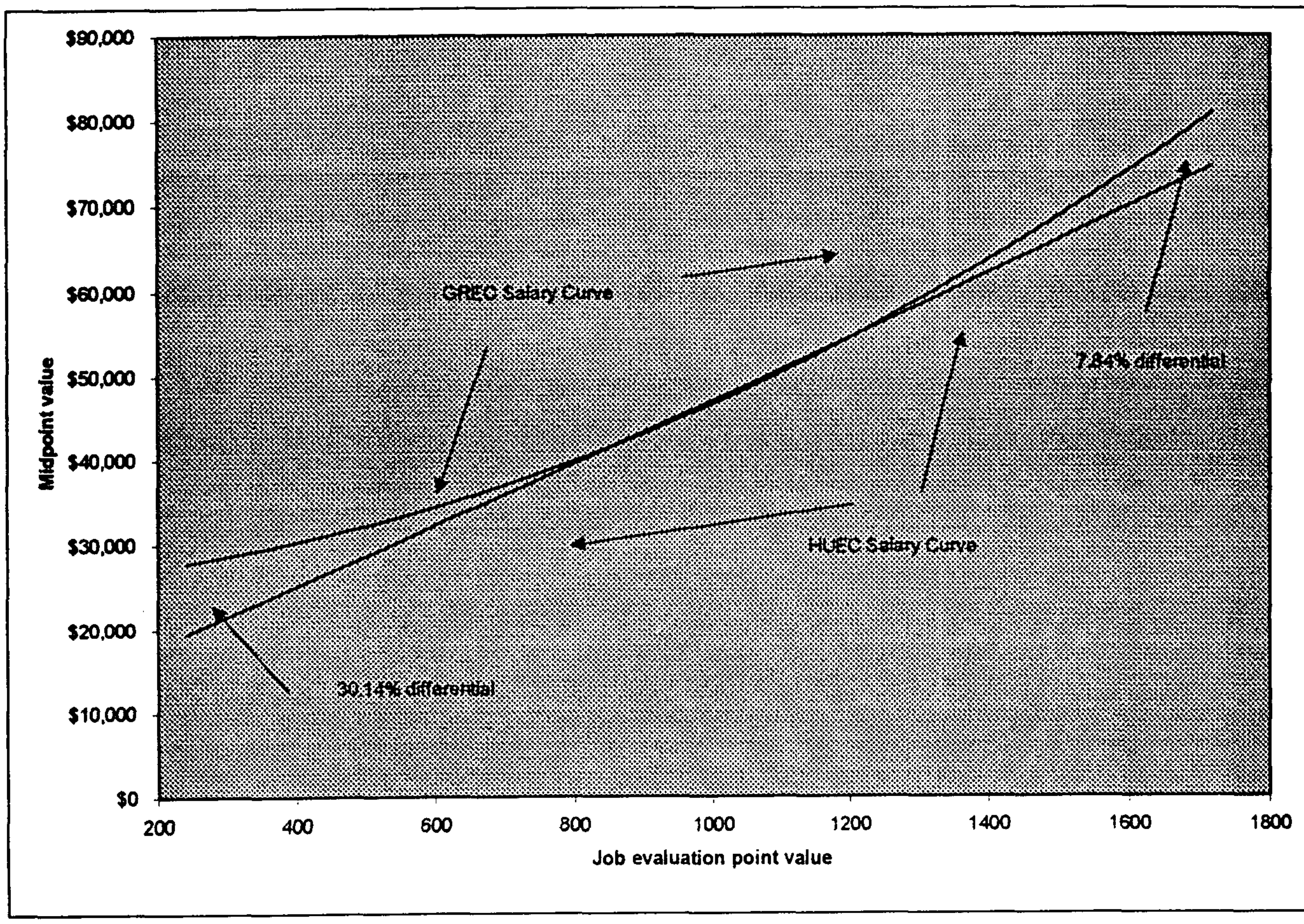
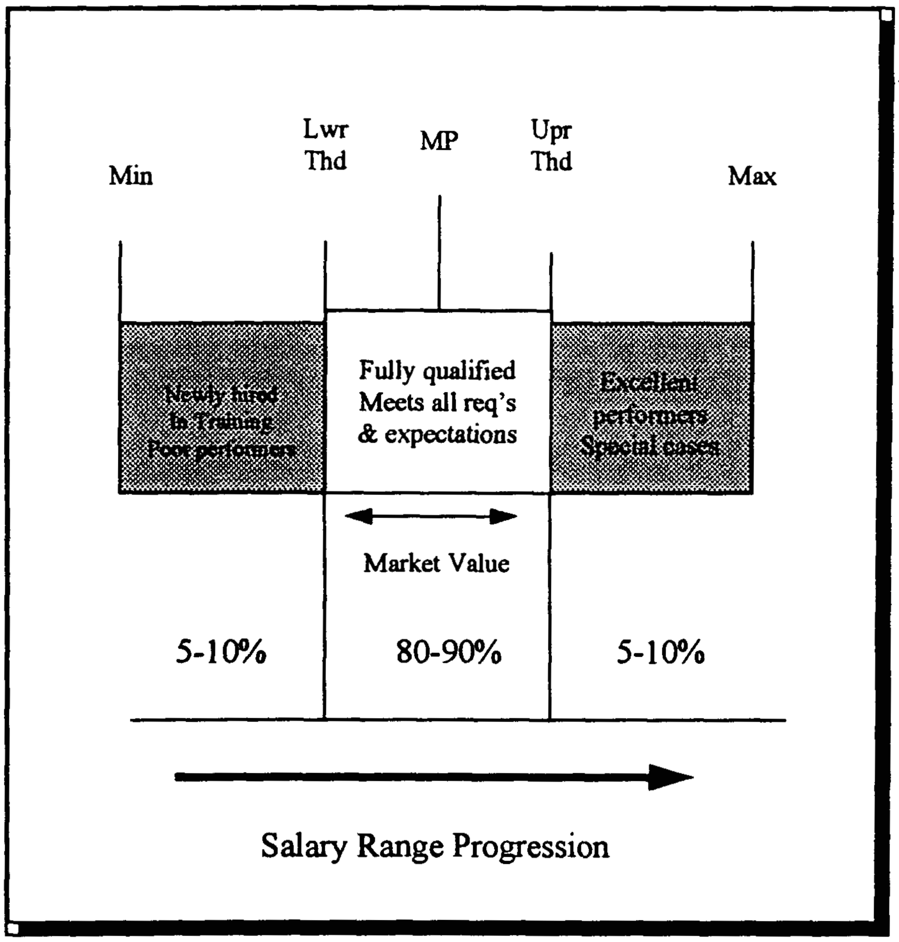
HUEC vs. GREC Modeled Salary Curve Chart
(6.27% overall average variance)



Within normal salary administration procedures, it is recommended that management allow employees to progress in wage and salary on a variable range basis according to the following diagram.



Market value ranges have a spread of approximately 5-6% above and below the midpoint of the salary range. An overall average variance of 6.27% can be managed within the market value parameters for most jobs; however, for entry-level positions up through grade 8 (typically non-exempt clerical and technical jobs in training), significant merging challenges will be faced. Most notably, high-tech and professional jobs are reasonably well-positioned and should not pose any difficulty in integration.

An equitable wage and salary plan reflects both organizational and market values to employees. Upon consolidation and finalization of the organizational structure, a complete wage and salary program should be developed to reflect the new organization's structure and distribution of duties and responsibilities.

Facilities Utilization

General Office

Our survey of the general office facilities for GREC and HUEC was conducted to determine optimum operating requirements on a preliminary basis for the following issues:

- Adequacy of Floor Space
- Common Areas
- Customer Service
- Records Storage
- Meeting facilities
- Transportation (access. egress and corridors)
- Expansion Potential
- Geographic Position
- Power Supplier

Generally both headquarters facilities can meet the criteria for conducting business effectively. When evaluating the facilities on the criteria above Henderson facility would have to be given the edge in desirability due to the amount of unimproved contiguous land (offering greater flexibility), structure, layout and design for expansion, and central geographic location.

Neither office has sufficient space to house the entire staff of the combined organization. Due to the shortfall of office space some management staff positions will need to operate temporarily out of the Owensboro office until expansion or temporary office are completed.

Both organizations maintain satellite offices away from the corporate centers. GREC operates three satellite offices to provide customer service for the areas around Hawesville, Hartford and Hanson. These offices are staffed with one full-time clerical support person and only Hanson is assigned a lineman on site. Currently for the functions being performed at these locations the facilities for these satellites is adequate for the foreseeable future.

HUEC operates a full service district operation in Marion staffed with a district manager, linemen and clerical personnel. This facility has limited potential for expansion. Currently office, warehouse, and storage areas are cramped. It is located on a busy thoroughfare causing difficult access and egress at times.

HUEC operates a small operations warehouse in Sturgis staffed with line and maintenance personnel. This facility is adequate at the current level of activity.

Operations Center

With consolidation we see opportunities to accelerate the organization toward a customer service oriented (see the section titled Centralized call center) emphasis. In the spirit of reducing cost and improving service, consideration should be given to phasing out the satellites and opening an operations center more centrally located near the industrial load centers and transportation corridors (Providence/Hopkins County area). We envision the operations center to house line personnel and to provide service, construction, and maintenance for that geographic area as well as a central corporate warehouse and storage facility. Similarly improved customer service will result in terms of quicker service restoration, better response to new construction requirements, and more effective day-to-day operations.

Warehouse Storage, Meter Shop and Garage

Our survey and review of the warehouse, shop and storage facilities indicate that the total combined areas of GREC and HUEC will house the consolidated organizations. However, the current configuration of space will not support the centralization of the functions required for material storage, metering and apparatus maintenance, fleet maintenance, etc. The nature of the individual functions of these areas requires tight control for scheduling, inventories, and resources.

Both organizations perform vehicle/equipment maintenance as well as meter testing and repair while operating full shop facilities including tools and equipment. For controlling cost and scheduling work we anticipate the consolidated organization will be better served to phase out these independent functions and combine them at one location. This could be done at any either facility with consideration given for the least disruption of work, location of supervision and technicians and the best equipment. By combining shop equipment at one location there should be adequate facilities to handle the work required for both systems.

To effectively utilize existing and proposed facilities, consideration should be given to a phased centralization of the various functions at different locations. Examples would be as follows:

- Material Warehousing and Storage (Operations Center)
- Metering and Apparatus (Owensboro)
- Fleet Maintenance (Henderson)

When considering this approach care should be given to locations that best fit the intended function, as far as personnel, current configurations, and equipment availability.

Mapping Systems

GREC and HUEC have state-of-the-art equipment in computer-assisted mapping to maintain and update maps. In reviewing the capabilities of the mapping systems and the level of information gathered by both organizations we found that GREC's system has more detail. Initially the two mapping systems can be operated independently with the objective of integration as conditions allow and database is gathered. At this point independent systems should not hinder the maintenance of effective database for engineering.

Computer Systems

Both organizations operate in-house AS400 computer systems that are owned by Big Rivers EC. The software was developed in partnership with Big Rivers and the member systems to be compatible with each other. Big Rivers provides programming and technical support for the billing systems, which will lend to a smooth conversion. Both organizations utilize Milsoft engineering software which should enable the combined systems to conduct the study work required for engineering.

Communications Equipment

GREC and HUEC's radio communication systems are operating effectively within their current service areas; however, they operate on two different frequencies which are not compatible. There are various options available to integrate the two systems on a short term basis (i.e. cellular phones in the trucks).

The dilemma facing both organizations is that the communications industry for this type of secure system is on the verge of technological change and not yet at the point of feasibility. It is unclear at this point when it will be appropriate to consider a change to new technology; however, it appears that in the very near future a system will be on the market utilizing satellite technology. For the purposes of this study, it is assumed that there will be an unknown avoided cost by only requiring one modern communications system rather than designing and constructing two separate systems.

Equipment Utilization

Both organizations own and operate portable substations, shop and fault finding equipment, etc. GREC and HUEC have occasionally provided service to other utilities in finding underground electrical failures, as a good neighbor policy. With the consolidation it may be feasible to consider marketing services to utilize redundant or idle equipment. There will be an opportunity to consider eliminating costly equipment such as clearing equipment.

Transmission and Distribution Facilities Integration

Combined Field Operations

At the time of consolidation there does not appear to be a cost impact in field operations that is quantifiable. In the first stages of the consolidations there does not appear to be any need to shift operations personnel as they will continue to work at the same locations in the same assignments.

It is reasonable to assume that the organization would begin to phase in central dispatching for the purpose of communication, scheduling, and coordination of work and outages. This should allow field personnel to begin sharing assignments along common borders while coordinating personnel of the combined systems.

Presently both electrical systems are well-maintained and the work outlined in the work plans is being performed. Historical data supports the fact that both systems are investing at a rate that is appropriate for similar utilities in their operating environment. GREC's five-year distribution expense as a percentage of TUP averages 2.86%. HUEC's is comparable at 2.65%. Both systems are aggressive in their preventative maintenance with strong efforts in ROW, conductor and pole replace programs.

GREC Distribution Expense History
Average 2.86%

	Utility Plant	Dist. Expense (Maintenance)	% of UP
1993	$ 58,547,293	$ 1,651,387	2.82%
1994	$ 60,850,162	$ 1,829,020	3.01%
1995	$ 63,612,128	$ 1,651,745	2.60%
1996	$ 67,286,284	$ 2,410,333	3.58%
1997	$ 70,787,201	$ 1,625,265	2.30%
		Average	2.86%

HUEC Distribution Expense History
Average 2.65%

	Utility Plant	Dist. Expense Maintenance	% of UP
1993	$ 45,103,487	$ 1,120,689	2.48%
1994	$ 46,675,088	$ 1,324,824	2.84%
1995	$ 48,870,273	$ 1,229,581	2.52%
1996	$ 52,115,386	$ 1,531,260	2.94%
1997	$ 55,146,487	$ 1,367,723	2.48%
		Average	2.65%

The line loss comparisons are calculated (extracting industrial loads) to reflect losses on rural residential and small commercial facilities, both system are operating within industry acceptable parameters. This is another indicator that the systems are well maintained.

Comparison of Line Losses
Minus Industrial Load

	HUEC	GREC
1993	7.80%	5.90%
1994	6.50%	5.70%
1995	8.40%	5.30%
1996	7.00%	6.13%
1997	7.40%	5.90%

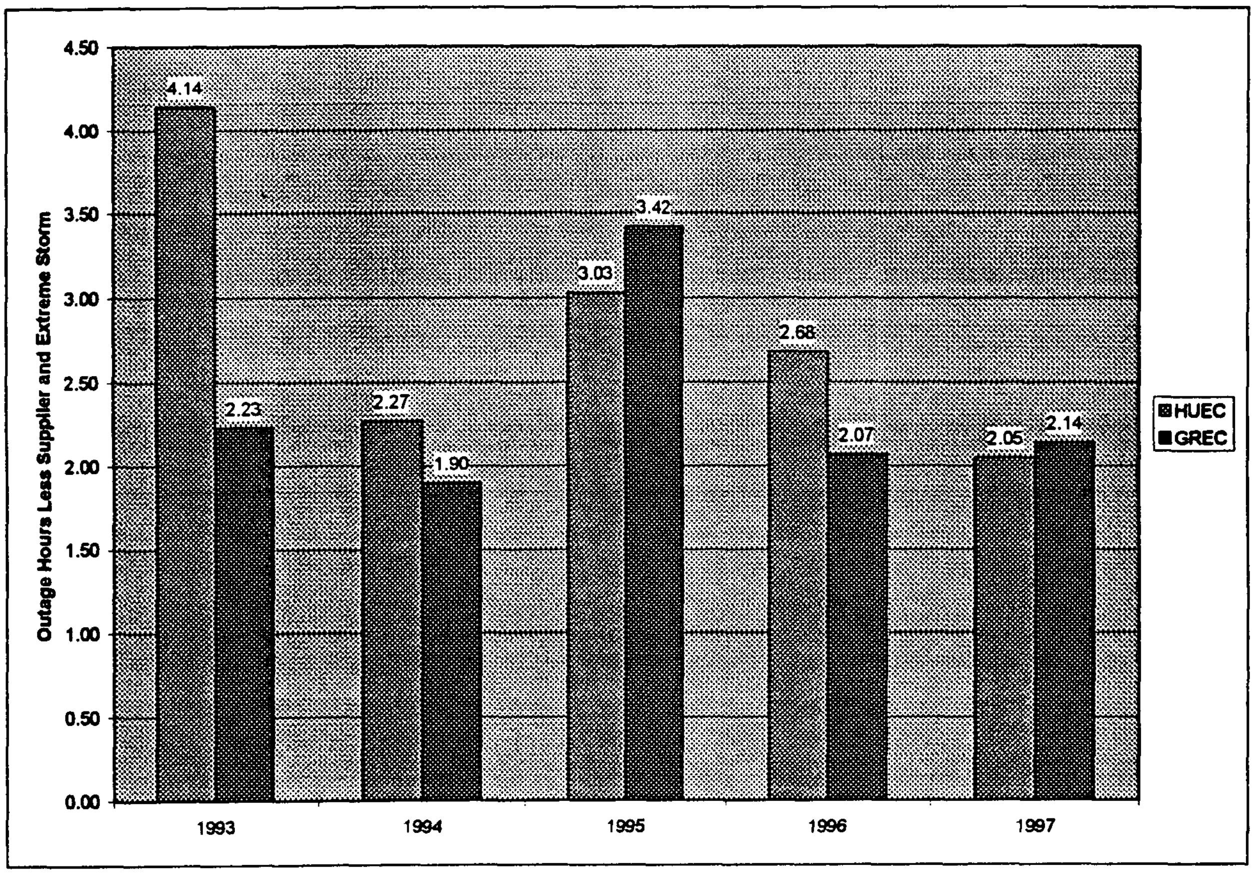
Line losses represent real dollar costs to the cooperatives. Consolidation will result in a reduction in operating costs per kwh, thus the cost of line loss will be reduced commensurately.

These performance ratios provide a snapshot measurement of system reliability, condition of electrical facilities and personnel response time to power outages. With both organizations we find that they are performing well within expected performance levels. For this analysis we subtract outages that cannot be controlled by the distribution system, which are power supplier and extreme storm.

Outage Hours Less Supplier and Extreme Storms

	HUEC	GREC
1993	4.14	2.23
1994	2.27	1.90
1995	3.03	3.42
1996	2.68	2.07
1997	2.05	2.14
Five-year average	2.83	2.35

Chart of Outage Hours Less Supplier and Extreme Storms



Service Reliability Improvements

The east/west boundaries of HUEC and GREC are separated by the Green River through much of their respective service territories (which also separates the electrical facilities). Due to the sparse population in the southern areas and flood plain in the northern region both systems were designed to service the load centers respectively east or west of their common borders. It is the nature of an electric utility to find potentially weaker delivery at the outer fringes of the system. Due to light loading, most utilities postpone investment in fringe areas until the age of the facilities dictate.

With the recent growth away from the historic load centers, stimulated by industrial and commercial development, these areas will need expanded investment in plant in the future. Consolidation of the systems there are opportunities to strengthen the delivery system with reduced investment and avoidance of duplicate construction.

The areas we surveyed, suggesting potential saving are as follows:

- Stanley (north)
- Beach Grove (central)
- Hanson (south)

Stanley Area

In the Stanley area HUEC currently owns a river crossing which will allow a tie between substations increasing reliability for consumers of both systems. Although the potential in this area is limited due to the flood plain there will be enough expansion to realize avoided cost in the future when system improvement is needed. In the near future HUEC will need to invest in plant to improve a soft voltage condition, and at some point GREC will need to increase their capacity at the Stanley substation. Presently it is difficult, without further study, to quantify savings or avoided costs by joint construction. It is obvious that system improvement on a joint basis will avoid redundant construction, resulting in lower cost of system improvements.

Hanson and Providence Stations

Both GREC and HUEC forecast the need to improve voltage and capacity out of their Hanson and Providence substation areas. Work plans indicate that HUEC and GREC will require considerable investments in the near future. Since the consumers in these areas are on the fringes of the respective facilities as well as the growth to the north this seems to be an opportunity for a joint substation construction project that would offer stronger reliability and potential savings.

Present estimates to build backbone feeders is $50,000 to $65,000 per mile. With the proper sighting of a substation it is expected there could be avoided construction cost for conversion, conductor, and new circuits. This type of consolidated effort could improve reliability of large areas in the southern regions of both systems as well as handle growth to the north where commercial spin-off will likely occur due to large industry locations.

Financial Element

Capital Credits

The capital credits programs at GREC and HUEC have come into harmony in many key respects. Their respective features are contrasted in the following table:

	Green River EC	Henderson Union EC
Payments to Estates	Yes, discounted (beg. 1999)	Yes, 100%
General Refunds	Annual	Annual (revived 1998)
Method of General Refund	Hybrid (oldest year plus 50% of previous year)	First In~First Out, plus 50% of prior year
1996 Retirement Activity	General- '56 thru '62 and 1/2 of 1994:$2,645,000 Estates- $0	General- $0 Estates- $125,066
1997 Retirement Activity	General:1963-1968 and 2nd half of 1994:$2.6m Estates: $0	General: $0 Estates: $135,459
1998 Retirement Activity	General: 1969-1973 and ½ of 1995 $2.6 m Estates: -0-	General: 1961-1962 and ½ of 1997 $735k. Estates: $147,113
Member Equity-p/e 9/30/98	$28,523,303	$22,758,690

The GREC Board of Directors should be commended for their aggressive capital credits retirement policy which recognizes the rapid growth in new customers. The hybrid method both reinforces the value of the cooperative form of organization to the new and uninformed members, while giving due consideration to intergenerational equity. Similarly, the HUEC Board has recognized the value of retiring capital credits to estates, most typically flowing to the estates and survivors of their longest term members; and the recent revival of annual refunds is commended. This consideration not only frequently offers financial assistance to an otherwise strained family situation, and resolves the annoyance to survivors dealing with capital credit checks to closed estates, but also eliminates the cost of issuing general refund checks that are promptly returned by the post office marked "undeliverable."

The consolidation presents a unique opportunity to galvanize member support and fully exercise this vital tool, particularly to the members of Henderson Union EC.

Given the rapid growth of new members in both service areas, it is recommended that the principles of consolidation adopt: (1) Green River's general retirement methodology, and (2) Henderson Union's estate payment policy. Additionally, that the members of Henderson Union are advanced to the same status of general retirements as that of Green River. Further, that this "catch-up" take place in 1999 as a condition of the agreement, subject to the approvals of both memberships, the Kentucky PSC and RUS. The following table illustrates the above proposed retirement schedule:

	1998	1999
Green River EC general refunds		
1969-1973	$1,498,176	
1/2 of 1994	$1,116,000	
1974-1978		$1,549,258
2/2 of 1995		$1,115,919
estate refunds	$0	$150,000
GREC sub-total	$2,614,176	$2,815,177
Henderson Union EC general refunds		
1961-1962	$ 266,150	
½ of 1997	$ 468,615	
1963-1973		$1,643,394
1994		$1,342,534
1974-1978		$ 566,320
½ of 1997		$ 466,367
Estate refunds	$147,113	$ 110,000
HUEC sub-total	$881,878	$4,128,615
Total Retirements (includes estates)	$3,496,054	$6,943,792

Note-The accompanying financial forecasts include only general retirements

GREC	HUEC
At the end of 1998, refunded through 1972 and 1994 and ½ of 1995	At the end of 1998, refunded through 1962 and ½ of 1997

Projected Consolidated 1999 – 2007 Captial Credit Retirements

GREC		HUEC
In 1999:	**$6,683,792**	
A. Catch-Up – HUEC		$1,643,394 (1963 – 1973) $1,342,534 (1994)

Note: ½ of 1995 – GREC equalized ½ of 1997 – HUEC

B. Budgeted Retirements

GREC	Total	HUEC
$1,549,258 (1974 – 1978) $1,115,919 (1/2 of 1995)		$566,320 (1974-1978) $466,367 (1/2 of 1997)
In 2000:	**$3,987,665**	
$1,652,326 (1979 – 1981) $1,122,613 (1/2 of 1996)		$456,810 (1979 – 1981) $755,916 (1/2 of 1996)
In 2001:	**$3,822,239**	
$1,106,412 (1982) $1,122,613 (1/2 of 1996)		$837,298 (1982) $755,916 (1/2 of 1996)
In 2002:	**$4,544,050**	
$1,760,980 (1983) $1,447,309 (1/2 of 1997)		$1,042,776 (1983) $292,985 (1/2 of 1995)
In 2003:	**$5,080,821**	
$1,569,756 (1984) $1,447,309 (1/2 of 1997)		$1,770,771 (1984) $292,985 (1/2 of 1995)
In 2004:	**$5,824,032**	
$1,822,352 (1985 – 1986) $1,055,631 (1/2 of 1998)		$2,306,097 (1985 – 1986) $639,952 (1/2 of 1998)
In 2005:	**$3,493,440**	
$817,810 (1987) $1,055,631 (1/2 of 1998)		$980,047 (1987) $639,952 (1/2 of 1998)
In 2006:	**$4,417,981**	
$1,009,655 (1988) $1,162,296 (1/2 of 1999)		$1,530,408 (1988) $715,622 (1/2 of 1999)
In 2007:	**$4,975,602**	
$1,841,355 (1989) $1,162,296 (1/2 of 1999)		$1,256,329 (1989) $715,622 (1/2 of 1999)

Appearing later in this study, this proposed retirement schedule is included in financial forecast models Scenario 1, 2 and 3 (attached Tabs 4, 5 & 6), with no adverse financial impact. The rate decrease analysis (found under Tabs 7, 8 & 9) maintain the same 1999 catch-up refund of $6,590,676 in 1999; however, are decreased annually by $1,625,000 in years 2000 – 2007.

Capital Structure

The capital structure of GREC and HUEC are comparable in terms of cost and composition. As the following table illustrates GREC currently has an equity to total capitalization ratio of 41.71% and HUEC stands at 49.26%. On a combined basis equity to total capitalization results at a 44.7% level and debt at 55.3%.

The cost of debt is virtually identical. As illustrated below, GREC's blended cost of debt at September 30, 1998 is at 5.24% and HUEC's is at 5.37%. The presence of variable rate debt in both debt portfolios account for temporary variances. The blended cost of debt for the combined organization is 5.29%.

A significant departure in similarities noted is the source of long term supplementary debt financing, GREC financing through the National Bank for Cooperatives (CoBank) and HUEC through the National Rural Utilities Cooperative Finance Corporation (CFC). It should be noted, however, that GREC holds an investment in CFC (capital term certificates) as well as a $10 million line of credit and HUEC maintains a $10 million line of credit with CFC. Thus both systems individually have a relationship with CFC and CoBank. The respective capital/equity plans of CFC and CoBank were treated as financially equivalent for purposes of this analysis.

	GREC (9/30/98)	HUEC (9/30/98)	Combined	
~DEBT~				
RUS Loans				
RUS 2%	$ 774,553	$ 931,434	$ 1,705,987	
RUS 5%	$ 22,263,686	$ 14,134,146	$ 36,397,832	
RUS var. (4%-5%)	$ 6,679,076	$ -	$ 6,679,076	
Total RUS	$ 29,717,315	$ 15,065,580	$ 44,782,895	
Supplementary Loans				
CoBank (6%-7%)	$ 10,146,983	$ -	$ 10,146,983	
CFC 7%	$ -	$ 314,672	$ 314,672	
CFC (6.75%-7.0%)	$ -	$ 4,111,640	$ 4,111,640	
CFC var. (6.55%)	$ -	$ 3,156,945	$ 3,156,945	
Total CFC	$ -	$ 7,583,257	$ 7,583,257	
Economic Development Loan				
Zero Interest	$ -	$ 400,000	$ 400,000	
Total Loans	$ 39,864,298	$ 23,048,837	$ 62,913,135	**55.3%**
Blended Debt %	*5.24%*	*5.37%*	*5.29%*	
~EQUITY~				
Member Equity	$ 28,523,303	$ 22,379,509	$ 50,902,812	
Total Equity	$ 28,523,303	$ 22,379,509	$ 50,902,812	**44.7%**
Equity/Total Cap.	*41.71%*	*49.26%*	*44.72%*	
~TOTAL CAPITALIZATION~				
	$ 68,387,601	**$ 45,428,346**	**$ 113,815,947**	**100.0%**

No restructuring is warranted given the high degree of comparability and price efficiency of the existing debt. The combined organization should, at a minimum, request a 100% 2-year RUS loan to realize savings associated with the interest rate differential, further addressed in the next section, "RUS Incentives for Consolidation".

The established relationships with both CFC and CoBank is viewed as a particular attribute of the combined organization and should be maintained to exercise both the privilege of selecting from a richer selection of financing options, but also as competitive leverage in negotiating pricing and special financing requirements.

RUS Incentives for Consolidation

On August 7, 1996 the RUS published Proposed Rules concerning consolidations and consolidations, 7 CFR 1710, 1714, 1717, and 1786, RUS Policies on Mergers and Consolidations of Electric Borrowers. The final rule was issued shortly thereafter with no changes as originally proposed.

The rules "are intended to encourage electric borrowers to merge, consolidate, or enter into similar arrangements that benefit borrowers and rural communities...". The rules set transitional assistance for consolidating systems addressing: (1) Loan processing priority; (2) Supplemental financing requirements; (3) Reimbursement of general funds and interim financing; (4) Deferments of interest and principal; (5) Coverage ratios; and (6) Advance of funds. These opportunities are covered in more detail below.

(1) Loan Processing Priority- RUS will offer priority consideration when processing loans for newly merged systems for a period of up to 5 years following the consolidation.

(2) Supplemental Financing Requirements- RUS may waive the requirement for supplemental financing, at the borrowers request, for the first RUS loan following a consolidation for a loan period of 2 years, if the request is made within the first 5 years of the consolidation. RUS may agree to a longer loan period, or subsequent loans within the first 5 years following consolidation, if the higher interest cost from a supplemental lender would adversely impact the consolidation, or increase electric rates.

(3) Reimbursement of General Funds- RUS has extended the period to reimburse general funds for equipment and facilities included in a RUS approved workplan from 2 years to 4 years. This request must be made

as part of a loan request within 5 years following the consolidation. This feature could considerably augment working capital cash flow through a transitional period that may be characterized by unique working capital requirements.

(4) Deferments of Interest & and Principal- RUS will defer interest and principal payments, as authorized under Section 12 of the RE Act, for a period of up to 5 years. Interest is accrued throughout the deferment period on the delayed payment, thus resulting in higher payments at the resumption of debt service.

(5) Coverage Ratios- RUS requires that borrowers maintain minimum times interest earned ratios (TIER) and debt service coverage (DSC). RUS will accept lower TIER and DSC levels following a consolidation, with a 5 year phase in to minimum levels, provided that TIER does not drop below 1.0.

The consolidation of GREC and HUEC presents opportunities for significant debt-related cost savings under the RUS incentives outlined above. Kenergy should make application for a 4-year 100% RUS loan. Also, Kenergy should seek reimbursement of general funds (where eligible) necessary to meet working capital needs.

For example, the financial forecast indicates that the 2000/2001 work plan period will require $13.8m in RUS financing and $5.9m supplemental financing for a total loan of $19.7m. Substituting the RUS rate loan price of 5.00, an estimated ten-year savings of $360,000 can be realized.

Retail Electric Rates

An overview of the 1998 (10 months) cost of energy by rate class is depicted in the following table:

Class of Service (mills/kwh)	Green River EC	Henderson Union EC
Residential	63.04	64.14 (1)
Small Commercial	61.26	64.17 (1)
Large Commercial & Industrial	25.99	27.48
Public Street & Hwy Lighting	10.85	5.72
Total All Classes	30.41	31.87

Customer mix and energy sales data is detailed below for both individual systems as of year-end 1997 and on a consolidated basis:

	GREC		HUEC		Consolidated Systems	
Class of Service	Number of Customers	Mwh Sales	Number of Customers	Mwh Sales	Number of Customers	Mwh Sales
Residential	25,456	361,139	16,561	224,863	42,017	586,002
Sm Commercial	4,087	174,767	1,403	63,427	5,490	238,194
Lg Commercial & Industrial	7	4,037,233	20	2,301,649	27	6,338,882
Public Street & Hwy Lighting	138	1,398	8	139	146	1,537
Total	29,688	4,574,537	17,992	2,590,078	47,680	7,164,615

(1) Approximate revenue dollars to lower HUEC residential rates = $247,349
small commercial = 184,573
total = $431,922
.8%

Residential Rates

Green River EC and Henderson Union residential rate design is virtually identical.

Green River EC	Henderson Union EC
Monthly Rate	Monthly Rate
Customer Charge................$7.91	Customer Charge................$7.91
Energy Chg per KWH.........$0.056073	Energy Charge per kwh...$0.0569440
Minimum Charge........(customer charge)	Minimum Charge........(customer charge)
NOTE: A Residential Marketing Rate for Thermal Storage is also offered.	

1,000 KWH Bill - $63.98

1,000 KWH Bill - $64.85

Commercial Service Rates

Commercial rates are also very comparable, both employing a customer charge plus a flat energy rate for the smaller customers. The threshold to larger customers is 3-phase, 1,000kw service at GREC, and 51 kva to 500 kva for HUEC.

Green River EC	Henderson Union EC
	50 kva or Less
Monthly Rate	Monthly Rate
	Customer Charge – Single Phase..$11.50
Customer Charge..................$7.91	Customer Charge – Three-Phase...$18.00
Energy Charge per kwh......$ .056073	Energy Charge.......................$.059650
Three-Phase Demand <1,000 kw	**51 kva to 500 kva***
Monthly Rate	Monthly Rate
Customer Charge................$25.00	Customer Charge..................$25.00
Demand Charge per kw............$4.83	Demand Charge per kw...........$3.50
First 200 kwh(kw)kwh.......$ .046496	First 200 kwh(kw)kwh..........$ .0538
Next 200 kwh(kw)kwh.......$ .042098	Next 200 kwh(kw)kwh..........$ .0462
Over 400 kwh(kw)kwh.......$ .040163	Over 400 kwh(kw)kwh..........$ .0392
	*Special Rates for Grain Bins Apply

Large Power Rates

A comparison of the large power rates is illustrated on the following table. The Green River EC rate is distinguished by a demand threshold of 1,000 kw; also a separate tariff applies to several specifically named industrial consumers. Henderson Union EC defines large power as users taking energy at 501kw to 2000kw and over 2000 kw intervals,, with further options for dedicated versus non-dedicated delivery points, also a time differentiated "off-peak" rider is offered. A summary of these large power / industrial rates follows:

Green River EC	Henderson Union EC
Large Power – 1,000 kw & Above (Non-Dedicated Delivery Point)	Large Power-3 (501 kw to 2,000 kw)* (Non-Dedicated Delivery Point)
Monthly Rate Customer Charge..................$100.00 Demand Charge per kw...........$ 7.80 First 200 kwh(kw)kwh............$ .0310 Next 200 kwh(kw)kwh............$ .0255 All over 400 kwh(kw)kwh........$ .0230	Monthly Rate Customer Charge..............$100.00 Demand Charge per kw (first 500 kw)$8.75 Demand Charge per kw (over 500 kw)$7.80 First 200 kwh(kw)kwh...............$ .0310 Next 200 kwh(kw)kwh...............$ .0255 All over 400 kwh(kw)kwh...........$ .0230
NOTE: Secondary voltage adder may and/or Option B – Low Load Factor rates may apply.	*Special Rates for Off Peak
Industrial Consumers Served Under Special Contracts (customer specific) (Dedicated Delivery Point)	Large Power-4 (over 2,000 kw) (Dedicated Delivery Point)
Monthly Rate Demand Charge per kw.....$10.15 - $10.40 Energy Charge per kwh..$.014015 - .016215	Monthly Rate Customer Charge...................$100.00 Demand Charge per kw...........$10.15 First 5,000,000 kwh per kwh...$ .0182750 Over 5,000,000 kwh per kwh..$ .0167750
Smelter Customer	Smelter Customer
Fixed Contract Rates Through 2011 Approximately 25 mills/kwh	Fixed Contract Rates Through 2012 Approximately 25 mills/kwh

Revenues for the two systems are dominated by the immense proportion of energy sales to large industrial concerns, particularly the aluminum smelters, paper mills, coal producers, and food processor. In specific instances, long term agreements are in effect to 2011. The staff of Green River and Henderson Union consider these large customers to be favorably disposed to the consolidation and do not see consolidation specific rate implications in the near term.

Public Street, Highway and Individual Lighting

Green River EC offers this service under two rates, one for street and individual lighting and an additional tariff offering decorative lighting for governmental units. Henderson Union EC offers a street lighting rate to individual consumers and organizations, and a security lamp service to any consumer. Details concerning these rates are included in the following table:

Green River EC	Henderson Union EC
Street and Individual Consumer Lighting	Street Lights
Monthly Rate Mercury Vapor Lamp 7,000 lumen..................$7.09 12,000 lumen.................$8.20 20,000 lumen*................$9.69	Monthly Rate Sodium or Mercury Vapor Lamp 8,000 lumen..................$4.30 20,000 lumen.................$8.10
*(limited to existing installations)	Security Lamp
High Pressure Sodium Lamp 9,500 lumen..................$7.00 27,000 lumen................$9.75	Monthly Rate Sodium or Mercury Vapor Lamp 8,000 lumen..................$6.95 20,000 lumen.................$10.00
Decorative Area Lighting	
Monthly Rate HPS with decorative globe/pole.....$9.54 2 HPS lamps/pole...................$16.85	

Wholesale Power Supply

Green River EC and Henderson Union EC purchase wholesale power pursuant to a long-term "partial requirements" contract with their generation and transmission cooperative, Big Rivers Electric Corporation. Under significant competitive and financial duress, Big Rivers filed chapter 11 bankruptcy in September 1996. Commensurate with this event, Big Rivers and Louisville Gas & Electric (LGE) reached accord on a long term power agreement that will, in concert with the consummation of the bankruptcy workout, resulted in a new power agreement. This event served as a significant mile post in a long and difficult experience for Green River EC and Henderson Union EC.

Diversity in annual load shape has a beneficial impact for the combined organization. GREC engineering has developed the following table which illustrates savings in capacity costs (rural customers only):

	GREC System				HUEC System				Com.			
Yr/Mo	MW	Date	Time		MW	Date	Time		Sum of HUEC/ GREC MW	Coincident HUEC/GREC MW	Date	Time
Jan	72.2	19	7:00		107.5	19	7:00		179.7	179.7	19	7:00
Feb	77	5	18:00		117.7	2	18:30		194.7	194.5	2	18:00
Mar	71.3	8	7:00		91.2	8	7:30		162.5	162.2	8	7:00
Apr	48.3	4	19:00		77.5	15	22:30		125.8	125.5	4	19:00
May	58.6	24	17:30		103.8	24	17:00		162.4	162.2	24	17:30
Jun	68.4	30	17:30		120.1	23	15:30		188.5	187.8	23	17:30
Jul	70.6	19	17:30		122.8	1	15:30		193.4	187.1	19	17:30
Aug	69.6	6	17:30		123.5	5	17:00		193.1	192.9	6	17:30
Sep	56.8	11	17:00		103.2	6	17:00		160	156.9	6	17:00
Oct	44.5	11	7:00		74	2	17:30		118.5	117.1	2	19:30
Nov	58.8	27	7:00		91.5	26	19:00		150.3	149.1	26	19:00
Dec	69.8	20	7:00		113.5	19	18:00		183.3	182.9	19	18:00
									2012.2	1997.9		
						MW Reduced			14.3			
							$/kW		$7.37			
						Annual Savings			$105,148			

Historical Financial Position and Ratio Analysis

The financial characteristics of GREC and HUEC are fundamentally consistent and complimentary, differentiated by the relative size of each organization. Five years of historical financial data (operating statements and balance sheets), statistical data and key ratios, derived from year-end RUS Form 7's are presented below.

Green River EC Statement of Operations

	1993	1994	1995	1996	1997
OPERATING REVENUE	$145,046,012	$141,102,545	$143,532,067	$145,266,952	$143,851,556
POWER PRODUCTION EXP.	$0	$0	$0	$0	$0
COST OF POWER	$133,119,399	$129,309,720	$130,933,290	$131,674,969	$130,017,420
TRANSMISSION EXPENSE	$0	$0	$0	$0	$0
DISTR. EXPENSE OPERATION	$1,157,632	$1,139,014	$1,109,922	$1,090,099	$1,023,414
DISTR. EXPENSE MAINT.	$1,829,020	$1,651,745	$1,846,572	$2,410,333	$1,625,265
CONSUMER ACCOUNT EXPENSE	$793,024	$802,853	$793,905	$815,860	$879,320
CUSTOMER SERVICE EXPENSE	$206,680	$185,625	$240,195	$225,842	$205,771
SALES EXPENSE	$458	$702	$8,872	$8,264	$8,235
ADMIN. AND GENERAL EXP.	$2,333,111	$2,352,028	$2,301,084	$2,548,321	$2,768,336
TOTAL OPER.& MAINT.EXP.	$139,439,324	$135,441,687	$137,233,840	$138,773,688	$136,527,761
DEPR. & AMORT. EXPENSE	$1,820,081	$1,853,914	$1,933,565	$2,021,258	$2,145,262
TAX EXPENSE PROPERTY	$340,487	$392,056	$407,594	$443,086	$454,762
TAX EXPENSE OTHER	$376,195	$380,160	$380,975	$376,828	$378,031
INTEREST LONG TERM DEBT	$1,593,754	$1,759,465	$1,858,237	$1,997,940	$1,960,800
INTEREST CHARGED TO CONST	$0	$0	$0	$0	$0
INTEREST EXPENSE OTHER	$32,655	$25,534	$28,516	$30,683	$37,875
OTHER DEDUCTIONS	$46,417	$75,690	$79,379	$36,494	$39,372
TOTAL COST OF ELEC. SERV.	$143,648,913	$139,928,506	$141,922,106	$143,679,977	$141,543,863
PATRONAGE CAPITAL & MARG.	$1,397,099	$1,174,039	$1,609,961	$1,586,975	$2,307,693
NON OPERATING MARGINS-INT	$223,297	$413,751	$444,887	$560,128	$545,452
A.F.U.D.C.	$0	$0	$0	$0	$0
INCOME (LOSS) FROM EQUITY INVEST	$4,548	$15,531	($484)	($21,111)	($10,000)
NON OPERATING MARGINS-OTH	$38,350	$92,471	$90,808	$52,655	$16,979
GEN. & TRANS. CAPITAL CR.	$0	$0	$0	$0	$0
OTHER CAPITAL CREDITS	$65,181	$104,986	$86,664	$66,580	$34,495
EXTRAORDINARY ITEMS	$0	$638,334	$0	$0	$0
PATRONAGE CAPITAL,MARGINS	$1,728,475	$2,439,112	$2,231,836	$2,245,227	$2,894,619

Green River EC Balance Sheet

	1993	1994	1995	1996	1997
ASSETS AND OTHER DEBITS					
-					
TOTAL PLANT IN SERVICE	$58,133,243	$60,376,115	$62,951,590	$66,734,809	$70,030,645
CONST. WORK IN PROGRESS	$414,051	$474,047	$660,538	$551,475	$756,556
TOTAL UTILITY PLANT	$58,547,294	$60,850,162	$63,612,128	$67,286,284	$70,787,201
ACCUM DEPREC.&AMORT	$11,346,548	$11,426,813	$12,139,373	$13,452,965	$14,971,629
NET UTILITY PLANT	$47,200,746	$49,423,349	$51,472,755	$53,833,319	$55,815,572
NONUTILITY PROPERTY - NET	$0	$0	$0	$2,227	$5,421
INVEST IN SUBSIDIARY CO'S	$41,529	$53,530	$62,770	$41,171	$32,773
INVEST/ASSOC ORG-PAT CAP	$23,401,629	$23,457,295	$23,474,579	$23,482,781	$23,490,515
INVEST/ASSO ORG OTHER-G.F.	$0	$0	$0	$0	$0
INVEST/ASSOC ORG NON G.F.	$2,120,657	$2,152,111	$2,217,974	$2,276,352	$2,303,112
INV IN ECON DEV PROJECTS	$6,600	$406,600	$359,259	$314,815	$270,370
OTHER INVESTMENTS	$151,588	$120,429	$160,445	$140,711	$102,251
SPECIAL FUNDS	$775,857	$909,609	$1,002,875	$1,164,540	$1,370,634
TOT-OTHER PROP & INVEST	$26,497,860	$27,099,574	$27,277,902	$27,422,597	$27,575,076
CASH-GENERAL FUNDS	$0	$173,250	$183,367	$106,823	$284,871
CASH-CONST FUNDS-TRUSTEE	$0	$0	$0	$0	$0
SPECIAL DEPOSITS	$0	$0	$0	$0	$0
TEMPORY INVESTMENTS	$2,975,190	$3,719,558	$5,770,000	$5,577,500	$5,134,000
NOTES RECEIVABLE-NET	$0	$0	$0	$0	$0
A/R-NET SALE OF ENERGY	$9,440,090	$12,456,745	$12,770,378	$7,709,676	$10,624,600
A/R-NET OTHER	$148,158	$201,107	$252,256	$203,649	$160,040
M & S/ELECTRIC & OTHER	$655,627	$549,771	$508,948	$542,318	$597,026
PREPAYMENTS	$1,078,592	$1,231,328	$1,216,107	$1,346,009	$1,430,513
OTHER-CUR & ACCRUED ASSETS	$3,630,348	$3,192,738	$3,554,732	$3,494,588	$3,422,561
TOTAL CURR & ACCRUED ASSETS	$17,928,005	$21,524,497	$24,255,788	$18,980,563	$21,653,611
REGULATORY ASSETS	$0	$0	$0	$0	$0
OTHER DEFERRED DEBITS	$6,695,305	$11,873,637	$39,590,758	$20,165,610	$72,065
ACCUM DEFERRED INCOME TAXES	$0	$0	$0	$0	$0
TOTAL ASSETS & OTHER DEBITS	$98,321,916	$109,921,057	$142,597,203	$120,402,089	$105,116,324

	1993	1994	1995	1996	1997
LIABILITIES & OTHER CREDITS					
MEMBERSHIPS	$119,010	$121,790	$124,400	$127,810	$131,095
PATRONAGE CAPITAL	$45,579,721	$48,020,399	$50,252,235	$49,852,592	$50,256,675
OPER MARGINS-PRIOR YR	$78,651	$78,651	$78,651	$78,651	$78,651
OPER MARGINS-CURR YR	$0	$0	$0	$0	$0
NON OPERATING MARGINS	$339	$338	$338	$338	$338
OTHER MARGINS & EQUITIES	$39,097	$37,527	$37,791	$568,646	$1,024,349
TOTAL MARGINS & EQUITIES	$45,816,818	$48,258,705	$50,493,415	$50,628,037	$51,491,108
LONG-TERM DEBT/REA	$24,675,899	$24,535,204	$27,474,615	$27,735,976	$28,406,531
LONG-TERM DEBT ECON DEV	$0	$400,000	$359,259	$270,370	$225,925
LONG-TERM DEBT REA GUAR	$0	$0	$0	$0	$0
LONG-TERM DEBT OTHER	$8,730,684	$8,433,882	$8,132,887	$8,903,692	$8,663,643
TOTAL LONG TERM DEBT	$33,406,583	$33,369,086	$35,966,761	$36,910,038	$37,296,099
OBLIGATIONS UNDER CAPITAL LEASES	$0	$0	$0	$0	$0
ACCUMULATED OPER PROV	$794,457	$990,009	$1,146,575	$1,371,240	$1,639,331
TOTAL NON CURRENT LIAB	$794,457	$990,009	$1,146,575	$1,371,240	$1,639,331
NOTES PAYABLE	$0	$0	$0	$1,257,001	$1,226,123
ACCOUNTS PAYABLE	$10,549,723	$14,139,833	$13,700,917	$8,583,692	$11,814,914
CONSUMERS DEPOSITS	$397,988	$482,123	$468,004	$581,306	$668,630
OTHER CURR & ACCR LIAB	$587,505	$498,250	$972,845	$648,814	$659,960
TOTAL CURR & ACCR LIAB	$11,535,216	$15,120,206	$15,141,766	$11,070,813	$14,369,627
DEFERRED CREDITS	$6,768,842	$12,183,051	$39,848,686	$20,421,961	$320,159
ACCUM DEFERRED INC TAX	$0	$0	$0	$0	$0
TOTAL LIABIL & OTHER CR	$98,321,916	$109,921,057	$142,597,203	$120,402,089	$105,116,324

Green River EC Statistical Data

	1993	1994	1995	1996	1997
TOTAL MILES OF LINE	3,268	3,300	3,326	3,371	3,419
TOTAL CONSUMERS	26,942	27,475	28,152	28,992	29,688
TOTAL MWH SOLD	4,189,820	4,080,438	4,336,169	4,402,746	4,574,537
TOTAL # OF EMPLOYEES	119	113	115	112	112

Green River EC Key Ratios

	1993	1994	1995	1996	1997
TIER	2.08	2.39	2.2	2.12	2.48
M/TIER	2.04	2.33	2.15	2.09	2.46
PRR	$4.91	$5.16	$5.05	$4.95	$5.12
EQUITY RATIO	46.60%	43.90%	35.41%	42.05%	48.98%
REV/MILE	$44,384	$42,758	$43,155	$43,093	$42,074
MODIFIED GEN FUNDS/TTL PLANT	5.08%	6.40%	9.36%	8.45%	4.02%
CURRENT RATIO	1.55	1.42	1.6	1.71	1.51
RATE OF RET ON RATE BASE	5.53%	5.22%	5.95%	6.01%	6.91%
CONSUMER/MILE	8.24	8.33	8.46	8.58	8.68
CONSUMER/EMPLOYEE	226	243	245	258	265
LONG TERM DEBT/CONSUMER	$1,240	$1,215	$1,278	$1,276	$1,256
TOTAL MARGIN/CONSUMER	$64.16	$88.78	$79.28	$78.73	$98.83
CONS ACCT EXP/CONS	$29.43	$29.22	$28.20	$28.61	$30.02
A&G EXP/CONS	$86.60	$85.61	$81.74	$89.36	$94.52
CUS SERV EXP/CONS	$7.67	$6.76	$8.53	$7.92	$7.03
O&M+A&G+CONS ACCT EX/CONS	$226.89	$216.40	$214.96	$240.70	$214.98
POW+TX+DEP+INT/CONS	$5,095.49	$4,867.00	$4,814.66	$4,786.78	$4,607.90
REV-POWER COST/MWH	$2,846.57	$2,890.09	$2,905.51	$3,069.36	$3,008.77
POWER COST/MWH	$31,772.10	$31,690.16	$30,195.62	$29,870.82	$28,437.38
TTL PLANT/$1000	$58,547	$60,850	$63,612	$67,286	$70,787
PLANT/MILES LINE	$17,915	$18,439	$19,126	$19,960	$20,704

Henderson Union EC Statement of Operations

	1993	1994	1995	1996	1997
OPERATING REVENUE	$114,271,410	$98,822,318	$95,034,832	$91,087,806	$84,379,240
POWER PRODUCTION EXP.	$0	$0	$0	$0	$0
COST OF POWER	$105,982,148	$90,188,347	$86,884,019	$81,675,374	$75,143,096
TRANSMISSION EXPENSE	$0	$0	$0	$0	$0
DISTR. EXPENSE OPERATION	$912,255	$827,003	$912,067	$918,614	$946,916
DISTR. EXPENSE MAINT.	$1,324,824	$1,229,581	$1,318,930	$1,531,260	$1,367,723
CONSUMER ACCOUNT EXP	$563,118	$780,581	$671,631	$594,588	$632,623
CUSTOMER SERVICE EXP	$73,999	$75,133	$87,313	$94,688	$87,254
SALES EXPENSE	$76,096	$95,482	$89,949	$53,194	$75,663
ADMIM. AND GENERAL EXP.	$1,611,372	$1,419,365	$1,620,520	$1,745,950	$1,895,195
TOTAL OPER.& MAINT.EXP.	$110,543,812	$94,615,492	$91,584,429	$86,613,668	$80,148,470
DEPR. & AMORT. EXPENSE	$1,366,000	$1,409,753	$1,460,673	$1,514,015	$1,644,568
TAX EXPENSE PROPERTY	$276,000	$322,750	$312,000	$366,000	$360,486
TAX EXPENSE OTHER	$268,479	$271,045	$259,899	$255,603	$263,460
INTEREST LONG TERM DEBT	$961,705	$1,051,161	$1,076,856	$1,072,452	$1,145,642
INTEREST CHARGED TO CONS	$0	$0	$0	$0	$0
INTEREST EXPENSE OTHER	$13,258	$14,946	$16,970	$12,865	$13,380
OTHER DEDUCTIONS	$49,635	$69,249	$21,343	$24,577	$20,920
TOTAL COST OF ELEC. SERV.	$113,478,889	$97,754,396	$94,732,170	$89,859,180	$83,596,926
PATRONAGE CAPITAL & MARG.	$792,521	$1,067,922	$302,662	$1,228,626	$782,314
NON OPERATING MRGNS-INT	$187,587	$223,626	$230,402	$165,100	$148,180
A.F.U.D.C.	$0	$0	$0	$0	$0
INCOME (LOSS) FROM EQ INV	$4,548	$5,087	$0	($9,448)	($45,475)
NON OPERATING MRGNS-OTH	($79,535)	$27,020	$1,533	$84,695	($4,576)
GEN. & TRANS. CAPITAL CR.	$0	$0	$0	$0	$0
OTHER CAPITAL CREDITS	$43,949	$39,845	$57,442	$53,697	$54,540
EXTRAORDINARY ITEMS	$0	$0	$0	$0	$0
PATR CAPITAL,MARGINS	$949,070	$1,363,500	$592,039	$1,522,670	$934,983

Henderson Union EC Balance Sheet

	1993	1994	1995	1996	1997
ASSETS AND OTHER DEBITS					
TOTAL PLANT IN SERVICE	$45,025,357	$46,594,136	$48,690,204	$51,974,617	$54,910,273
CONST. WORK IN PROGRESS	$78,130	$80,952	$180,069	$140,769	$236,214
TOTAL UTILITY PLANT	$45,103,487	$46,675,088	$48,870,273	$52,115,386	$55,146,487
ACCUM DEPREC.&AMORT	$10,053,066	$10,655,549	$11,249,273	$11,768,979	$12,330,151
NET UTILITY PLANT	$35,050,421	$36,019,539	$37,621,000	$40,346,407	$42,816,336
NONUTILITY PROPERTY - NET	$0	$0	$0	$0	$2,868
INVEST IN SUBSIDIARY COMPANIES	$42,529	$44,093	$53,885	$43,874	$0
INVEST/ASSOC ORG-PAT CAP	$16,742,223	$16,737,751	$16,737,907	$16,736,723	$16,734,844
INVEST/ASSO ORG OTHER-G.F.	$5,000	$5,000	$5,000	$5,000	$5,000
INVEST/ASSOC ORG NON G.F.	$1,224,125	$1,222,713	$1,258,503	$1,257,662	$1,255,926
INV IN ECON DEV PROJECTS	$0	$0	$0	$0	$400,000
OTHER INVESTMENTS	$105,270	$133,704	$101,298	$68,227	$81,261
SPECIAL FUNDS	$103,842	$113,772	$124,394	$0	$0
TOT-OTHER PROP & INVEST	$18,222,989	$18,257,033	$18,280,987	$18,111,486	$18,479,899
CASH-GENERAL FUNDS	$404,596	$832,112	$238,285	$216,216	$167,713
CASH-CONST FUNDS-TRUSTEE	$0	$33,547	$0	$0	$0
SPECIAL DEPOSITS	$0	$0	$0	$0	$0
TEMPORY INVESTMENTS	$0	$1,000,000	$2,100,000	$2,400,000	$795,000
NOTES RECEIVABLE-NET	$0	$0	$0	$0	$0
A/R-NET SALE OF ENERGY	$7,962,207	$9,234,734	$9,242,131	$4,379,551	$6,469,435
A/R-NET OTHER	$156,624	$123,652	$134,545	$107,598	$162,835
M & S/ELECTRIC & OTHER	$708,033	$750,319	$853,839	$777,344	$975,168
PREPAYMENTS	$112,278	$197,196	$174,821	$211,362	$218,496
OTHER-CUR & ACCRUED ASSETS	$14,348	$14,396	$15,526	$14,859	$54,787
TOTAL CURR & ACCRUED ASSETS	$9,358,086	$12,185,956	$12,759,147	$8,106,930	$8,843,434
REGULATORY ASSETS	$0	$0	$0	$0	$0
OTHER DEFERRED DEBITS	$901,987	$835,865	$773,244	$679,227	$613,183
ACCUM DEFERRED INCOME TAXES	$0	$0	$0	$0	$0
TOTAL ASSETS & OTHER DEBITS	$63,533,483	$67,298,393	$69,434,378	$67,244,050	$70,752,852

LIABILITIES & OTHER CR'S	1993	1994	1995	1996	1997
MEMBERSHIPS	$267,240	$277,495	$282,540	$287,570	$292,430
PATRONAGE CAPITAL	$33,779,925	$34,588,911	$35,850,371	$36,317,343	$37,704,554
OPER MARGINS-PRIOR YR	$0	$0	$0	$0	$0
OPER MARGINS-CURR YR	$836,470	$1,107,767	$360,104	$1,282,323	$836,854
NON OPERATING MARGINS	$112,600	$255,733	$231,935	$240,347	$98,129
OTHER MARGINS & EQUITIES	$26,371	$26,353	$26,343	$26,635	$27,873
TOTAL MARGINS & EQUITIES	$35,022,606	$36,256,259	$36,751,293	$38,154,218	$38,959,840
LONG-TERM DEBT/REA	$14,007,295	$14,053,386	$14,733,151	$14,707,478	$14,930,320
LONG-TERM DEBT ECON DEVELOPMENT	$0	$0	$0	$0	$400,000
LONG-TERM DEBT REA GUARANTEED	$0	$0	$0	$6,153,648	$0
LONG-TERM DEBT OTHER	$7,122,288	$6,382,100	$5,639,506	$55,392	$6,207,121
TOTAL LONG TERM DEBT	$21,129,583	$20,435,486	$20,372,657	$20,916,518	$21,537,441
OBLIGATIONS UNDER CAPITAL LEASES	$0	$0	$0	$0	$0
ACCUMULATED OPERATING PROVISIONS	$322,893	$355,763	$374,648	$387,684	$416,197
TOTAL NON CURRENT LIABILITIES	$322,893	$355,763	$374,648	$387,684	$416,197
NOTES PAYABLE	$0	$0	$0	$853,677	$565,998
ACCOUNTS PAYABLE	$5,219,889	$8,425,741	$9,420,279	$4,487,690	$6,587,326
CONSUMERS DEPOSITS	$176,020	$262,063	$540,691	$765,211	$947,139
OTHER CURR & ACCR LIABIL	$1,478,172	$1,425,792	$1,784,788	$1,460,879	$1,501,994
TOTAL CURR & ACCR LIABIL	$6,874,081	$10,113,596	$11,745,758	$7,567,457	$9,602,457
DEFERRED CREDITS	$184,320	$137,289	$190,022	$218,173	$236,917
ACCUM DEFERRED INCOME TAXES	$0	$0	$0	$0	$0
TOTAL LIABIL & OTHER CREDITS	$63,533,483	$67,298,393	$69,434,378	$67,244,050	$70,752,852

Henderson Union EC Statistical Data

	1993	1994	1995	1996	1997
TOTAL MILES OF LINE	2,947	2,956	2,976	2,999	3,015
TOTAL CONSUMERS	16,984	17,271	17,510	17,790	17,992
TOTAL MWH SOLD	3,379,229	2,513,848	2,710,017	2,694,960	2,590,078
TOTAL # OF EMPLOYEES	78	80	78	80	79

Henderson Union EC Key Ratios

	1993	1994	1995	1996	1997
TIER	1.99	2.3	1.55	2.42	1.82
M/TIER	1.94	2.26	1.5	2.37	1.77
PRR	$5.44	$5.41	$6.00	$5.72	$6.54
EQUITY RATIO	55.12%	53.87%	52.93%	56.74%	55.06%
REV/MILE	$38,776	$33,431	$31,934	$30,376	$27,988
MODIFIED GEN FUNDS/TTL PLANT	0.90%	4.00%	4.78%	5.02%	1.75%
CURRENT RATIO	1.36	1.2	1.09	1.07	0.92
RATE OF RET ON RATE BASE	4.39%	5.24%	3.28%	n/a	n/a
CONSUMER/MILE	5.76	5.84	5.88	5.93	5.97
CONSUMER/EMPLOYEE	218	216	224	222	228
LONG TERM DEBT/CONSUMER	$1,244	$1,183	$1,163	$1,176	$1,197
TOTAL MARGIN/CONSUMER	$55.88	$78.95	$33.81	$85.59	$51.97
CONS ACCT EXP/CONS	$33.16	$45.20	$38.36	$33.42	$35.16
A&G EXP/CONS	$94.88	$82.18	$92.55	$98.14	$105.34
CUS SERV EXP/CONS	$4.36	$4.35	$4.99	$5.32	$4.85
O&M+A&G+CONS ACCT EX/CONS	$259.75	$246.46	$258.32	$171.13	$163.81
POW+TX+DEP+INT/CONS	$6,410.01	$5,399.69	$5,140.51	$4,771.41	$4,366.23
REV-POWER COST/MWH	$2,453.00	$3,434.56	$3,007.66	$3,492.61	$3,565.97
POWER COST/MWH	$31,362.82	$35,876.61	$32,060.32	$30,034.65	$28,724.20
TTL PLANT/$1000	$45,103	$46,675	$48,870	$52,115	$55,146
PLANT/MILES LINE	$15,305	$15,790	$16,421	$17,379	$18,291

Forecasted Financial Impact of Consolidation

To model the projected financial profile and resulting benefits of a consolidated organization both GREC and HUEC developed independent 10-year financial forecasts for their systems. To the degree practicable, the forecasts embraced analogous assumptions and methodology to ensure consistency in analysis. A summary of the key assumptions are enumerated below:

ASSUMPTION	GREC	HUEC
A. Load Estimates	Utilizes RUS approved 1997 PRS growth rates applied to existing customer levels. Ten-year non-dedicated system growth rate is 3.2% (historical at 2.9%). A 5^{th} potline at NSA included in projections.	Utilizes RUS approved 1997 PRS updated for known changes in commercial loads. Ten-year non-dedicated system growth rate 2.7% (historical at 2.7%).
B. Plant Additions	Utilizes RUS approved 1998-1999 Construction Work Plan. Ten-year compound growth in plant is 6.2% (historical at 5.6%), which includes additional 85 MW of substation capacity and 75 miles per year of copper changeouts. Includes a $2,000,000 expansion to Operations building. Future years beyond 1999 include a 3.5% escalation.	Utilizes RUS approved 1997-1999 Construction Work Plan. Ten-year compound growth in plant is 4.3% (historical at 5.4%), which includes one new substation and a program to replace all copper in five years. Future years beyond 1999 include a 3.5% escalation.
C. Power Cost	Utilizes estimated 1998 average cost per KWH of approximately 27 mills/KWH, consistent with BREC projection of no rate changes until 2007 (excluding environmental).	Utilizes estimated 1998 average cost per KWH of approximately 27 mills/KWH, consistent with BREC projection of no rate changes until 2007 (excluding environmental).
D. Operating Revenues	Based on budgeted 1999 revenue per KWH plus cumulative rate increases of 3% over the 10-year period for non-dedicated system (historical at 6.5%).	Based on actual nine months ending 9/30/98 revenue per KWH plus cumulative rate increases of 8% over the 10-year period for non-dedicated system (historical at 0%).
E. Operating Expenses	Applied an escalation of 3.5% to 1999 budgeted amounts for variable expenses. Fixed expenses are projected at a constant ratio to plant. Ten-year compound growth rate is 5% for total expenses (historical at 4.5%).	Applied an escalation of 3.5% to 1999 budgeted amounts for variable expenses. Fixed expenses are projected at a constant ratio to plant. Ten-year compound growth rate is 4.2% for total expenses (historical at 4.1%).
F. Financing Assumptions	Conventional 70% RUS at 5% and 30% supplemental (CoBank) at 5.93%. General funds invested in plant of $19m. Cash at 10%/plant in 2007.	Conventional 70% RUS at 5% and 30% supplemental (CFC) at 6%. General funds invested in plant of $11m. Cash at 2%/plant in 2007.

ASSUMPTION	GREC	HUEC
G. TIER	2.0 TIER minimum	2.0 TIER minimum
H. Capital Management Policy	Targeted equity to total capital ratio of 30-40%. Capital credit retirements of $21m.	Minimum equity to total capital ratio of 40%. Capital credit retirements of $14m.

Complete details of the Statement Assumptions are include in the Financial Forecast supplement to this report.

A comparison of the two individual systems financial forecasts follows:

Synopsis of Individual Financial Forecasts

ITEM		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Equity/Asset Ratio (%)	GREC	34.52	33.05	31.95	30.45	30.05	29.46	28.75	28.91	28.97	29.57
	HUEC	39.78	37.83	37.05	35.24	34.15	33.94	34.22	34.28	34.38	34.51
Equity/Capital Ratio (%)	GREC	41.92	39.70	37.98	35.75	35.05	34.06	32.92	32.92	32.79	33.34
	HUEC	48.72	45.85	44.70	42.06	40.41	39.97	40.22	40.16	40.15	40.17
TIER	GREC	2.62	2.18	2.11	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	HUEC	2.10	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
DSC	GREC	2.28	2.11	2.11	2.07	2.08	2.06	2.07	2.05	2.03	2.00
	HUEC	2.08	1.95	2.00	1.96	1.94	1.96	1.96	1.93	1.90	1.87
TUP/kwh Sold ($)	GREC	1.60	1.70	1.57	1.68	1.77	1.88	2.01	2.10	2.20	2.26
	HUEC	2.23	2.31	2.41	2.54	2.68	2.76	2.84	2.93	3.02	3.11
O&M Expense/ Consumer ($)	GREC	133.55	140.89	142.54	144.23	146.22	148.24	150.32	152.43	154.58	157.07
	HUEC	193.31	214.86	218.85	222.92	227.34	231.83	236.43	241.11	245.88	251.05
A&G Expense/ Consumer ($)	GREC	70.09	71.42	72.26	73.12	74.13	75.15	76.21	77.27	78.37	79.63
	HUEC	66.25	61.69	62.84	64.01	65.27	66.56	67.88	69.23	70.60	72.08
% Rate Increase Required (rural)	GREC	0.00%	0.00%	0.00%	0.16%	0.91%	1.41%	2.32%	2.84%	3.08%	3.04%
	HUEC	0.00%	1.55%	2.47%	3.68%	5.41%	6.35%	6.61%	7.02%	7.54%	8.13%
Rate Increase Required ($1,000)	GREC	0	0	0	57	333	533	909	1,146	1,282	1,307
	HUEC	0	346	564	859	1,287	1,538	1,631	1,765	1,930	2,118
Total Revenue ($1,000 present rates)	GREC	146,683	150,429	169,831	171,108	172,350	173,639	174,972	176,333	177,764	179,173
	HUEC	83,630	84,865	85,360	85,866	86,338	86,804	87,276	87,757	88,247	88,717
Total Margins ($1,000)	GREC	3,529	2,469	2,760	2,758	3,010	3,210	3,483	3,729	3,922	4,081
	HUEC	1,312	1,394	1,493	1,615	1,788	1,887	1,933	1,965	2,011	2,057
Total Utility Plant ($1,000)	GREC	77,204	83,457	88,751	95,527	100,693	107,339	115,465	120,878	127,283	131,374
	HUEC	58,308	61,104	63,927	67,529	71,335	73,705	76,140	78,644	81,221	83,877

Combined Forecasts

The individual forecasts (tabs 1 & 2) were next combined on an unadjusted basis (tab 3). This combination creates a "Base" or "Reference" case for comparison to the anticipated benefits of the consolidation. In other words, this reference case is a base line for modeling the expected impacts and benefits of consolidating Green river EC and Henderson Union EC. The synergies of a combined organization may then be examined in terms of financial operating performance, growth in utility plant, key financial ratios and rates necessary to support equity and TIER objectives, cash flow, debt service, and other critical areas.

Adjustments were made to the reference case to simulate the reduction in personnel resulting from the combination of the two systems. Specifically the following forecasted cost-drivers were modified, using observed cost data provided by the RUS data base of rural electric systems, representing a sample of similarly sized rural electric cooperatives reflective of the anticipated cost profile of the proposed combined organization:

- Operation & Maintenance Expense[3] / Total Utility Plant
- Administrative & General Expense[4] / Total Utility Plant
- Customer Sales and Accounting Expense[5] per Customer

Finally, capital credits were adjusted to reflect the additional 1999 general retirement to Henderson Union EC customers as discussed in the Capital Credits section above. The recommended refund including general refunds and estate payments totals $6,943,792. A schedule of refunds for the remaining years of the forecast is also recommended to bring HUEC and GREC into unison.

The 2000 and 2001 loan request was modeled in all three of the following scenarios assuming a 100% RUS loan at 5%. See the "RUS Incentives for Consolidation" section for further details.

The above referenced cost drivers reflect, in large part, the savings associated with greater operating efficiencies resulting in reduced personnel, and elimination of redundant positions. Support for the recognition of these savings is addressed in detail under the Organization Structure section, demonstrating the expected number of personnel under a combined organization. Three Consolidation Model scenario's were developed by amending the base case model to consider the pace at which the combined organization will realize the staff reductions and related organizational efficiencies. The three scenarios are:

Scenario 1: This model reflects the immediate impact of consolidation from year 1 through year 10 of the forecast period. Although an

[3] Represents Distribution Operation and Maintenance Expense
[4] Represents Administrative & General and Other Deductions
[5] Represents Customer Accounts Expense, Customer Service and Informational Expense, and Sales Expense

improbable case, this model presents the full financial impact of the consolidation for a full ten year horizon, which is useful in evaluating the consolidation proposal. (tab 4)

Scenario 2: This model submits a graduated ramping period of 5-years to full realization of the expected benefits of the consolidation. Such devices as a Special Early Retirement Plan (SERP) can greatly accelerate the advancement to the desired level of personnel. (tab 5)

Scenario 3: This model submits a graduated ramping period of 10-years to full realization of the expected benefits of the consolidation. (tab 6)

Scenario 1: Immediate Phase-In (tab 4)

Adjustments made to Base Case:

A. Assumes immediate impact of consolidation utilizing ratios of comparably sized systems. Total ten-year reduction in O&M, A&G and customer account expense of $21,981,000.

B. Wholesale power cost was reduced to reflect estimated savings due to diversity realized when combining a winter and summer peaking load. Total ten-year reduction of $1,279,000.

C. 2000 and 2001 loan funds were assumed to be 100% RUS. Total ten-year reduction of $359,000.

Scenario 1 (immediate)						
Year	Reference Case O&M, Cust Acct and A&G	Scenario 1 (immediate) O&M, Cust Acct and A&G	Net Savings from Operations	Power Cost Savings	RUS Interest Savings from 100% Loan	Total Savings
1998	$13,166,097	$11,432,429	$1,733,668	$111,551	$0	$1,845,219
1999	$14,146,386	$12,309,471	$1,836,915	$114,898	$0	$1,951,813

Scenario 1 (immediate)						
2000	$14,641,500	$12,711,819	$1,929,681	$118,345	$11,357	$2,059,383
2001	$15,153,963	$13,106,984	$2,046,979	$121,895	$38,749	$2,207,623
2002	$15,684,351	$13,535,715	$2,148,636	$125,552	$53,164	$2,327,352
2003	$16,233,303	$13,982,184	$2,251,119	$129,319	$51,284	$2,431,722
2004	$16,801,471	$14,431,505	$2,369,966	$133,198	$51,109	$2,554,273
2005	$17,389,521	$14,928,746	$2,460,775	$137,194	$51,211	$2,649,180
2006	$17,998,155	$15,435,336	$2,562,819	$141,310	$51,280	$2,755,409
2007	$18,628,089	$15,987,234	$2,640,855	$145,549	$51,315	$2,837,719
Total			$21,981,413	$1,278,811	$359,469	$23,619,693

A selection of key financial indicators produced by the financial forecasts, comparing the Reference Case to Scenario 1, further details the impact of the consolidation, as follows:

	CASE	1999	2003	2007
Equity/Assets Ratio	Base	34.84	30.96	31.12
	Scenario 1	35.18	31.65	30.26
Equity to Total Capitalization	Base	42.01	36.07	35.48
	Scenario 1	42.38	36.81	34.56
O & M Expense per Consumer	Base	168.60	179.07	191.25
	Scenario 1	132.31	137.01	144.71
Rate Increase Required	Base	0.00	3.43	5.14
	Scenario 1	0.00	0.00	0.93

Scenario 2: 5 year phase-in (tab 5)

Adjustments made to Base Case:

A. Assumes five-year phase-in impact of consolidation utilizing ratios of comparably-sized systems. Total ten-year reduction in O&M, A&G and customer account expense of $18,293,000.

B. Wholesale power cost was reduced to reflect estimated savings due to diversity realized when combining a winter and summer peaking load. Total ten-year reduction of $1,279,000.

C. 2000 and 2001 loan funds were assumed to be 100% RUS. Total ten-year reduction of $359,000.

D. Capital credit retirements were adjusted to equalize years oustanding and achieve a ten-year cycle by 2007. Total retirements over the ten-year period are $46 million.

Scenario 2 (5-yr phase)						
Year	Reference Case O&M, Cust Acct and A&G	Scenario 2 (5 year phase-in) O&M, Cust Acct and A&G	Net Savings from Operations	Power Cost Savings	RUS Interest Savings from 100% Loan	Total Savings
1998	$13,166,097	$12,819,285	$346,812	$111,551	$0	$458,363
1999	$14,146,386	$13,420,698	$725,688	$114,898	$0	$840,586
2000	$14,641,500	$13,489,956	$1,151,544	$118,345	$11,357	$1,281,246
2001	$15,153,963	$13,519,594	$1,634,369	$121,895	$38,749	$1,795,013
2002	$15,684,351	$13,535,790	$2,148,561	$125,552	$53,164	$2,327,277
2003	$16,233,303	$13,982,184	$2,251,119	$129,319	$51,284	$2,431,722
2004	$16,801,471	$14,431,504	$2,369,967	$133,198	$51,109	$2,554,274
2005	$17,389,521	$14,928,746	$2,460,775	$137,194	$51,211	$2,649,180
2006	$17,998,155	$15,435,336	$2,562,819	$141,310	$51,280	$2,755,409
2007	$18,628,089	$15,987,234	$2,640,855	$145,549	$51,315	$2,837,719
Total			$18,292,509	$1,278,811	$359,469	$19,930,789

A selection of key financial indicators produced by the financial forecasts, comparing the Reference Case to Scenario 2, further details the impact of the consolidation, as follows:

	CASE	1999	2003	2007
Equity/Assets Ratio	Base	34.84	30.96	31.12
	Scenario 2	34.09	30.25	28.99
Equity to Total Capitalization	Base	42.01	36.07	35.48
	Scenario 2	41.21	35.30	33.20
O & M Expense per Consumer	Base	168.60	179.07	191.25
	Scenario 2	154.08	137.01	144.71
Rate Increase Required	Base	0.00	3.43	5.14
	Scenario 2	0.00	0.00	0.93

Scenario 3- 10 year phase-in (tab 6)

Adjustments made to Base Case:

A. Assumes ten-year phase-in impact of consolidation utilizing ratios of comparably-sized systems. Total ten-year reduction in O&M, A&G and customer account expense of $12,879,000.

B. Wholesale power cost was reduced to reflect estimated savings due to diversity realized when combining a winter and summer peaking load. Total ten-year reduction of $1,279,000.

C. 2000 and 2001 loan funds were assumed to be 100% RUS. Total ten-year reduction of $359,000.

D. Capital credit retirements were adjusted to equalize years oustanding and achieve a ten-year cycle by 2007. Total retirements over the ten-year period are $46 million.

Scenario 3 (10 yr phase)

Year	Reference Case O&M, Cust Acct and A&G	Scenario 3(10 year phase-in) O&M, Cust Acct and A&G	Net Savings from Operations	Power Cost Savings	RUS Interest Savings from 100% Loan	Total Savings
1998	$13,166,097	$12,992,668	$173,429	$111,551	$0	$284,980
1999	$14,146,386	$13,791,183	$355,203	$114,898	$0	$470,101
2000	$14,641,500	$14,073,469	$568,031	$118,345	$11,357	$697,733
2001	$15,153,963	$14,344,834	$809,129	$121,895	$38,749	$969,773
2002	$15,684,351	$14,618,655	$1,065,696	$125,552	$53,164	$1,244,412
2003	$16,233,303	$14,889,488	$1,343,815	$129,319	$51,284	$1,524,418
2004	$16,801,471	$15,147,840	$1,653,631	$133,198	$51,109	$1,837,938
2005	$17,389,521	$15,424,607	$1,964,914	$137,194	$51,211	$2,153,319
2006	$17,998,155	$15,693,703	$2,304,452	$141,310	$51,280	$2,497,042
2007	$18,628,089	$15,987,329	$2,640,760	$145,549	$51,315	$2,837,624
Total			$12,879,060	$1,278,811	$359,469	$14,517,340

A selection of key financial indicators produced by the financial forecasts, comparing the Reference Case to Scenario 3, further details the impact of the consolidation, as follows:

	CASE	1999	2003	2007
Equity/Assets Ratio	Base	34.84	30.96	31.12
	Scenario 3	33.85	29.05	27.90

	CASE	1999	2003	2007
Equity to Total Capitalization	Base	42.01	36.07	35.48
	Scenario 3	40.95	34.00	32.03
O & M Expense per Consumer	Base	168.60	179.07	191.25
	Scenario 3	161.34	153.83	144.71
Rate Increase Required	Base	0.00	3.43	5.14
	Scenario 3	0.00	0.90	0.93

Rate Decrease

The magnitude of savings expected from to flow from the efficiencies of the combined system range from $23.6 to $14.5 million, depending on the pace of staffing reduction. It is our recommendation that these savings be returned immediately to the Green River EC and Henderson Union EC members in the form of a 4% retail rate reduction to rural members. This action will underscore and reinforce the strong beneficial relationship that exists between the cooperative and it's members. More importantly, it will issue a clear and meaningful manifestation of the economic value of consolidation.

The mechanics of the flow of savings as applied to predicted rate increases and the consolidation savings are illustrated in the following tables, following the previously presented cases: Scenario 1 (immediate phase-in), Scenario 2 (5-year phase-in), and Scenario 3 (10-year phase-in).

4% rate reduction, immediate phase-in (tab 7)

Adjustments made to Base Case:

A. Assumes immediate impact of consolidation utilizing NRECA provided ratios. Total ten-year reduction in O&M, A&G and customer account expense of $21,981,000.

B. Wholesale power cost was reduced to reflect estimated savings due to diversity realized when combining a winter and summer peaking load. Total ten-year reduction of $1,279,000.

C. 2000 and 2001 loan funds were assumed to be 100% RUS. Total ten-year reduction of $359,000.

D. A 4% rate reduction to non-dedicated delivery point customers for the 5 year period 2000 – 2004. The total 5 year reduction is $12.8 million

E. The minimum TIER was lowered to 1.00, utilizing the RUS provision that TIER can fall to 1.00 during the first 5 years after consolidation, providing the forecast indicates that TIER will be at 1.50 or above after the initial 5 year period.

F. Capital credit retirements were adjusted to equalize years outstanding. Total retirements over the ten-year period are $33 million.

Scenario 1 (immediate w/4% rate reduction)						
Year	Reduction in Present Revenue from 4% Rate Decrease	Annual Rate Increases Required without Consolidation	Total		Consolidation Savings	TIER
2000	$2,421,559	$302,164	$2,723,723		$2,059,283	1.83
2001	$2,491,269	$622,607	$3,113,876		$2,207,623	1.72
2002	$2,558,037	$694,198	$3,252,235		$2,327,352	1.61
2003	$2,626,846	$465,546	$3,092,392		$2,431,722	1.55
2004	$2,697,542	$476,948	$3,174,490		$2,554,273	1.50
Total	$12,795,253	$2,561,463	$15,356,716		$11,580,253	

4% rate reduction, 5-year phase-in (tab 8)

Adjustments made to Base Case:

A. Assumes five-year impact of consolidation utilizing NRECA provided ratios. Total ten-year reduction in O&M, A&G and customer account expense of $18,293,000.

B. Wholesale power cost was reduced to reflect estimated savings due to diversity realized when combining a winter and summer peaking load. Total ten-year reduction of $1,279,000.

C. 2000 and 2001 loan funds were assumed to be 100% RUS. Total ten-year reduction of $359,000.

D. A 4% rate reduction to non-dedicated delivery point customers for the 5 year period 2000 – 2004. The total 5 year reduction is $12.8 million

E. The minimum TIER was lowered to 1.00, utilizing the RUS provision that TIER can fall to 1.00 during the first 5 years after consolidation, providing the forecast indicates that TIER will be at 1.50 or above after the initial 5 year period.

F. Capital credit retirements were adjusted to equalize years outstanding. Total retirements over the ten-year period are $33 million.

Scenario 2 (5 yr. Phase)						
Year	Reduction in Present Rate Revenue from 4% Rate Decrease	Annual Rate Increases Required without Consolidation	Total		Consolidation Savings	TIER
2000	$2,421,559	$302,164	$2,723,723		$1,281,246	1.68
2001	$2,491,269	$622,607	$3,113,876		$1,795,013	1.66
2002	$2,558,037	$694,198	$3,252,235		$2,327,277	1.65
2003	$2,626,846	$465,546	$3,092,392		$2,431,722	1.58
2004	$2,697,542	$476,948	$3,174,490		$2,554,274	1.53
Total	$12,795,253	$2,561,463	$15,356,716		$10,389,532	

4% rate reduction, 10-year phase-in (tab 9)

Adjustments made to Base Case:

A. Assumes ten-year phase-in impact of consolidation utilizing NRECA provided ratios. Total ten-year reduction in O&M, A&G and customer account expense of $12,879,000.

B. Wholesale power cost was reduced to reflect estimated savings due to diversity realized when combining a winter and summer peaking load. Total ten-year reduction of $1,279,000.

C. 2000 and 2001 loan funds were assumed to be 100% RUS. Total ten-year reduction of $359,000.

D. A 4% rate reduction to non-dedicated delivery point customers for the 5 year period 2000 – 2004. The total 5 year reduction is $12.8 million

E. The minimum TIER was lowered to 1.00, utilizing the RUS provision that TIER can fall to 1.00 during the first 5 years after consolidation, providing the forecast indicates that TIER will be at 1.50 or above after the initial 5 year period.

F. Capital credit retirements were adjusted to equalize years outstanding. Total retirements over the ten-year period are $33 million.

Scenario 3 (10 year phase)						
Year	Reduction in Present Rate Revenue from 4% Rate Decrease	Annual Rate Increases Required without Consolidation	Total		Consolidation Savings	TIER
2000	$2,421,559	$302,164	$2,723,723		$697,733	1.49
2001	$2,491,269	$622,607	$3,113,876		$969,773	1.44
2002	$2,558,037	$694,198	$3,252,235		$1,244,412	1.39
2003	$2,626,846	$465,546	$3,092,392		$1,524,418	1.37
2004	$2,697,542	$476,948	$3,174,490		$1,837,938	1.37
	$12,795,253	$2,561,463	$15,356,716		$6,274,274	

Consolidation Expenses

Our estimate of the consolidation costs are based on the assumptions that there would be no unusual circumstances generated by the Directors, employees, membership, lenders, or governmental agencies. Legal fees and costs are expenses directly related to the time an attorney must spend in meeting for negotiation of the consolidation agreement, filing with the Kentucky PUC and whether controversy arises from any affected segment of the consolidation.

Member information dissemination costs are based on the requirement of a special meeting of both memberships to ratify a consolidation. We used an average cost of respective annual meeting expense which would include advertising information, and direct meeting expenses. Engineering costs for both systems would be minimal because both have work plans which are current and there are no anticipated transition costs for transmission or delivery points.

Item	**Projected Costs**
Legal fees and costs	$25,000 - $30,000
Member information dissemination	$160,000 - $180,000
Consulting fees and costs	$75,000 - $100,000
Total	$260,000 - $310,000

Conclusion

The consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative is aptly characterized a "marriage of equals". And like any combination of two exceptional organizations, the product will be greater than the sum of its parts. This study has focused on both the quantitative and qualitative aspects of the proposed consolidation. An organizational template for the immediate and future consolidated organization are offered.

Economic Benefits

In summary, $23.6 million in cost savings over a 10 year horizon are projected from the consolidation. This system forecast is supported by the following report observations:

- 4% rate decrease to rural customers effective January 1, 2000 (approx. $2.5 million);
- Accelerated capital credit retirements to Henderson Union EC members ($4.0 million in 1999);
- Reduction in forecasted staff in year one by 48 employees and 59 employees in year 10, as compared to individual operations. Expected cost reduction/transfer up to $27 million, including benefits;
-
- Elimination of redundant service and professional fees (audit, legal, regulatory, actuary) estimated at $50,000 per year;
- Utilization and/or elimination of redundant equipment, such as; mobile substation, shop and fault finding equipment, etc.;
- Consolidation and concentration of inventories, and
- Consolidation of vehicle shop and repair operation.

Qualitative Benefits

Similarly, system reliability and customer service are expected to be significantly augmented through consolidation. The following expected enhancements are identified in this report:

- Enhanced system reliability through looping of current radial lines;
- Pooling and strategic deployment of crews, vehicles and equipment in responding to storm damage and outages;
- System-wide 24 hour dispatch;
- Greater resources and channels of delivery for marketing non-traditional services (e.g.- home security systems), and
- Consolidation of satellite and branch operations into a centrally located operations center.
- Complete in-house printing capabilities.

It is the recommendation of the NRECA Merger & Consolidation Consulting Team that the Boards of Green River Electric Corporation and Henderson Union Electric Cooperative, based on the results of this study, vote to consolidate.

Consolidation Timeline

January 23, 1999	Boards vote on consolidation agreement following presentation by consultants
January 25, 1999 to April 1, 1999	Communications consultants launch public relations campaign
April 1-15, 1999	Membership vote on consolidation
April 15...	Transition plan implemented

SUPPLEMENT

to the

Green River Electric Corporation

and

Henderson Union Electric Cooperative

Consolidation Study

Issued:	**October 1996**
Revised & Updated:	**January 1999**

SUPPLEMENT
to the
Green River Electric Corporation and Henderson Union Electric Cooperative Consolidation Study

Tab 1	Financial Forecast and Statement of Assumptions of the Green River Electric Corporation, Years 1998 - 2007, dated January 8, 1999
Tab 2	Financial Forecast and Statement of Assumptions of the Henderson Union Electric Cooperative, Years 1998 – 2007, dated January 7, 1999
Tab 3	Base or Reference Case, Consolidated Forecast (unadjusted combination of Green River Electric Corporation and Henderson Union Electric Cooperative)
Tab 4	Scenario 1- Pro forma consolidated forecast and statement of adjustments (adjusted reference case); assumes immediate impact of consolidation years 1 through 10 (1998-2007). Includes adjustment to O&M expense, A&G expense, customer accounting, capital credit retirements and power cost.
Tab 5	Scenario 2- Pro forma consolidated forecast and statement of adjustments; assumes initial 5-year phase-in to full realization of impact of consolidation. Includes adjustment to O&M expense, A&G expense, customer accounting, capital credit retirements and power cost.
Tab 6	Scenario 3- Pro forma consolidated forecast and statement of adjustments; assumes initial 10-year phase-in to full realization of impact of consolidation. Includes adjustment to O&M expense, A&G expense, customer accounting, capital credit retirements and power cost.
Tab 7	Scenario 1 Forecast adjusted for a 4% rural ratepayer rate reduction.
Tab 8	Scenario 2 Forecast adjusted for a 4% rural ratepayer rate reduction
Tab 9	Scenario 3 Forecast adjusted for a 4% rural ratepayer rate reduction.

Tab 1 Financial Forecast and Statement of Assumptions of the Green River Electric Corporation, Years 1998 - 2007, dated January 8, 1999

GREEN RIVER ELECTRIC Corporation • P. O. Box 1389 • 3111 Fairview Dr., Owensboro, Ky. 42302-1389

Date: 11/24/98

1998 - 2007 FINANCIAL FORECAST (UPDATE #1)

STATEMENT OF ASSUMPTIONS

BASE CASE - "MOST PROBABLE SCENARIO"

Green River Electric Corporation (GREC) has developed this financial forecast based on certain planning documents developed earlier and certain assumptions described here. We have listed those documents that have already received RUS approvals, as required by our loan agreement with RUS, and described any subsequent adjustments to them that have become necessary. We have also stated the assumptions which we believe may have a material effect on the "pro forma" financial statements which summarize this forecast.

A. LOAD ESTIMATES
B. PLANT ADDITIONS
C. POWER COST
D. OPERATING REVENUES
E. OPERATING EXPENSES
F. NON-OPERATING ITEMS
G. FINANCING ASSUMPTIONS
H. TIMES INTEREST EARNED RATIO
I. CAPITAL MANAGEMENT POLICY

A. LOAD ESTIMATES Estimates of energy requirements were developed in the 1997 Power Requirements Study (97 PRS), which has been approved by RUS. The estimated 1998 and budgeted 1999 levels were utilized for first two years. The growth rates for 2000 - 2007 from the 97 PRS were applied to existing load levels, which is some 12 million KWH (2%) above the 97 PRS projection for 1999. Excluding the large industrial accounts, the weather normalized 10-year projected and historical growth rates are 3.2% and 2.91% respectively. The industrial consumers are included in other 1, Southwire (the aluminum smelter and mill); and other 2, the special contract industrials with dedicated substations. A 5th potline at the Southwire smelter was added in 2000. The projected 10-year compound growth rate for the total system is 2.4%.

B. PLANT ADDITIONS The capital additions to plant were derived from the 1998-1999 Construction Work Plan and the 1995 Long Range System Planning Guide. A total of 85 MW of substation capacity costing $7.7 million is scheduled to be added over the forecast period. An accelerated conductor replacement program, at the rate of 75 miles per year, has been authorized and included. Plant additions reflect total costs, including non-financeable items and the original costs of ordinary replacements, which are considerably higher than the financeable costs in the work plan. A $2,000,000 expansion of the Operations building was included in the year 2001, financed 100%. Total plant expenditures over the forecast period are $74.6 million dollars, with a 10 year compound growth rate of 6.4% in total utility plant. The 10-year historical growth rate was 5.6%.

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C. POWER COST The Big River's restructuring became effective July 18, 1998. The cost of purchased power was derived from the restructuring agreements, which provides for no change until a potential 6% increase in 2007 for the non-smelter loads (excluding environmental compliance costs). The smelter load requirements will be provided by LG&E Energy Marketing with rates virtually fixed throughout the contract period.

D. OPERATING REVENUES Revenue estimates from the sale of electric energy were made utilizing the budgeted 1999 revenue per KWH. Revenues, less power costs, are projected to grow at a 10 year compound growth rate of 4.8%. Net revenue dollars grow from $13.8 in 1997 to $22.1 million in 2007, including cumulative general rate increases of 3%.

E. OPERATING EXPENSES The estimated 1998 and budgeted 1999 expense were utilized for the first two years. The projection of Operations & Maintenance, Consumer Accounts, General and Administrative, and Taxes for the years 2000-2007 were made by applying an escalation rate of 3.5%. Total expenses (excluding power cost) are projected to grow from $11.5 to $18.8 million in 2007, at a 10 year compound growth rate of 5%. The ten-year historical growth rate was 4.5%.

F. NON-OPERATING ITEMS No G&T Capital Credits were projected for the next 10 years based on Big River's current forecast. CoBank capital credits were based on .8% of loan volume with 30% being paid in cash.

G. FINANCING ASSUMPTIONS For the purposes of this forecast, we have assumed that RUS will continue to provide 70% of our needs for long term financing. The current long term fixed rate of 5.00% (RUS) and variable rate of 5.93% (CoBank) was used. New loan funds are projected to average $5.5 million per year leaving $1.9 million of plant additions to be financed internally per year, as indicated above in item B.

H. TIMES INTEREST EARNED RATIO TIER in the financial forecast is projected to average 2.0, reflecting the regulatory climate in Kentucky. This is expected to produce sufficient revenues to provide adequate cash management and coverage ratios.

I. CAPITAL MANAGEMENT POLICY The Board of Directors adopted a capital management policy in 1995 which includes a target modified equity to total capital ratio of 30 - 40% and provides for general retirements of capital credits. General capital credit retirements of $21,614,420are included in the forecast, which will place Green River on a 10 year rotation cycle. Based on the forecast assumptions mentioned above, the modified equity to total capital ratio begins at 42% in 1997 and falls to 34% in 2007, which is in line with the Board objectives.

GREC TIER 2.00 01/08/99

FINANCIAL FORECAST

RUS FORM 325A- RATIOS

FINANCIAL FORECAST
RUS - AIEC VER. 6.0
TIER@ 2.00
CAPITAL CREDITS @ $2,100,000 YR

	** LAST YEAR **			********************** FUTURE YEARS			**********************				
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. EQUITY RATIO (WITH ADD. REV.) (%)	34.42	34.52	33.05	31.95	30.45	30.05	29.46	28.75	28.91	28.97	29.57
2. DEBT SERVICE COVERAGE (WITH ADD. REV.)	2.17	2.28	2.11	2.11	2.07	2.08	2.06	2.07	2.05	2.03	2.00
3. TIMES INTEREST EARNED RATIO (WITH ADD. REV.)	2.48	2.62	2.18	2.11	2.00	2.00	2.00	2.00	2.00	2.00	2.00
3a EQUITY TO TOTAL CAPITALIZATION RATIO	42.22	41.92	39.70	37.98	35.75	35.05	34.06	32.92	32.92	32.79	33.34
4. AVERAGE REVENUE PER KWH SOLD (CENTS)	3.14	3.04	3.06	3.00	3.01	3.03	3.04	3.06	3.08	3.09	3.11
5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)		-3.10	0.64	-1.96	0.43	0.54	0.51	0.61	0.53	0.49	0.42
6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)	1.55	1.60	1.70	1.57	1.68	1.77	1.88	2.01	2.10	2.20	2.26
7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)	7.66	4.64	3.69	4.60	5.69	5.97	6.32	6.86	7.68	8.51	10 06
8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)	21.15	20.56	20.33	20.69	20.84	21.42	21.78	21.99	22.76	23.39	24.75
9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER ($)	90.44	133.55	140.89	142.54	144.23	146.22	148.24	150.32	152.43	154.58	157.07
10. ADMIN. & GEN. EXPENSE PER CONSUMER ($)	97.16	70.09	71.42	72.26	73.12	74.13	75.15	76.21	77.27	78.37	79.63
11. PLANT REVENUE RATIO	5.12	5.21	5.59	5.66	5.81	5.79	5.86	5.95	5.92	5.97	5.94
12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)		7.87	6.24	6.25	6.15	6.48	6.56	6.68	6.95	7.02	7.23
13 RATE BASE = 106% OF NET UTILITY PLANT		63,784,584	69,148,292	73,207,627	78,641,292	82,287,947	87,314,083	93,676,030	97,101,242	101,411,617	102,809,871
13a. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)(RURAL)		-0.00	-0.00	-0.00	0.16	0.91	1.41	2.32	2.84	3.08	3.04
14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)		-0.00	-0.00	-0.00	0.03	0.19	0.31	0.52	0.65	0.72	0.73
15. MODIFIED DSC (FOR RUS USE)		2.26	2.09	2.10	2.05	2.06	2.04	2.05	2.03	2.01	1.98
16. MODIFIED TIER (NET OF G&T & OTHER CAP. CREDITS)		2.59	2.15	2.08	1.97	1.97	1.97	1.97	1.97	1.97	1.97

GREC TIER 2.00 01/08/99

FINANCIAL FORECAST

RUS FORM 325B - PRO FORMA BALANCE SHEET

	** LAST YEAR **	********************* FUTURE YEARS *********************									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. ASSETS AND OTHER DEBITS(SEE NOTE)											
a. TOTAL UTILITY PLANT	70,787,200	77,204,063	83,457,077	88,751,400	95,526,865	100,693,475	107,339,026	115,464,599	120,878,187	127,282,852	131,374,429
b. ACCUM. PROVISION FOR DEPREC. & AMORT.	14,971,629	15,872,732	16,968,335	18,359,451	19,910,238	21,570,449	23,383,177	25,391,493	27,511,608	29,771,682	32,518,784
c. NET UTILITY PLANT	55,815,571	61,331,331	66,488,742	70,391,949	75,616,627	79,123,026	83,955,849	90,073,106	93,366,579	97,511,170	98,855,645
d. NET GENERAL FUNDS	5,418,871	3,581,114	3,078,452	4,081,913	5,439,266	6,011,352	6,787,550	7,923,725	9,285,086	10,828,963	13,219,154
e. GENERAL FUNDS EXCLUDABLE ITEMS	2,820,116	2,820,116	2,820,116	2,820,116	2,820,116	2,820,116	2,820,116	2,820,116	2,820,116	2,820,116	2,820,116
f. OTHER ASSETS AND DEBITS	17,715,633	17,769,306	17,830,696	17,900,121	17,979,126	18,066,958	18,162,465	18,267,930	18,382,111	18,503,359	18,630,656
g. TOTAL ASSETS AND OTHER DEBITS	81,770,191	85,501,867	90,218,006	95,194,099	101,855,135	106,021,452	111,725,980	119,084,877	123,853,892	129,663,608	133,525,571
2. LIABILITIES AND OTHER CREDITS(SEE NOTE)											
a. TOTAL MARGINS AND EQUITIES	28,144,975	29,512,859	29,820,465	30,418,948	31,015,364	31,864,174	32,913,104	34,235,112	35,802,702	37,563,243	39,483,266
b. LONG TERM DEBT - RUS											
(1). LONG TERM DEBT - RUS 2%	1,101,860	922,855	740,270	578,077	412,641	318,391	222,256	152,890	82,137	33,128	0
(2). LONG TERM DEBT - RUS 5%	8,018,211	7,673,808	7,312,184	6,932,479	6,533,789	6,115,164	5,675,608	5,214,074	4,729,464	4,220,623	3,686,340
(3). LONG TERM DEBT - RUS 5% (POST 6/83)	20,477,700	22,044,716	25,561,809	29,047,240	33,688,764	36,353,759	39,969,505	44,556,259	47,181,279	50,395,984	52,137,455
c. LONG TERM DEBT - OTHER	8,924,451	10,244,635	11,680,284	13,114,361	15,101,583	16,266,971	17,842,513	19,823,548	20,955,316	22,347,636	23,115,516
d. OTHER LIABILITIES AND CREDITS	15,102,994	15,102,994	15,102,994	15,102,994	15,102,994	15,102,994	15,102,994	15,102,994	15,102,994	15,102,994	15,102,994
e. TOTAL LIABILITIES AND OTHER CREDITS	81,770,191	85,501,867	90,218,006	95,194,099	101,855,135	106,021,452	111,725,980	119,084,877	123,853,892	129,663,608	133,525,571

NOTE. EXCLUDING G&T CAPITAL CREDITS

GREC TIER 2.00 01/08/99

FINANCIAL FORECAST RUS FORM 325C - STATEMENT OF OPERATIONS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1 ACCRUAL BASIS											
a (1). ADDITIONAL REVENUE REQUIREMENTS FOR TIER/EQUITY	0	0	0	57,550	332,091	533,409	909,413	1,146,133	1,282,167	1,306,741	$5,567,504
(2). OPER. REV. & PATRON. CAP. - PRESENT RATES	146,682,860	150,428,671	169,831,402	171,107,551	172,350,203	173,638,746	174,972,361	176,332,880	177,764,392	179,172,830	$1,692,281,895
b. COST OF POWER	131,861,998	135,504,301	154,144,476	154,719,894	155,279,682	155,860,119	156,460,862	157,073,565	157,718,362	158,352,260	$1,516,975,519
c. OPER. REV. LESS COST OF POWER	14,820,862	14,924,370	15,686,926	16,445,207	17,402,611	18,312,036	19,420,912	20,405,448	21,328,197	22,127,311	$180,873,880
d OPERATIONS & MAINTENANCE EXPENSE	4,015,259	4,346,445	4,498,571	4,656,021	4,818,982	4,987,646	5,162,214	5,342,891	5,529,892	5,723,438	$49,081,359
e. CONSUMER ACCOUNTS AND SALES EXPENSE	1,287,714	1,429,429	1,479,459	1,531,240	1,584,833	1,640,302	1,697,713	1,757,133	1,818,633	1,882,285	$16,108,741
f. ADM. & GEN. & OTHER DEDUCTIONS EXPENSE	2,107,366	2,203,475	2,280,597	2,360,418	2,443,033	2,528,539	2,617,038	2,708,634	2,803,436	2,901,556	$24,954,092
g. DEPRECIATION AND AMORTIZATION EXPENSE	2,247,000	2,473,000	2,684,482	2,889,421	3,045,697	3,246,706	3,492,482	3,656,228	3,849,951	3,973,710	$31,558,677
h. TAX EXPENSE	144,110	160,000	165,600	171,396	177,395	183,604	190,030	196,681	203,565	210,690	$1,803,071
i. INTEREST EXPENSE	2,182,960	2,100,863	2,487,717	2,757,858	3,010,252	3,210,373	3,483,450	3,729,031	3,921,984	4,081,464	$30,965,952
j TOTAL COST OF ELECTRIC SERVICE	143,846,407	148,217,513	167,740,902	169,086,248	170,359,874	171,657,289	173,103,789	174,464,163	175,845,823	177,125,403	$1,671,447,411
k PATRONAGE CAPITAL & OPERATING MARGINS	2,836,453	2,211,158	2,090,500	2,078,853	2,322,420	2,514,866	2,777,985	3,014,850	3,200,736	3,354,167	$26,401,988
l NON-OPERATING MARGINS	639,200	196,500	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	$5,635,700
m G&T AND OTHER CAPITAL CREDITS	53,673	61,390	69,425	79,005	87,832	95,507	105,465	114,181	121,248	127,297	$915,023
n. TOTAL ACCRUAL MARGINS	3,529,326	2,469,048	2,759,925	2,757,858	3,010,252	3,210,373	3,483,450	3,729,031	3,921,984	4,081,464	$32,952,711
2 CASH BASIS											
a CASH FROM OPERATIONS BEFORE DEBT SERVICE	7,905,613	6,981,521	7,862,699	8,326,132	8,978,368	9,571,945	10,353,917	11,000,109	11,572,671	12,009,342	
b TOTAL DEBT SERVICE	3,498,168	3,334,966	3,752,743	4,069,420	4,348,862	4,688,389	5,057,295	5,424,019	5,753,547	6,057,562	
c. CASH MARGINS AFTER DEBT SERVICE	4,407,445	3,646,555	4,109,956	4,256,712	4,629,507	4,883,556	5,296,622	5,576,090	5,819,123	5,951,780	

FINANCIAL FORECAST

RUS FORM 325D - GENERAL FUNDS SUMMARY

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. SOURCES OF GENERAL FUNDS											
a. NET GENERAL FUNDS BEGINNING OF YEAR	5,418,871	3,581,114	3,078,452	4,081,913	5,439,266	6,011,352	6,787,550	7,923,725	9,285,086	10,828,963	
b. CASH MARGINS AFTER DEBT SERVICE	4,407,445	3,646,555	4,109,956	4,256,712	4,629,507	4,883,556	5,296,622	5,576,090	5,819,123	5,951,780	
c. OTHER PROCEEDS	0	0	0	0	0	0	0	0	0	0	
d. SALE OF EXCLUDABLE ITEMS	0	0	0	0	0	0	0	0	0	0	
e. REIMBURSEMENT FROM RUS/SUPPL PRIORITY LOAN FUNDS	0	0	0	0	0	0	0	0	0	0	
f. REIMBURSEMENT FROM SPECIAL LOANS (NON-PRIORITY)	0	0	0	0	0	0	0	0	0	0	
2. TOTAL GENERAL FUNDS AVAILABLE	9,826,316	7,227,669	7,188,408	8,338,625	10,068,773	10,894,908	12,084,172	13,499,815	15,104,209	16,780,743	
3. PROPOSED USE OF GENERAL FUNDS											
a. PURCHASE OF EXCLUDABLE ITEMS	0	0	0	0	0	0	0	0	0	0	
b. CAPITAL CREDIT RETIREMENTS	2,161,442	2,161,442	2,161,442	2,161,442	2,161,442	2,161,442	2,161,442	2,161,442	2,161,442	2,161,442	$21,614,420
c. GENERAL FUNDS INVESTED IN PLANT	4,083,760	1,987,775	945,053	737,917	1,895,979	1,945,916	1,999,005	2,053,287	2,113,804	1,400,147	
d. OTHER USES OF GENERAL FUNDS	0	0	0	0	0	0	0	0	0	0	
4. TOTAL PROPOSED USES OF GENERAL FUNDS	6,245,202	4,149,217	3,106,495	2,899,359	4,057,421	4,107,358	4,160,447	4,214,729	4,275,246	3,561,589	
5. NET GENERAL FUNDS - END OF YEAR	3,581,114	3,078,452	4,081,913	5,439,266	6,011,352	6,787,550	7,923,725	9,285,086	10,828,963	13,219,154	

Tab 2 Financial Forecast and Statement of Assumptions of the Henderson Union Electric Cooperative, Years 1998 – 2007, dated January 7, 1999

STATEMENT OF ASSUMPTIONS

Henderson Union ECC has developed its financial forecast based on certain planning documents prepared earlier and certain assumptions described here. We have listed those documents that have already received RUS approvals, as required by our loan agreement with RUS, and described any subsequent adjustments to them which we believe may have a material effect on the "pro forma" financial statements which summarize this forecast.

A. LOAD ESTIMATES
B. PLANT ADDITIONS
C. POWER COST
D. OPERATING REVENUES
E. OPERATING EXPENSES
F. NON-OPERATING ITEMS
G. FINANCING ASSUMPTIONS
H. TIER, DSC, EQUITY
I. CAPITAL CREDITS POLICY

A. **LOAD ESTIMATES** Estimates of kWhs used in this financial forecast were developed in the 1997 Power Requirement Study with Big Rivers which has been approved by RUS, and updated for known changes in Commercial loads.

B. **PLANT ADDITIONS** The capital additions to plant in this forecast were derived from the 3 year Work Plan developed by Henderson Union's Engineering Department for the period of 1997-1999 and approved by RUS. The costs of line extensions and general plant items are stated as priced-out from our budget. The cost of new services considers the historic ratio of new services added to services disconnected and the numbers of consumers projected in the Power Requirement Study. Cost figures from our Work Plan have been adjusted for inflation rates of 3.5% for future years. The work plan includes a major program to replace old deteriorated copperweld conductor in 5 years, which was authorized by the board of directors following outages from a snow storm in 1996. According to the Long Range Plan a new substation will be needed in 2001. We have reviewed these estimates and believe the construction presented in the financial forecast to be correct. We have also carefully evaluated the feasibility of completing the construction shown within the calendar year in which it is forecasted and believe that it is in fact possible. Contractors have been hired for the conductor replacement program and construction has begun.

C. **POWER COST** The Big Rivers' restructuring became effective July 18, 1998. The cost of purchased power was derived from the restructuring agreements, which provides for no change until a potential 6% increase in 2007 for the non-smelter loads (excluding environmental compliance costs). The smelter load requirements will be provided by LG&E Energy Marketing with rates virtually fixed throughout the contract period.

D. **REVENUES** Revenue estimates from the sale of electric energy were made by the revenue per kWh method using year-to-date September 30, 1998, actual.

E. **OPERATING EXPENSES** Estimated 1998 and budgeted 1999 expenses were utilized for the first two years. Operation & Maintenance, Administrative & General, Consumer Accounting, Sales and Tax Expenses for 2000-2007 are projected to increase 3.5% per year. Depreciation and amortization expenses and taxes for 2000-2007 are projected at a constant ratio to plant.

F. **NON-OPERATING ITEMS** G & T Capital Credits were not projected in the financial forecast for the next 10 years based on Big Rivers current forecast.

G. **FINANCING ASSUMPTIONS** For the purpose of this forecast, we have assumed that RUS will continue to provide 70% of our needs for borrowed funds. The long term fixed rate of 5.0% (RUS) and 6.00 long term variable (CFC) was used. General funds will be used to finance general plant, which consists primarily of transportation equipment. Long term debt includes a 0 interest 1 year note of $55,391 for past pension funding.

H. **TIMES INTEREST EARNED RATIO** TIER in the financial forecast is projected to average 2.0, reflecting the regulatory climate in Kentucky. This is expected to produce sufficient revenues to provide adequate cash management and coverage ratios.

I. **CAPITAL CREDIT POLICY** A general retirement of capital credits for the years of 1961, 1962, and 50% of 1997, is included in the forecast in 1998, in the amount of $725,000. Retirement of capital credits continue through the forecast period.

FINANCIAL FORECAST
RUS - AIEC VER. 6.0
January 7, 1999

FINANCIAL FORECAST RUS FORM 325A- RATIOS

	** LAST YEAR **	********************* FUTURE YEARS *********************									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1 EQUITY RATIO (WITH ADD. REV.) (%)	41.57	39.78	37.83	37.05	35.24	34.15	33.94	34.22	34.28	34.38	34.51
2 DEBT SERVICE COVERAGE (WITH ADD. REV.)	1.96	2.08	1.95	2.00	1.96	1.94	1.96	1.96	1.93	1.90	1.87
3 TIMES INTEREST EARNED RATIO (WITH ADD. REV.)	1.82	2.10	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
3.a EQUITY TO TOTAL CAPITALIZATION RATIO	51.69%	48.72%	45.85%	44.70%	42.06%	40.41%	39.97%	40.22%	40.16%	40.15%	40.17%
4. AVERAGE REVENUE PER KWH SOLD (CENTS)	3.24	3.20	3.22	3.24	3.26	3.29	3.31	3.32	3.33	3.35	3.36
5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)		-1.48	0.91	0.56	0.64	0.77	0.56	0.37	0.42	0.46	0.47
6 TOTAL UTILITY PLANT PER KWH SOLD (CENTS)	2.13	2.23	2.31	2.41	2.54	2.68	2.76	2.84	2.93	3.02	3.11
7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)	0.43	2.14	2.73	0.79	1.07	1.59	2.30	1.77	1.89	2.00	2.12
8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)	22.36	22.27	21.90	21.60	21.16	21.77	22.82	23.83	24.81	25.76	26.69
9 OPERATIONS & MAINTENANCE EXP. PER CONSUMER ($)	129.87	193.31	214.86	218.85	222.92	227.34	231.83	236.43	241.11	245.88	251.05
10. ADMIN. & GEN. EXPENSE PER CONSUMER ($)	106.33	66.25	61.69	62.84	64.01	65.27	66.56	67.88	69.23	70.60	72.08
11. PLANT REVENUE RATIO	5.97	5.88	5.68	5.68	5.71	5.70	5.66	5.70	5.71	5.72	5.73
12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)		4.99	5.43	5.54	5.64	5.97	6.19	6.12	6.11	6.13	6.15
13 RATE BASE = 106% OF NET UTILITY PLANT		47,133,354	49,632,232	52,124,708	55,369,780	58,034,383	59,163,352	60,318,077	61,499,999	62,710,460	63,950,845
13.a INCREASE OVER PRESENT RETAIL RATES REQUIRED(%) (RURAL)		-0.00	1.55	2.47	3.68	5.41	6.35	6.61	7.02	7.54	8.13
14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)		-0.00	0.41	0.66	1.00	1.49	1.77	1.87	2.01	2.19	2.39
15. MODIFIED DSC (FOR RUS USE)		2.06	1.94	1.98	1.94	1.92	1.93	1.94	1.91	1.88	1.85
16. MODIFIED TIER (NET OF G&T & OTHER CAP. CREDITS)		2.06	1.97	1.97	1.97	1.97	1.97	1.97	1.97	1.97	1.97

FINANCIAL FORECAST

RUS FORM 325B - PRO FORMA BALANCE SHEET

	** LAST YEAR ** 1997	1998	1999	2000	FUTURE YEARS 2001	2002	2003	2004	2005	2006	2007
1. ASSETS AND OTHER DEBITS											
a. TOTAL UTILITY PLANT	55,146,487	58,308,332	61,103,587	63,926,676	67,528,715	71,335,340	73,705,195	76,140,496	78,643,533	81,221,477	83,877,095
b. ACCUM. PROVISION FOR DEPREC. & AMORT.	12,330,151	12,987,799	13,380,287	13,806,764	14,288,542	15,533,048	16,817,357	18,142,345	19,508,919	20,922,958	22,385,898
c. NET UTILITY PLANT	42,816,336	45,320,533	47,723,300	50,119,912	53,240,173	55,802,292	56,887,838	57,998,151	59,134,614	60,298,519	61,491,197
d. NET GENERAL FUNDS	236,216	1,250,268	1,670,935	502,731	725,374	1,134,950	1,697,773	1,349,505	1,484,181	1,627,569	1,777,685
e. GENERAL FUNDS EXCLUDABLE ITEMS	2,071,552	2,140,902	2,190,062	2,223,897	2,290,279	2,348,679	2,385,576	2,408,738	2,440,710	2,474,037	2,508,766
f. OTHER ASSETS AND DEBITS	9,285,682	9,330,163	9,373,171	9,424,127	9,478,549	9,539,135	9,602,294	9,666,688	9,731,942	9,798,485	9,866,286
g. TOTAL ASSETS AND OTHER DEBITS	54,409,786	58,041,866	60,957,468	62,270,667	65,734,375	68,825,056	70,573,482	71,423,082	72,791,447	74,198,610	75,643,934
2. LIABILITIES AND OTHER CREDITS											
a. TOTAL MARGINS AND EQUITIES	22,616,774	23,088,883	23,062,832	23,070,992	23,165,959	23,504,450	23,951,848	24,439,783	24,955,275	25,511,316	26,107,875
b. LONG TERM DEBT - RUS											
(1). LONG TERM DEBT - RUS 2%	890,262	707,812	521,713	376,147	227,670	76,223	0	0	0	0	0
(2). LONG TERM DEBT - RUS 5%	7,133,147	6,823,320	6,489,856	6,122,985	5,721,036	5,298,990	4,855,842	4,390,536	3,901,965	3,388,965	2,850,315
(3). LONG TERM DEBT - RUS 5% (POST 6/83)	6,906,911	9,396,624	12,183,829	13,611,197	16,516,323	19,011,480	20,462,918	21,223,927	22,352,394	23,508,293	24,693,485
c. LONG TERM DEBT - OTHER	6,207,121	7,369,656	8,043,667	8,433,775	9,447,815	10,278,342	10,647,303	10,713,265	10,926,242	11,134,465	11,336,688
d. OTHER LIABILITIES AND CREDITS	10,655,571	10,655,571	10,655,571	10,655,571	10,655,571	10,655,571	10,655,571	10,655,571	10,655,571	10,655,571	10,655,571
e. TOTAL LIABILITIES AND OTHER CREDITS	54,409,786	58,041,866	60,957,468	62,270,667	65,734,375	68,825,056	70,573,482	71,423,082	72,791,447	74,198,610	75,643,934

FINANCIAL FORECAST RUS FORM 325C - STATEMENT OF OPERATIONS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. ACCRUAL BASIS											
a (1). ADDITIONAL REVENUE REQUIREMENTS FOR TIER/EQUITY	0	345,669	564,176	859,330	1,286,910	1,538,261	1,631,467	1,764,859	1,930,444	2,117,964	$12,039,080
(2). OPER. REV. & PATRON. CAP. - PRESENT RATES	83,630,139	84,865,154	85,359,866	85,865,854	86,338,480	86,804,089	87,275,678	87,756,717	88,246,566	88,717,095	$864,859,658
b. COST OF POWER	73,714,848	74,454,753	74,677,439	74,905,414	75,117,739	75,326,769	75,538,608	75,754,880	75,975,284	76,186,626	$751,652,361
c OPER. REV. LESS COST OF POWER	9,915,311	10,756,070	11,246,603	11,819,769	12,507,651	13,015,580	13,368,537	13,766,696	14,201,726	14,648,433	$125,246,377
d OPERATIONS & MAINTENANCE EXPENSE	3,516,177	3,971,173	4,110,164	4,254,020	4,402,910	4,557,012	4,716,508	4,881,586	5,052,441	5,229,276	$44,691,268
e. CONSUMER ACCOUNTS AND SALES EXPENSE	1,034,507	1,055,654	1,092,602	1,130,843	1,170,422	1,211,387	1,253,786	1,297,668	1,343,087	1,390,095	$11,980,051
f. ADM. & GEN. & OTHER DEDUCTIONS EXPENSE	1,205,074	1,140,210	1,180,117	1,221,421	1,264,171	1,308,417	1,354,212	1,401,609	1,450,666	1,501,439	$13,027,337
g. DEPRECIATION AND AMORTIZATION EXPENSE	1,725,184	1,807,888	1,891,416	1,997,990	2,110,618	2,180,735	2,252,789	2,326,847	2,403,122	2,481,694	$21,178,283
h. TAX EXPENSE	80,165	84,000	86,940	89,983	93,132	96,392	99,766	103,257	106,871	110,612	$951,119
i INTEREST EXPENSE	1,196,575	1,393,949	1,493,160	1,614,967	1,788,491	1,887,398	1,932,935	1,965,491	2,011,041	2,056,559	$17,340,567
j. TOTAL COST OF ELECTRIC SERVICE	82,472,531	83,907,627	84,531,838	85,214,638	85,947,485	86,568,111	87,148,604	87,731,339	88,342,511	88,956,301	$860,820,985
k. PATRONAGE CAPITAL & OPERATING MARGINS	1,157,628	1,303,197	1,392,204	1,510,545	1,677,905	1,774,239	1,758,541	1,790,237	1,834,498	1,878,758	$16,077,753
l. NON-OPERATING MARGINS	110,000	47,744	50,000	50,000	50,000	50,000	110,000	110,000	110,000	110,000	$797,744
m G&T AND OTHER CAPITAL CREDITS (CFC CTC's)	44,481	43,008	50,956	54,422	60,586	63,159	64,394	65,254	66,543	67,801	$580 604
n. TOTAL ACCRUAL MARGINS	1,312,109	1,393,949	1,493,160	1,614,967	1,788,491	1,887,398	1,932,935	1,965,491	2,011,041	2,056,559	$17,456,101
2. CASH BASIS											
a. CASH FROM OPERATIONS BEFORE DEBT SERVICE	4,189,388	4,552,777	4,826,779	5,173,502	5,627,014	5,892,372	6,054,266	6,192,576	6,358,661	6,527,011	
b. TOTAL DEBT SERVICE	2,036,604	2,352,296	2,443,765	2,671,697	2,929,609	3,046,167	3,115,412	3,244,053	3,381,705	3,523,093	
c. CASH MARGINS AFTER DEBT SERVICE	2,152,783	2,200,482	2,383,014	2,501,806	2,697,405	2,846,204	2,938,854	2,948,522	2,976,955	3,003,918	

FINANCIAL FORECAST — RUS FORM 325D - GENERAL FUNDS SUMMARY

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. SOURCES OF GENERAL FUNDS											
a. NET GENERAL FUNDS BEGINNING OF YEAR	236,216	1,250,268	1,670,935	502,731	725,374	1,134,950	1,697,773	1,349,505	1,484,181	1,627,569	
b. CASH MARGINS AFTER DEBT SERVICE	2,152,783	2,200,482	2,383,014	2,501,806	2,697,405	2,846,204	2,938,854	2,948,522	2,976,955	3,003,918	
c. OTHER PROCEEDS	0	0	0	0	0	0	0	0	0	0	
d. SALE OF EXCLUDABLE ITEMS	0	0	0	0	0	0	0	0	0	0	
e. REIMBURSEMENT FROM RUS/SUPPL PRIORITY LOAN FUND	0	0	0	0	0	0	0	0	0	0	
f REIMBURSEMENT FROM SPECIAL LOANS (NON-PRIORITY)	0	0	0	0	0	0	0	0	0	0	
2. TOTAL GENERAL FUNDS AVAILABLE	2,388,999	3,450,750	4,053,949	3,004,537	3,422,779	3,981,154	4,636,628	4,298,027	4,461,136	4,631,488	
3. PROPOSED USE OF GENERAL FUNDS											
a. PURCHASE OF EXCLUDABLE ITEMS	69,350	49,160	33,835	66,382	58,400	36,897	23,162	31,972	33,327	34,729	
b CAPITAL CREDIT RETIREMENTS	840,000	1,420,000	1,485,000	1,520,000	1,450,000	1,440,000	1,445,000	1,450,000	1,455,000	1,460,000	$13,965,000
c. GENERAL FUNDS INVESTED IN PLANT	229,381	310,655	2,032,383	692,781	779,429	806,484	1,818,961	1,331,874	1,345,240	1,359,073	
d. OTHER USES OF GENERAL FUNDS	0	0	0	0	0	0	0	0	0	0	
4. TOTAL PROPOSED USES OF GENERAL FUNDS	1,138,731	1,779,815	3,551,218	2,279,163	2,287,829	2,283,381	3,287,123	2,813,846	2,833,567	2,853,802	
5. NET GENERAL FUNDS - END OF YEAR	1,250,268	1,670,935	502,731	725,374	1,134,950	1,697,773	1,349,505	1,484,181	1,627,569	1,777,685	

Tab 3 Base or Reference Case, Consolidated Forecast (unadjusted combination of Green River Electric Corporation and Henderson Union Electric Cooperative)

Forecasted Financial Impact of Consolidation

To model the projected financial profile and resulting benefits of a consolidated organization both GREC and HUEC developed independent 10-year financial forecasts for their systems. To the degree practicable, the forecasts embraced analogous assumptions and methodology to ensure consistency in analysis. A summary of the key assumptions are enumerated below:

ASSUMPTION	GREC	HUEC
A. Load Estimates	Utilizes RUS approved 1997 PRS growth rates applied to existing customer levels. Ten-year non-dedicated system growth rate is 3.2% (historical at 2.9%). A 5th potline at NSA included in projections.	Utilizes RUS approved 1997 PRS updated for known changes in commercial loads. Ten-year non-dedicated system growth rate 2.7% (historical at 2.7%).
B. Plant Additions	Utilizes RUS approved 1998-1999 Construction Work Plan. Ten-year compound growth in plant is 6.2% (historical at 5.6%), which includes additional 85 MW of substation capacity and 75 miles per year of copper changeouts. Includes a $2,000,000 expansion to Operations building. Future years beyond 1999 include a 3.5% escalation.	Utilizes RUS approved 1997-1999 Construction Work Plan. Ten-year compound growth in plant is 4.3% (historical at 5.4%), which includes one new substation and a program to replace all copper in five years. Future years beyond 1999 include a 3.5% escalation.
C. Power Cost	Utilizes estimated 1998 average cost per KWH of approximately 27 mills/KWH, consistent with BREC projection of no rate changes until 2007 (excluding environmental).	Utilizes estimated 1998 average cost per KWH of approximately 27 mills/KWH, consistent with BREC projection of no rate changes until 2007 (excluding environmental).
D. Operating Revenues	Based on budgeted 1999 revenue per KWH plus cumulative rate increases of 3% over the 10-year period for non-dedicated system (historical at 6.5%).	Based on actual nine months ending 9/30/98 revenue per KWH plus cumulative rate increases of 8% over the 10-year period for non-dedicated system (historical at 0%).
E. Operating Expenses	Applied an escalation of 3.5% to 1999 budgeted amounts for variable expenses. Fixed expenses are projected at a constant ratio to plant. Ten-year compound growth rate is 5% for total expenses (historical at 4.5%).	Applied an escalation of 3.5% to 1999 budgeted amounts for variable expenses. Fixed expenses are projected at a constant ratio to plant. Ten-year compound growth rate is 4.2% for total expenses (historical at 4.1%).
F. Financing Assumptions	Conventional 70% RUS at 5% and 30% supplemental (CoBank) at 5.93%. General funds invested in plant of $19m. Cash at 10%/plant in 2007.	Conventional 70% RUS at 5% and 30% supplemental (CFC) at 6%. General funds invested in plant of $11m. Cash at 2%/plant in 2007.
G. TIER	2.0 TIER minimum	2.0 TIER minimum
H. Capital Management Policy	Targeted equity to total capital ratio of 30-40%. Capital credit retirements of $21m.	Minimum equity to total capital ratio of 40%. Capital credit retirements of $14m.

GREC & HUEC BASE 01/08/99

FINANCIAL FORECAST
RUS - AIEC VER. 6.0
CONSOLIDATED FF BASE CASE

FINANCIAL FORECAST — RUS FORM 325A- RATIOS

	** LAST YEAR **	********* FUTURE YEARS *********									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. EQUITY RATIO (WITH ADD. REV.) (%)	37.28	36.65	34.84	33.72	32.09	31.43	30.96	30.58	30.67	30.71	31.12
2. DEBT SERVICE COVERAGE (WITH ADD. REV.)	1.92	2.20	1.99	2.03	2.02	2.04	2.03	2.02	2.04	2.02	1.99
3. TIMES INTEREST EARNED RATIO (WITH ADD. REV.)	1.96	2.43	2.01	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
3a EQUITY TO TOTAL CAPITALIZATION RATIO	45.97	44.66	42.01	40.34	37.94	36.88	36.07	35.38	35.30	35.15	35.48
4. AVERAGE REVENUE PER KWH SOLD (CENTS)	3.18	3.09	3.11	3.07	3.09	3.11	3.13	3.14	3.16	3.18	3.19
5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)		-2.55	0.58	-1.25	0.61	0.61	0.53	0.53	0.50	0.48	0.44
6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)	1.76	1.82	1.91	1.84	1.96	2.06	2.16	2.28	2.36	2.46	2.53
7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)	4.49	3.56	3.05	2.60	3.41	3.83	4.40	4.56	5.22	5.88	6.97
8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)	21.68	21.30	20.99	21.07	20.97	21.57	22.20	22.72	23.57	24.31	25.51
9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER ($)	105.35	156.07	168.60	171.01	173.46	176.24	179.07	181.96	184.90	187.89	191.25
10. ADMIN. & GEN. EXPENSE PER CONSUMER ($)	100.63	68.64	67.78	68.75	69.73	70.85	71.99	73.15	74.33	75.53	76.88
11. PLANT REVENUE RATIO	5.46	5.48	5.71	5.72	5.77	5.75	5.78	5.84	5.83	5.86	5.84
12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)		6.65	5.61	5.75	5.95	6.27	6.42	6.48	6.64	6.71	6.85
13. RATE BASE = 106% OF NET UTILITY PLANT		110,917,939	118,780,524	125,332,335	134,011,072	140,322,330	146,477,436	153,994,109	158,601,243	164,122,078	166,760,717
13a. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)(RURAL)		-0.00	-0.00	0.54	1.60	2.74	3.43	4.10	4.58	4.94	5.14
14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)		-0.00	-0.00	0.12	0.36	0.63	0.80	0.98	1.11	1.22	1.30
15. MODIFIED DSC (FOR RUS USE)		2.18	1.97	2.01	2.00	2.02	2.01	2.00	2.02	1.99	1.97
16. MODIFIED TIER (NET OF G&T & OTHER CAP. CREDITS)		2.40	1.98	1.97	1.97	1.97	1.97	1.97	1.97	1.97	1.97

GREC & HUEC BASE 01/08/99

FINANCIAL FORECAST

RUS FORM 325B - PRO FORMA BALANCE SHEET

	** LAST YEAR **				********** FUTURE YEARS **********						
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. ASSETS AND OTHER DEBITS(SEE NOTE)											
a. TOTAL UTILITY PLANT	125,933,687	135,512,395	144,560,664	152,678,076	163,055,580	172,028,814	181,044,221	191,605,095	199,521,719	208,504,328	215,251,524
b. ACCUM. PROVISION FOR DEPREC. & AMORT.	27,301,780	28,860,531	30,348,622	32,166,215	34,198,780	37,103,497	40,200,533	43,533,836	47,020,524	50,694,638	54,904,681
c. NET UTILITY PLANT	98,631,907	106,651,864	114,212,042	120,511,861	128,856,800	134,925,317	140,843,688	148,071,259	152,501,195	157,809,690	160,346,843
d NET GENERAL FUNDS	5,655,087	4,828,787	4,402,760	3,976,650	5,563,688	6,580,156	7,968,382	8,736,318	10,407,028	12,259,782	15,000,256
e. GENERAL FUNDS EXCLUDABLE ITEMS	4,891,668	4,961,018	5,010,178	5,044,013	5,110,395	5,168,795	5,205,692	5,228,854	5,260,826	5,294,153	5,314,207
f. OTHER ASSETS AND DEBITS	27,001,315	27,108,595	27,222,284	27,351,482	27,493,005	27,649,481	27,815,753	27,993,311	28,181,575	28,379,255	28,585,232
g. TOTAL ASSETS AND OTHER DEBITS	136,179,977	143,550,264	150,847,264	156,884,006	167,023,888	174,323,749	181,833,515	190,029,742	196,350,624	203,742,880	209,246,538
2. LIABILITIES AND OTHER CREDITS(SEE NOTE)											
a. TOTAL MARGINS AND EQUITIES	50,761,749	52,608,310	52,555,432	52,900,222	53,599,903	54,789,198	56,294,755	58,117,949	60,218,076	62,559,438	65,108,058
b. LONG TERM DEBT - RUS											
(1) LONG TERM DEBT - RUS 2%	1,992,122	1,630,667	1,261,983	954,225	640,312	394,615	185,040	0	0	0	0
(2) LONG TERM DEBT - RUS 5%	15,151,358	14,497,128	13,802,040	13,055,464	12,254,825	11,414,154	10,531,450	9,604,611	8,631,430	7,609,590	6,536,658
(3) LONG TERM DEBT - RUS 5% (POST 6/83)	27,384,611	31,441,340	37,745,638	42,658,455	50,205,140	55,365,325	60,432,543	65,780,341	69,533,863	73,904,498	76,831,193
c LONG TERM DEBT - OTHER	15,131,572	17,614,254	19,723,606	21,557,075	24,565,142	26,601,892	28,631,161	30,768,276	32,208,690	33,910,788	35,012,064
d OTHER LIABILITIES AND CREDITS	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565
e TOTAL LIABILITIES AND OTHER CREDITS	136,179,977	143,550,264	150,847,263	156,884,006	167,023,888	174,323,749	181,833,514	190,029,742	196,350,624	203,742,880	209,246,538

GREC & HUEC BASE 01/08/99

FINANCIAL FORECAST RUS FORM 325C - STATEMENT OF OPERATIONS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. ACCRUAL BASIS											
a (1). ADDITIONAL REVENUE REQUIREMENTS FOR TIER/EQUITY	0	0	302,164	924,771	1,618,969	2,084,515	2,561,463	2,940,169	3,250,431	3,476,929	$17,159,411
(2). OPER. REV. & PATRON. CAP. - PRESENT RATES	230,305,259	235,295,088	255,188,986	256,970,970	258,679,835	260,440,450	262,248,984	264,089,642	266,009,169	267,889,960	$2,557,118,343
b. COST OF POWER	205,571,489	209,958,625	228,817,945	229,622,265	230,392,614	231,186,497	232,002,196	232,832,404	233,690,007	234,537,947	$2,268,611,990
c. OPER. REV. LESS COST OF POWER	24,733,770	25,336,463	26,673,204	28,273,477	29,906,190	31,338,468	32,808,252	34,197,407	35,569,593	36,828,942	$305,665,765
d. OPERATIONS & MAINTENANCE EXPENSE	7,531,436	8,317,618	8,608,725	8,910,041	9,221,892	9,544,658	9,878,722	10,224,477	10,582,333	10,952,714	$93,772,616
e. CONSUMER ACCOUNTS AND SALES EXPENSE	2,322,221	2,485,083	2,572,061	2,662,083	2,755,255	2,851,689	2,951,499	3,054,801	3,161,720	3,272,380	$28,088,792
f. ADM. & GEN. & OTHER DEDUCTIONS EXPENSE	3,312,440	3,343,685	3,460,714	3,581,839	3,707,204	3,836,956	3,971,250	4,110,243	4,254,102	4,402,995	$37,981,428
g. DEPRECIATION AND AMORTIZATION EXPENSE	3,972,184	4,280,888	4,575,898	4,887,411	5,156,315	5,427,441	5,745,271	5,983,075	6,253,073	6,455,404	$52,736,960
h. TAX EXPENSE	224,275	244,000	252,540	261,379	270,527	279,996	289,796	299,938	310,436	321,302	$2,754,189
i. INTEREST EXPENSE	3,379,691	3,494,558	3,991,232	4,381,123	4,800,736	5,107,000	5,429,636	5,711,569	5,957,804	6,170,062	$48,423,411
j. TOTAL COST OF ELECTRIC SERVICE	226,313,736	232,124,457	252,279,115	254,306,141	256,304,544	258,234,237	260,268,370	262,216,507	264,209,475	266,112,804	$2,532,369,336
k. PATRONAGE CAPITAL & OPERATING MARGINS	3,991,523	3,170,631	3,212,034	3,589,600	3,994,260	4,290,728	4,542,078	4,813,305	5,050,124	5,254,085	$41,908,368
l. NON-OPERATING MARGINS	749,200	244,244	650,000	650,000	650,000	650,000	710,000	710,000	710,000	710,000	$6,433,444
m. G&T AND OTHER CAPITAL CREDITS (CFC CTC's)	107,280	113,689	129,198	141,523	156,476	166,272	177,558	188,264	197,680	205,977	$1,583,917
n. TOTAL ACCRUAL MARGINS	4,848,003	3,528,564	3,991,232	4,381,123	4,800,736	5,107,000	5,429,636	5,711,569	5,957,804	6,170,062	$49,925,729
2. CASH BASIS											
a. CASH FROM OPERATIONS BEFORE DEBT SERVICE	12,092,598	11,190,321	12,429,164	13,508,135	14,601,312	15,475,169	16,426,985	17,217,948	17,971,002	18,589,551	
b. TOTAL DEBT SERVICE	5,534,965	5,687,316	6,197,561	6,742,575	7,239,593	7,696,204	8,211,479	8,518,663	9,009,435	9,448,360	
c. CASH MARGINS AFTER DEBT SERVICE	6,557,633	5,503,005	6,231,604	6,765,560	7,361,718	7,778,965	8,215,506	8,699,285	8,961,567	9,141,190	

FINANCIAL FORECAST RUS FORM 325D - GENERAL FUNDS SUMMARY

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. SOURCES OF GENERAL FUNDS											
a. NET GENERAL FUNDS BEGINNING OF YEAR	5,655,087	4,828,787	4,402,760	3,976,650	5,563,688	6,580,156	7,968,382	8,736,318	10,407,028	12,259,782	
b. CASH MARGINS AFTER DEBT SERVICE	6,557,633	5,503,005	6,231,604	6,765,560	7,361,718	7,778,965	8,215,506	8,699,285	8,961,567	9,141,190	
c. OTHER PROCEEDS	0	0	0	0	0	0	0	0	0	0	
d. SALE OF EXCLUDABLE ITEMS	0	0	0	0	0	0	0	0	0	0	
e. REIMBURSEMENT FROM RUS/SUPPL PRIORITY LOAN FUNDS	0	0	0	0	0	0	0	0	0	0	
f. REIMBURSEMENT FROM SPECIAL LOANS (NON-PRIORITY)	0	0	0	0	0	0	0	0	0	0	
2. TOTAL GENERAL FUNDS AVAILABLE	12,212,720	10,331,792	10,634,363	10,742,210	12,925,406	14,359,121	16,183,888	17,435,603	19,368,595	21,400,972	
3 PROPOSED USE OF GENERAL FUNDS											
a. PURCHASE OF EXCLUDABLE ITEMS	69,350	49,160	33,835	66,382	58,400	36,897	23,162	31,972	33,327	20,054	
b. CAPITAL CREDIT RETIREMENTS	3,001,442	3,581,442	3,646,442	3,681,442	3,611,442	3,601,442	3,606,442	3,611,442	3,616,442	3,621,442	$35,579,420
c. GENERAL FUNDS INVESTED IN PLANT	4,313,141	2,298,430	2,977,436	1,430,698	2,675,408	2,752,400	3,817,966	3,385,161	3,459,044	2,759,220	
d. OTHER USES OF GENERAL FUNDS	0	0	0	0	0	0	0	0	0	0	
4 TOTAL PROPOSED USES OF GENERAL FUNDS	7,383,933	5,929,032	6,657,713	5,178,522	6,345,250	6,390,739	7,447,570	7,028,575	7,108,813	6,400,716	
5. NET GENERAL FUNDS - END OF YEAR	4,828,787	4,402,760	3,976,650	5,563,688	6,580,156	7,968,382	8,736,318	10,407,028	12,259,782	15,000,256	

Tab 4 Scenario 1- Pro forma consolidated forecast and statement of adjustments (adjusted reference case); assumes immediate impact of consolidation years 1 through 10 (1998-2007). Includes adjustment to O&M expense, A&G expense, customer accounting, capital credit retirements and power cost.

IMMEDIATE PHASE-IN

Adjustments made to Base Case:

A. Assumes immediate impact of consolidation utilizing NRECA provided ratios. Total ten-year reduction in O&M, A&G and customer account expense of $21,981,000.

B. Wholesale power cost was reduced to reflect estimated savings due to diversity realized when combining a winter and summer peaking load. Total ten-year reduction of $1,279,000.

C. 2000 and 2001 loan funds were assumed to be 100% RUS. Total ten-year reduction of $359,000.

D. Capital credit retirements were adjusted to equalize years oustanding and achieve a ten-year cycle by 2007. Total retirements over the ten-year period are $46 million.

01/08/99

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
SUM OF GREC & HUEC PROJECTIONS:											
PLANT(COMBINED)	135,512,395	144,560,664	152,678,076	163,055,580	172,028,815	181,044,221	191,605,095	199,521,720	208,504,329	215,251,524	
CONSUMERS(COMBINED)	48,256	49,334	50,340	51,366	52,325	53,302	54,291	55,298	56,321	57,268	
O&M $ (COMBINED)	7,531,436	8,317,618	8,608,725	8,910,041	9,221,892	9,544,658	9,878,722	10,224,477	10,582,333	10,952,714	
O&M RATIO (COMBINED)	5.5577%	5.7537%	5.6385%	5.4644%	5.3607%	5.2720%	5.1558%	5.1245%	5.0754%	5.0883%	
A&G $ (COMBINED)	3,312,440	3,343,685	3,460,714	3,581,839	3,707,204	3,836,956	3,971,250	4,110,243	4,254,102	4,402,995	
A&G RATIO(COMBINED)	2.4444%	2.3130%	2.2667%	2.1967%	2.1550%	2.1193%	2.0726%	2.0600%	2.0403%	2.0455%	
CUST ACCT $ (COMBINED)	2,322,221	2,485,083	2,572,061	2,662,083	2,755,255	2,851,689	2,951,499	3,054,801	3,161,720	3,272,380	
CUST RATIO(COMBINED)	48.12	50.37	51.09	51.83	52.66	53.50	54.36	55.24	56.14	57.14	
PROJECTED CONSOLIDATED RATIOS:											
1998 O&M RATIO(FROM NRECA)	4.32%	4.32%	4.32%	4.32%	4.32%	4.32%	4.32%	4.32%	4.32%	4.32%	
COMBINED REDUCTION		0.1960%	0.0808%	-0.0933%	-0.1970%	-0.2857%	-0.4019%	-0.4332%	-0.4823%	-0.4694%	
PROJECTED CONSOLIDATED O&M	4.32%	4.52%	4.40%	4.23%	4.12%	4.03%	3.92%	3.89%	3.84%	3.85%	
1998 A&G RATIO(FROM NRECA)	2.61%	2.61%	2.61%	2.61%	2.61%	2.61%	2.61%	2.61%	2.61%	2.61%	
COMBINED REDUCTION		-0.1314%	-0.1777%	-0.2477%	-0.2894%	-0.3251%	-0.3718%	-0.3844%	-0.4041%	-0.3989%	
PROJECTED CONSOLIDATED A&G	2.61%	2.48%	2.43%	2.36%	2.32%	2.29%	2.24%	2.23%	2.21%	2.21%	
1998 CONS. RATIO(FROM NRECA)	$42.29	$42.29	$42.29	$42.29	$42.29	$42.29	$42.29	$42.29	$42.29	$42.29	
COMBINED INCREASE		2.25	2.97	3.70	4.53	5.38	6.24	7.12	8.01	9.02	
PROJECTED CONSOLIDATED CUST ACCT	42.29	44.54	45.26	46.00	46.83	47.67	48.54	49.41	50.31	51.31	
PROJECTED CONSOLIDATED DOLLARS:											
CONSOLIDATED O & M	$5,853,398	$6,527,573	$6,718,226	$6,890,983	$7,091,812	$7,302,882	$7,506,237	$7,753,925	$8,000,636	$8,287,304	
CONSOLIDATED A & G	$3,538,093	$3,584,382	$3,714,963	$3,853,329	$3,993,649	$4,138,309	$4,290,230	$4,442,351	$4,601,274	$4,761,364	
CONSOLIDATED CUST ACCT	$2,040,938	$2,197,516	$2,278,630	$2,362,672	$2,450,254	$2,540,993	$2,635,038	$2,732,470	$2,833,426	$2,938,566	
TOTAL	$11,432,429	$12,309,471	$12,711,819	$13,106,984	$13,535,715	$13,982,184	$14,431,505	$14,928,746	$15,435,336	$15,987,234	
TOTAL O&M, A&G, CUST ACCT CONSOLIDATED	$11,432,429	$12,309,471	$12,711,819	$13,106,984	$13,535,715	$13,982,184	$14,431,505	$14,928,746	$15,435,336	$15,987,234	
TOTAL O&M, A&G, CUST ACCT COMBINED	$13,166,097	$14,146,386	$14,641,500	$15,153,963	$15,684,351	$16,233,303	$16,801,471	$17,389,521	$17,998,155	$18,628,089	
SUBTOTAL	$1,733,668	$1,836,915	$1,929,681	$2,046,979	$2,148,636	$2,251,119	$2,369,966	$2,460,775	$2,562,819	$2,640,855	$21,981,414
POWER COST SAVINGS	$111,551	$114,898	$118,345	$121,895	$125,552	$129,319	$133,198	$137,194	$141,310	$145,549	$1,278,811
INTEREST SAVINGS	$0	$0	$11,357	$38,749	$53,164	$51,284	$51,109	$51,211	$51,280	$51,315	$359,469
SAVINGS FROM CONSOLIDATION	$1,845,219	$1,951,813	$2,059,383	$2,207,623	$2,327,352	$2,431,722	$2,554,273	$2,649,180	$2,755,409	$2,837,719	$23,619,694

CONDOLIDATED IMMEDIATE PHASE-IN 01/08/99

FINANCIAL FORECAST RUS FORM 325A- RATIOS

FINANCIAL FORECAST
RUS - AIEC VER. 6.0
CONSOLIDATED FF IMMEDIATE PHASE-IN
TEN YEAR CAPITAL CREDIT CYCLE BY 2007

	** LAST YEAR **	********************* FUTURE YEARS *********************									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. EQUITY RATIO (WITH ADD. REV.) (%)	37.28	37.45	35.18	34.63	33.40	32.59	31.65	30.44	30.55	30.30	30.26
2. DEBT SERVICE COVERAGE (WITH ADD. REV.)	1.92	2.54	2.33	2.31	2.23	2.15	2.08	2.02	2.04	2.01	1.99
3. TIMES INTEREST EARNED RATIO (WITH ADD. REV.)	1.96	2.98	2.57	2.44	2.30	2.15	2.07	2.00	2.00	2.00	2.00
3a EQUITY TO TOTAL CAPITALIZATION RATIO	45.97	45.52	42.38	41.32	39.35	38.13	36.81	35.22	35.17	34.71	34.56
4. AVERAGE REVENUE PER KWH SOLD (CENTS)	3.18	3.09	3.11	3.07	3.08	3.09	3.10	3.11	3.13	3.14	3.16
5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)		-2.55	0.58	-1.36	0.36	0.35	0.35	0.36	0.47	0.45	0.41
6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)	1.76	1.82	1.91	1.84	1.96	2.06	2.16	2.28	2.36	2.46	2.53
7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)	4.49	4.93	3.59	4.13	5.67	5.86	5.72	4.63	5.33	5.59	6.04
8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)	21.68	21.30	20.99	21.07	20.97	21.57	22.20	22.72	23.57	24.31	25.51
9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER ($)	105.35	121.30	132.31	133.46	134.15	135.53	137.01	138.26	140.22	142.05	144.71
10. ADMIN. & GEN. EXPENSE PER CONSUMER ($)	100.63	73.32	72.66	73.80	75.02	76.32	77.64	79.02	80.33	81.70	83.14
11. PLANT REVENUE RATIO	5.46	5.45	5.68	5.76	5.94	6.05	6.16	6.31	6.30	6.33	6.31
12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)		8.31	7.25	7.14	6.88	6.73	6.62	6.44	6.59	6.67	6.81
13. RATE BASE = 106% OF NET UTILITY PLANT		110,917,939	118,780,524	125,332,335	134,011,072	140,322,330	146,477,436	153,994,109	158,601,243	164,122,078	166,760,717
13a. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)(RURAL)		-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	0.43	0.74	0.93
14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)		-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	0.10	0.18	0.23
15. MODIFIED DSC (FOR RUS USE)		2.52	2.31	2.30	2.21	2.13	2.06	2.00	2.02	2.00	1.97
16. MODIFIED TIER (NET OF G&T & OTHER CAP. CREDITS)		2.95	2.54	2.41	2.27	2.13	2.05	1.98	1.97	1.97	1.97

CONDOLIDATED IMMEDIATE PHASE-IN 01/08/99

FINANCIAL FORECAST

RUS FORM 325B - PRO FORMA BALANCE SHEET

	** LAST YEAR **	********************** FUTURE YEARS **********************									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. ASSETS AND OTHER DEBITS(SEE NOTE)											
a. TOTAL UTILITY PLANT	125,933,687	135,512,395	144,560,664	152,678,076	163,055,580	172,028,814	181,044,221	191,605,095	199,521,719	208,504,328	215,251,524
b. ACCUM. PROVISION FOR DEPREC. & AMORT.	27,301,780	28,860,531	30,348,622	32,166,215	34,198,780	37,103,497	40,200,533	43,533,836	47,020,524	50,694,638	54,904,681
c. NET UTILITY PLANT	98,631,907	106,651,864	114,212,042	120,511,861	128,856,800	134,925,317	140,843,688	148,071,259	152,501,195	157,809,690	160,346,843
d. NET GENERAL FUNDS	5,655,087	6,674,000	5,190,574	6,309,166	9,252,086	10,084,825	10,347,953	8,877,289	10,634,631	11,653,937	13,007,850
e. GENERAL FUNDS EXCLUDABLE ITEMS	4,891,668	4,961,018	5,010,178	4,925,539	4,814,896	4,873,296	4,910,193	4,933,355	4,965,327	4,998,654	5,018,708
f. OTHER ASSETS AND DEBITS	27,001,315	27,108,595	27,222,284	27,344,423	27,461,372	27,582,996	27,714,751	27,858,146	28,012,623	28,176,915	28,349,928
g. TOTAL ASSETS AND OTHER DEBITS	136,179,977	145,395,477	151,635,078	159,090,989	170,385,154	177,466,434	183,816,585	189,740,049	196,113,776	202,639,196	206,723,329
2. LIABILITIES AND OTHER CREDITS(SEE NOTE)											
a. TOTAL MARGINS AND EQUITIES	50,761,749	54,453,524	53,343,246	55,096,951	56,914,152	57,844,367	58,183,200	57,747,476	59,914,394	61,402,937	62,546,081
b. LONG TERM DEBT - RUS											
(1). LONG TERM DEBT - RUS 2%	1,992,122	1,630,667	1,261,983	954,225	640,312	394,615	185,040	0	0	0	0
(2). LONG TERM DEBT - RUS 5%	15,151,358	14,497,128	13,802,040	13,055,464	12,254,825	11,414,154	10,531,450	9,604,611	8,631,430	7,609,590	6,536,658
(3). LONG TERM DEBT - RUS 5% (POST 6/83)	27,384,611	31,441,340	37,745,638	45,027,939	56,115,120	61,261,016	66,277,215	71,549,494	75,223,632	79,510,822	82,349,803
c. LONG TERM DEBT - OTHER	15,131,572	17,614,254	19,723,606	19,197,845	18,702,179	20,793,716	22,881,114	25,079,903	26,585,756	28,357,282	29,532,221
d. OTHER LIABILITIES AND CREDITS	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565
e. TOTAL LIABILITIES AND OTHER CREDITS	136,179,977	145,395,477	151,635,077	159,090,989	170,385,153	177,466,434	183,816,584	189,740,049	196,113,776	202,639,196	206,723,329

CONDOLIDATED IMMEDIATE PHASE-IN 01/08/99

FINANCIAL FORECAST RUS FORM 325C - STATEMENT OF OPERATIONS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. ACCRUAL BASIS											
a (1). ADDITIONAL REVENUE REQUIREMENTS FOR TIER/EQUITY	0	0	0	0	0	0	0	273,564	485,696	629,490	$1,388,749
(2). OPER. REV. & PATRON. CAP. - PRESENT RATES	230,305,259	235,295,088	255,188,986	256,970,970	258,679,835	260,440,450	262,248,984	264,089,642	266,009,169	267,889,960	$2,557,118,343
b. COST OF POWER	205,459,944	209,843,706	228,699,623	229,500,331	230,267,065	231,057,214	231,868,973	232,695,208	233,557,265	234,401,029	$2,267,350,356
c. OPER. REV. LESS COST OF POWER	24,845,315	25,451,382	26,489,363	27,470,639	28,412,770	29,383,236	30,380,011	31,667,998	32,937,600	34,118,421	$291,156,736
d. OPERATIONS & MAINTENANCE EXPENSE	5,853,398	6,527,573	6,718,226	6,890,983	7,091,812	7,302,882	7,506,237	7,753,925	8,000,636	8,287,304	$71,932,976
e. CONSUMER ACCOUNTS AND SALES EXPENSE	2,040,938	2,197,516	2,278,630	2,362,672	2,450,254	2,540,993	2,635,038	2,732,470	2,833,426	2,938,566	$25,010,503
f. ADM. & GEN. & OTHER DEDUCTIONS EXPENSE	3,538,093	3,584,382	3,714,963	3,853,329	3,993,649	4,138,309	4,290,230	4,442,351	4,601,274	4,761,364	$40,917,944
g DEPRECIATION AND AMORTIZATION EXPENSE	3,972,184	4,280,888	4,575,898	4,887,411	5,156,315	5,427,441	5,745,271	5,983,075	6,253,073	6,455,404	$52,736,960
h. TAX EXPENSE	224,275	244,000	252,540	261,379	270,527	279,996	289,796	299,938	310,436	321,302	$2,754,189
i. INTEREST EXPENSE	3,379,691	3,494,558	3,979,875	4,342,374	4,747,572	5,055,716	5,378,527	5,660,358	5,906,524	6,118,747	$48,063,940
j. TOTAL COST OF ELECTRIC SERVICE	224,468,522	230,172,623	250,219,755	252,098,479	253,977,194	255,802,551	257,714,071	259,567,325	261,462,633	263,283,716	$2,508,766,869
k PATRONAGE CAPITAL & OPERATING MARGINS	5,836,737	5,122,465	4,969,231	4,872,491	4,702,641	4,637,899	4,534,913	4,795,881	5,032,232	5,235,734	$49,740,223
l NON-OPERATING MARGINS	749,200	244,244	650,000	650,000	650,000	650,000	710,000	710,000	710,000	710,000	$6,433,444
m G&T AND OTHER CAPITAL CREDITS (CFC CTC's)	107,280	113,689	122,139	116,949	121,624	131,755	143,395	154,477	164,292	173,013	$1,348,613
n. TOTAL ACCRUAL MARGINS	6,693,217	5,480,398	5,741,370	5,639,440	5,474,265	5,419,654	5,388,308	5,660,358	5,906,524	6,118,747	$57,522,280
2. CASH BASIS											
a. CASH FROM OPERATIONS BEFORE DEBT SERVICE	13,937,811	13,142,155	14,175,004	14,752,276	15,256,528	15,771,056	16,368,710	17,149,314	17,901,828	18,519,885	
b. TOTAL DEBT SERVICE	5,534,965	5,687,316	6,175,950	6,667,062	7,145,930	7,637,811	8,174,214	8,481,399	8,972,170	9,411,096	
c. CASH MARGINS AFTER DEBT SERVICE	8,402,846	7,454,839	7,999,054	8,085,214	8,110,597	8,133,246	8,194,497	8,667,915	8,929,658	9,108,789	

CONDOLIDATED IMMEDIATE PHASE-IN 01/08/99

FINANCIAL FORECAST RUS FORM 325D - GENERAL FUNDS SUMMARY

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. SOURCES OF GENERAL FUNDS											
a. NET GENERAL FUNDS BEGINNING OF YEAR	5,655,087	6,674,000	5,190,574	6,309,166	9,252,086	10,084,825	10,347,953	8,877,289	10,634,631	11,653,937	
b. CASH MARGINS AFTER DEBT SERVICE	8,402,846	7,454,839	7,999,054	8,085,214	8,110,597	8,133,246	8,194,497	8,667,915	8,929,658	9,108,789	
c. OTHER PROCEEDS	0	0	0	0	0	0	0	0	0	0	
d. SALE OF EXCLUDABLE ITEMS	0	0	0	0	0	0	0	0	0	0	
e. REIMBURSEMENT FROM RUS/SUPPL PRIORITY LOAN FUNDS	0	0	0	0	0	0	0	0	0	0	
f. REIMBURSEMENT FROM SPECIAL LOANS (NON-PRIORITY)	0	0	0	0	0	0	0	0	0	0	
2. TOTAL GENERAL FUNDS AVAILABLE	14,057,933	14,128,840	13,189,628	14,394,380	17,362,683	18,218,071	18,542,449	17,545,204	19,564,289	20,762,726	
3. PROPOSED USE OF GENERAL FUNDS											
a. PURCHASE OF EXCLUDABLE ITEMS	69,350	49,160	(84,639)	(110,643)	58,400	36,897	23,162	31,972	33,327	20,054	
b. CAPITAL CREDIT RETIREMENTS	3,001,442	6,590,676	3,987,665	3,822,239	4,544,050	5,080,821	5,824,032	3,493,440	4,417,981	4,975,602	$45,737,948
c. GENERAL FUNDS INVESTED IN PLANT	4,313,141	2,298,430	2,977,436	1,430,698	2,675,408	2,752,400	3,817,966	3,385,161	3,459,044	2,759,220	
d. OTHER USES OF GENERAL FUNDS	0	0	0	0	0	0	0	0	0	0	
4. TOTAL PROPOSED USES OF GENERAL FUNDS	7,383,933	8,938,266	6,880,462	5,142,294	7,277,858	7,870,118	9,665,160	6,910,573	7,910,352	7,754,876	
5. NET GENERAL FUNDS - END OF YEAR	6,674,000	5,190,574	6,309,166	9,252,086	10,084,825	10,347,953	8,877,289	10,634,631	11,653,937	13,007,850	

Tab 5 Scenario 2- Pro forma consolidated forecast and statement of adjustments; assumes initial 5-year phase-in to full realization of impact of consolidation. Includes adjustment to O&M expense, A&G expense, customer accounting, capital credit retirements and power cost

5 YEAR PHASE-IN

Adjustments made to Base Case:

A. Assumes five-year phase-in impact of consolidation utilizing NRECA provided ratios. Total ten-year reduction in O&M, A&G and customer account expense of $18,293,000.

B. Wholesale power cost was reduced to reflect estimated savings due to diversity realized when combining a winter and summer peaking load. Total ten-year reduction of $1,279,000.

C. 2000 and 2001 loan funds were assumed to be 100% RUS. Total ten-year reduction of $359,000.

D. Capital credit retirements were adjusted to equalize years oustanding and achieve a ten-year cycle by 2007. Total retirements over the ten-year period are $46 million.

01/08/99

	1998 COMBINED RATIO	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
SCENARIO #2(5YR. RAMP) PLANT(COMBINED		135,512,395	144,560,664	152,678,076	163,055,580	172,028,815	181,044,221	191,605,095	199,521,720	208,504,329	215,251,524	
CONSUMERS(COMBINED)		48,256	49,334	50,340	51,366	52,325	53,302	54,291	55,298	56,321	57,268	
O&M RATIO COMBINED	5.56%	5.56%	5.75%	5.64%	5.46%	5.36%	5.27%	5.16%	5.12%	5.08%	5.09%	
O&M RATIO-CONSOLIDATED		4.32%	4.52%	4.40%	4.23%	4.12%	4.03%	3.92%	3.89%	3.84%	3.85%	
O&M RATIO-5 YR RAMP		5.31%	5.26%	4.90%	4.47%	4.12%	4.03%	3.92%	3.89%	3.84%	3.85%	
A&G RATIO COMBINED	2.44%	2.44%	2.31%	2.27%	2.20%	2.16%	2.12%	2.07%	2.06%	2.04%	2.05%	
A&G RATIO-CONSOLIDATED		2.61%	2.48%	2.43%	2.36%	2.32%	2.29%	2.24%	2.23%	2.21%	2.21%	
A&G RATIO-5 YR RAMP		2.48%	2.38%	2.37%	2.33%	2.32%	2.29%	2.24%	2.23%	2.21%	2.21%	
CONS. ACCT RATIO-COMBINED	48.12	48.12	50.68	51.40	52.14	52.98	53.82	54.69	55.58	56.48	57.49	
CONS. ACCT RATIO-CONSOLIDATED		42.29	44.54	45.26	46.00	46.83	47.67	48.54	49.41	50.31	51.31	
CONS. ACCT RATIO-5 YR RAMP		46.95	48.23	47.72	47.23	46.83	47.67	48.54	49.41	50.31	51.31	
	98 COMBINED											
O&M EXPENSE	$7,531,436	$7,195,844	$7,601,578	$7,474,508	$7,294,781	$7,091,888	$7,302,882	$7,506,237	$7,753,925	$8,000,636	$8,287,304	$75,509,582
A&G EXPENSE	$3,312,440	$3,357,591	$3,439,966	$3,613,279	$3,799,032	$3,993,649	$4,138,309	$4,290,230	$4,442,351	$4,601,274	$4,761,364	
CONS ACCT EXPENSE	$2,322,221	$2,265,851	$2,379,155	$2,402,168	$2,425,782	$2,450,254	$2,540,993	$2,635,038	$2,732,470	$2,833,426	$2,938,566	$25,603,702
CONSOLIDATED-5YR. RAMP TOTAL		$12,819,285	$13,420,698	$13,489,956	$13,519,594	$13,535,790	$13,982,184	$14,431,504	$14,928,746	$15,435,336	$15,987,234	
COMBINED TOTAL		$13,166,097	$14,146,386	$14,641,500	$15,153,963	$15,684,351	$16,233,303	$16,801,471	$17,389,521	$17,998,155	$18,628,089	10 YR
SUBTOTAL		$346,812	$725,688	$1,151,544	$1,634,369	$2,148,561	$2,251,119	$2,369,967	$2,460,775	$2,562,819	$2,640,855	$18,292,509
POWER COST SAVINGS		$111,551	$114,898	$118,345	$121,895	$125,552	$129,319	$133,198	$137,194	$141,310	$145,549	$1,278,811
INTEREST SAVINGS		$0	$0	$11,357	$38,749	$53,164	$51,284	$51,109	$51,211	$51,280	$51,315	$359,469
SAVINGS FROM CONSOLIDATION		$458,363	$840,586	$1,281,246	$1,795,013	$2,327,277	$2,431,722	$2,554,274	$2,649,180	$2,755,409	$2,837,719	$19,930,789

CONDOLIDATED FIVE YEAR PHASE-IN 01/08/99

FINANCIAL FORECAST
RUS - AIEC VER. 6.0
CONSOLIDATED FF FIVE YEAR PHASE-IN
TEN YEAR CAPITAL CREDIT CYCLE BY 2007

FINANCIAL FORECAST RUS FORM 325A- RATIOS

	** LAST YEAR **			********************* FUTURE YEARS *********************							
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. EQUITY RATIO (WITH ADD. REV.) (%)	37.28	36.85	34.09	33.26	31.93	31.16	30.25	29.06	29.22	29.01	28.99
2. DEBT SERVICE COVERAGE (WITH ADD. REV.)	1.92	2.29	2.14	2.19	2.17	2.15	2.08	2.02	2.04	2.01	1.99
3. TIMES INTEREST EARNED RATIO (WITH ADD. REV.)	1.96	2.57	2.25	2.25	2.20	2.15	2.07	2.00	2.00	2.00	2.00
3a EQUITY TO TOTAL CAPITALIZATION RATIO	45.97	44.88	41.21	39.84	37.77	36.59	35.30	33.72	33.74	33.32	33.20
4. AVERAGE REVENUE PER KWH SOLD (CENTS)	3.18	3.09	3.11	3.07	3.08	3.09	3.10	3.11	3.13	3.14	3.16
5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)		-2.55	0.58	-1.36	0.36	0.35	0.35	0.36	0.47	0.45	0.41
6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)	1.76	1.82	1.91	1.84	1.96	2.06	2.16	2.28	2.36	2.46	2.53
7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)	4.49	3.90	1.86	1.99	3.41	3.72	3.68	2.71	3.48	3.82	4.33
8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)	21.68	21.30	20.99	21.07	20.97	21.57	22.20	22.72	23.57	24.31	25.51
9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER ($)	105.35	149.12	154.08	148.48	142.02	135.53	137.01	138.26	140.22	142.05	144.71
10. ADMIN. & GEN. EXPENSE PER CONSUMER ($)	100.63	69.58	69.73	71.78	73.96	76.32	77.64	79.02	80.33	81.70	83.14
11. PLANT REVENUE RATIO	5.46	5.45	5.68	5.76	5.94	6.05	6.16	6.31	6.30	6.33	6.31
12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)		7.06	6.32	6.52	6.57	6.73	6.62	6.44	6.59	6.67	6.81
13. RATE BASE = 106% OF NET UTILITY PLANT		110,917,939	118,780,524	125,332,335	134,011,072	140,322,330	146,477,436	153,994,109	158,601,243	164,122,078	166,760,717
13a. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)(RURAL)		-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	0.43	0.74	0.93
14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)		-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	0.10	0.18	0.23
15. MODIFIED DSC (FOR RUS USE)		2.27	2.12	2.17	2.15	2.13	2.06	2.00	2.02	2.00	1.97
16. MODIFIED TIER (NET OF G&T & OTHER CAP. CREDITS)		2.54	2.22	2.22	2.18	2.13	2.05	1.98	1.97	1.97	1.97

CONDOLIDATED FIVE YEAR PHASE-IN 01/08/99

FINANCIAL FORECAST

RUS FORM 325B - PRO FORMA BALANCE SHEET

	** LAST YEAR **				********************* FUTURE YEARS *********************						
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. ASSETS AND OTHER DEBITS(SEE NOTE)											
a. TOTAL UTILITY PLANT	125,933,687	135,512,395	144,560,664	152,678,076	163,055,580	172,028,814	181,044,221	191,605,095	199,521,719	208,504,328	215,251,524
b. ACCUM. PROVISION FOR DEPREC. & AMORT.	27,301,780	28,860,531	30,348,622	32,166,215	34,198,780	37,103,497	40,200,533	43,533,836	47,020,524	50,694,638	54,904,681
c. NET UTILITY PLANT	98,631,907	106,651,864	114,212,042	120,511,861	128,856,800	134,925,317	140,843,688	148,071,259	152,501,195	157,809,690	160,346,843
d NET GENERAL FUNDS	5,655,087	5,287,143	2,692,489	3,032,945	5,563,254	6,395,993	6,659,121	5,188,457	6,945,799	7,965,105	9,319,018
e. GENERAL FUNDS EXCLUDABLE ITEMS	4,891,668	4,961,018	5,010,178	4,925,539	4,814,896	4,873,296	4,910,193	4,933,355	4,965,327	4,998,654	5,018,708
f. OTHER ASSETS AND DEBITS	27,001,315	27,108,595	27,222,284	27,344,423	27,461,372	27,582,996	27,714,751	27,858,146	28,012,623	28,176,915	28,349,928
g. TOTAL ASSETS AND OTHER DEBITS	136,179,977	144,008,620	149,136,993	155,814,768	166,696,322	173,777,602	180,127,753	186,051,217	192,424,944	198,950,364	203,034,497
2. LIABILITIES AND OTHER CREDITS(SEE NOTE)											
a. TOTAL MARGINS AND EQUITIES	50,761,749	53,066,667	50,845,161	51,820,730	53,225,320	54,155,535	54,494,368	54,058,644	56,225,562	57,714,105	58,857,249
b. LONG TERM DEBT - RUS											
(1). LONG TERM DEBT - RUS 2%	1,992,122	1,630,667	1,261,983	954,225	640,312	394,615	185,040	0	0	0	0
(2). LONG TERM DEBT - RUS 5%	15,151,358	14,497,128	13,802,040	13,055,464	12,254,825	11,414,154	10,531,450	9,604,611	8,631,430	7,609,590	6,536,658
(3). LONG TERM DEBT - RUS 5% (POST 6/83)	27,384,611	31,441,340	37,745,638	45,027,939	56,115,120	61,261,016	66,277,215	71,549,494	75,223,632	79,510,822	82,349,803
c. LONG TERM DEBT - OTHER	15,131,572	17,614,254	19,723,606	19,197,845	18,702,179	20,793,716	22,881,114	25,079,903	26,585,756	28,357,282	29,532,221
d. OTHER LIABILITIES AND CREDITS	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565
e. TOTAL LIABILITIES AND OTHER CREDITS	136,179,977	144,008,620	149,136,992	155,814,768	166,696,321	173,777,602	180,127,752	186,051,217	192,424,944	198,950,364	203,034,497

CONDOLIDATED FIVE YEAR PHASE-IN 01/08/99

FINANCIAL FORECAST RUS FORM 325C - STATEMENT OF OPERATIONS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. ACCRUAL BASIS											
a (1). ADDITIONAL REVENUE REQUIREMENTS FOR TIER/EQUITY	0	0	0	0	0	0	0	273,564	485,696	629,490	$1,388,749
(2). OPER. REV. & PATRON. CAP. - PRESENT RATES	230,305,259	235,295,088	255,188,986	256,970,970	258,679,835	260,440,450	262,248,984	264,089,642	266,009,169	267,889,960	$2,557,118,343
b. COST OF POWER	205,459,944	209,843,706	228,699,623	229,500,331	230,267,065	231,057,214	231,868,973	232,695,208	233,557,265	234,401,029	$2,267,350,356
c. OPER. REV. LESS COST OF POWER	24,845,315	25,451,382	26,489,363	27,470,639	28,412,770	29,383,236	30,380,011	31,667,998	32,937,600	34,118,421	$291,156,736
d OPERATIONS & MAINTENANCE EXPENSE	7,195,844	7,601,578	7,474,508	7,294,781	7,091,812	7,302,882	7,506,237	7,753,925	8,000,636	8,287,304	$75,509,507
e. CONSUMER ACCOUNTS AND SALES EXPENSE	2,265,851	2,379,155	2,402,168	2,425,782	2,450,254	2,540,993	2,635,038	2,732,470	2,833,426	2,938,566	$25,603,703
f. ADM. & GEN. & OTHER DEDUCTIONS EXPENSE	3,357,591	3,439,966	3,613,279	3,799,032	3,993,649	4,138,309	4,290,230	4,442,351	4,601,274	4,761,364	$40,437,045
g. DEPRECIATION AND AMORTIZATION EXPENSE	3,972,184	4,280,888	4,575,898	4,887,411	5,156,315	5,427,441	5,745,271	5,983,075	6,253,073	6,455,404	$52,736,960
h. TAX EXPENSE	224,275	244,000	252,540	261,379	270,527	279,996	289,796	299,938	310,436	321,302	$2,754,189
i. INTEREST EXPENSE	3,379,691	3,494,558	3,979,875	4,342,374	4,747,572	5,055,716	5,378,527	5,660,358	5,906,524	6,118,747	$48,063,940
j. TOTAL COST OF ELECTRIC SERVICE	225,855,379	231,283,851	250,997,891	252,511,090	253,977,194	255,802,551	257,714,071	259,567,325	261,462,633	263,283,716	$2,512,455,701
k. PATRONAGE CAPITAL & OPERATING MARGINS	4,449,880	4,011,237	4,191,095	4,459,880	4,702,641	4,637,899	4,534,913	4,795,881	5,032,232	5,235,734	$46,051,391
l. NON-OPERATING MARGINS	749,200	244,244	650,000	650,000	650,000	650,000	710,000	710,000	710,000	710,000	$6,433,444
m. G&T AND OTHER CAPITAL CREDITS (CFC CTC's)	107,280	113,689	122,139	116,949	121,624	131,755	143,395	154,477	164,292	173,013	$1,348,613
n. TOTAL ACCRUAL MARGINS	5,306,360	4,369,170	4,963,234	5,226,829	5,474,265	5,419,654	5,388,308	5,660,358	5,906,524	6,118,747	$53,833,448
2. CASH BASIS											
a. CASH FROM OPERATIONS BEFORE DEBT SERVICE	12,550,954	12,030,927	13,396,868	14,339,665	15,256,528	15,771,056	16,368,710	17,149,314	17,901,828	18,519,885	
b. TOTAL DEBT SERVICE	5,534,965	5,687,316	6,175,950	6,667,062	7,145,930	7,637,811	8,174,214	8,481,399	8,972,170	9,411,096	
c. CASH MARGINS AFTER DEBT SERVICE	7,015,989	6,343,611	7,220,918	7,672,603	8,110,597	8,133,246	8,194,497	8,667,915	8,929,658	9,108,789	

CONDOLIDATED FIVE YEAR PHASE-IN 01/08/99

FINANCIAL FORECAST RUS FORM 325D - GENERAL FUNDS SUMMARY

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. SOURCES OF GENERAL FUNDS											
a. NET GENERAL FUNDS BEGINNING OF YEAR	5,655,087	5,287,143	2,692,489	3,032,945	5,563,254	6,395,993	6,659,121	5,188,457	6,945,799	7,965,105	
b. CASH MARGINS AFTER DEBT SERVICE	7,015,989	6,343,611	7,220,918	7,672,603	8,110,597	8,133,246	8,194,497	8,667,915	8,929,658	9,108,789	
c. OTHER PROCEEDS	0	0	0	0	0	0	0	0	0	0	
d. SALE OF EXCLUDABLE ITEMS	0	0	0	0	0	0	0	0	0	0	
e. REIMBURSEMENT FROM RUS/SUPPL PRIORITY LOAN FUNDS	0	0	0	0	0	0	0	0	0	0	
f. REIMBURSEMENT FROM SPECIAL LOANS (NON-PRIORITY)	0	0	0	0	0	0	0	0	0	0	
2. TOTAL GENERAL FUNDS AVAILABLE	12,671,076	11,630,755	9,913,407	10,705,548	13,673,851	14,629,239	14,853,617	13,856,372	15,875,457	17,073,894	
3. PROPOSED USE OF GENERAL FUNDS											
a. PURCHASE OF EXCLUDABLE ITEMS	69,350	49,160	(84,639)	(110,643)	58,400	36,897	23,162	31,972	33,327	20,054	
b. CAPITAL CREDIT RETIREMENTS	3,001,442	6,590,676	3,987,665	3,822,239	4,544,050	5,080,821	5,824,032	3,493,440	4,417,981	4,975,602	$45,737,948
c. GENERAL FUNDS INVESTED IN PLANT	4,313,141	2,298,430	2,977,436	1,430,698	2,676,408	2,752,400	3,817,966	3,385,161	3,459,044	2,759,220	
d. OTHER USES OF GENERAL FUNDS	0	0	0	0	0	0	0	0	0	0	
4. TOTAL PROPOSED USES OF GENERAL FUNDS	7,383,933	8,938,266	6,880,462	5,142,294	7,277,858	7,870,118	9,665,160	6,910,573	7,910,352	7,754,876	
5. NET GENERAL FUNDS - END OF YEAR	5,287,143	2,692,489	3,032,945	5,563,254	6,395,993	6,659,121	5,188,457	6,945,799	7,965,105	9,319,018	

Tab 6 Scenario 3- Pro forma consolidated forecast and statement of adjustments; assumes initial 10-year phase-in to full realization of impact of consolidation. Includes adjustment to O&M expense, A&G expense, customer accounting, capital credit retirements and power cost.

10 YEAR PHASE-IN

Adjustments made to Base Case:

A. Assumes ten-year phase-in impact of consolidation utilizing NRECA provided ratios. Total ten-year reduction in O&M, A&G and customer account expense of $12,879,000.

B. Wholesale power cost was reduced to reflect estimated savings due to diversity realized when combining a winter and summer peaking load. Total ten-year reduction of $1,279,000.

C. 2000 and 2001 loan funds were assumed to be 100% RUS. Total ten-year reduction of $359,000.

D. Capital credit retirements were adjusted to equalize years oustanding and achieve a ten-year cycle by 2007. Total retirements over the ten-year period are $46 million.

01/08/99

	1998 COMBINED RATIO	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
SCENARIO #3(10YR. RAMP) PLANT(COMBINED		135,512,395	144,560,664	152,678,076	163,055,580	172,028,815	181,044,221	191,605,095	199,521,720	208,504,329	215,251,524	
CONSUMERS(COMBINED)		48,256	49,334	50,340	51,366	52,325	53,302	54,291	55,298	56,321	57,268	
O&M RATIO COMBINED	5.56%	5.56%	5.75%	5.64%	5.46%	5.36%	5.27%	5.16%	5.12%	5.08%	5.09%	
O&M RATIO-CONSOLIDATED		4.32%	4.52%	4.40%	4.23%	4.12%	4.03%	3.92%	3.89%	3.84%	3.85%	
O&M RATIO-10 YR RAMP		5.43%	5.51%	5.27%	4.97%	4.74%	4.53%	4.29%	4.13%	3.96%	3.85%	
A&G RATIO COMBINED	2.44%	2.44%	2.31%	2.27%	2.20%	2.16%	2.12%	2.07%	2.06%	2.04%	2.05%	
A&G RATIO-CONSOLIDATED		2.61%	2.48%	2.43%	2.36%	2.32%	2.29%	2.24%	2.23%	2.21%	2.21%	
A&G RATIO-10 YR RAMP		2.46%	2.35%	2.32%	2.26%	2.24%	2.22%	2.19%	2.19%	2.19%	2.21%	
CONS. ACCT RATIO-COMBINED	48.12	48.12	50.68	51.40	52.14	52.98	53.82	54.69	55.58	56.48	57.49	
CONS. ACCT RATIO-CONSOLIDATED		42.29	44.54	45.26	46.00	46.83	47.67	48.54	49.41	50.31	51.31	
CONS. ACCT RATIO-10 YR RAMP		47.54	49.45	49.56	49.68	49.90	50.13	50.38	50.65	50.93	51.31	
O&M EXPENSE	98 COMBINED $7,531,436	$7,363,608	$7,959,655	$8,041,554	$8,102,395	$8,156,918	$8,199,674	$8,217,943	$8,248,028	$8,258,856	$8,287,399	$80,836,030
A&G EXPENSE	$3,312,440	$3,335,096	$3,391,827	$3,537,093	$3,690,437	$3,850,521	$4,017,733	$4,194,619	$4,375,910	$4,566,662	$4,761,364	$39,721,261
CONS. ACCT EXPENSE	$2,322,221	$2,293,965	$2,439,701	$2,494,822	$2,552,003	$2,611,216	$2,672,081	$2,735,279	$2,800,669	$2,868,184	$2,938,566	$26,406,485
CONSOLIDATED-10YR. RAMP TOTAL		$12,992,668	$13,791,183	$14,073,469	$14,344,834	$14,618,655	$14,889,488	$15,147,840	$15,424,607	$15,693,703	$15,987,329	
COMBINED TOTAL		$13,166,097	$14,146,386	$14,641,500	$15,153,963	$15,684,351	$16,233,303	$16,801,471	$17,389,521	$17,998,155	$18,628,089	
SUBTOTAL		$173,429	$355,203	$568,031	$809,129	$1,065,696	$1,343,815	$1,653,631	$1,964,914	$2,304,452	$2,640,760	10 YR $12,879,059
POWER COST SAVINGS		$111,551	$114,898	$118,345	$121,895	$125,552	$129,319	$133,198	$137,194	$141,310	$145,549	$1,278,811
INTEREST SAVINGS		$0	$0	$11,357	$38,749	$53,164	$51,284	$51,109	$51,211	$51,280	$51,315	$359,469
SAVINGS FROM CONSOLIDATION		$284,980	$470,101	$697,733	$969,773	$1,244,412	$1,524,418	$1,837,938	$2,153,319	$2,497,042	$2,837,624	$14,517,339

CONDOLIDATED TEN YEAR PHASE-IN 01/08/99

FINANCIAL FORECAST RUS FORM 325A- RATIOS

FINANCIAL FORECAST
RUS - AIEC VER. 6.0
CONSOLIDATED FF TEN YEAR PHASE-IN
TEN YEAR CAPITAL CREDIT CYCLE BY 2007

	** LAST YEAR **	**********************			FUTURE YEARS		**********************				
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. EQUITY RATIO (WITH ADD. REV.) (%)	37.28	36.77	33.85	32.77	31.12	30.09	29.05	27.87	28.08	27.90	27.90
2. DEBT SERVICE COVERAGE (WITH ADD. REV.)	1.92	2.26	2.07	2.09	2.04	2.05	2.03	2.02	2.04	2.01	1.99
3. TIMES INTEREST EARNED RATIO (WITH ADD. REV.)	1.96	2.52	2.14	2.10	2.01	2.00	2.00	2.00	2.00	2.00	2.00
3a EQUITY TO TOTAL CAPITALIZATION RATIO	45.97	44.80	40.95	39.32	36.89	35.42	34.00	32.44	32.50	32.13	32.03
4. AVERAGE REVENUE PER KWH SOLD (CENTS)	3.18	3.09	3.11	3.07	3.08	3.10	3.11	3.12	3.13	3.15	3.16
5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)		-2.55	0.58	-1.36	0.36	0.48	0.42	0.42	0.38	0.36	0.32
6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)	1.76	1.82	1.91	1.84	1.96	2.06	2.16	2.28	2.36	2.46	2.53
7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)	4.49	3.77	1.49	1.25	2.21	2.16	2.00	1.11	1.95	2.36	2.91
8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)	21.68	21.30	20.99	21.07	20.97	21.57	22.20	22.72	23.57	24.31	25.51
9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER ($)	105.35	152.59	161.34	159.74	157.74	155.89	153.83	151.37	149.16	146.64	144.71
10. ADMIN. & GEN. EXPENSE PER CONSUMER ($)	100.63	69.11	68.75	70.26	71.85	73.59	75.38	77.26	79.13	81.08	83.14
11. PLANT REVENUE RATIO	5.46	5.45	5.68	5.76	5.94	5.98	6.05	6.16	6.20	6.28	6.31
12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)		6.90	6.01	6.05	5.95	6.22	6.37	6.43	6.59	6.67	6.81
13. RATE BASE = 106% OF NET UTILITY PLANT		110,917,939	118,780,524	125,332,335	134,011,072	140,322,330	146,477,436	153,994,109	158,601,243	164,122,078	166,760,717
13a. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)(RURAL)		-0.00	-0.00	-0.00	-0.00	0.60	0.90	1.13	1.20	1.13	0.93
14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)		-0.00	-0.00	-0.00	-0.00	0.14	0.21	0.27	0.29	0.28	0.24
15. MODIFIED DSC (FOR RUS USE)		2.24	2.05	2.07	2.03	2.03	2.02	2.00	2.02	2.00	1.97
16. MODIFIED TIER (NET OF G&T & OTHER CAP. CREDITS)		2.49	2.11	2.07	1.99	1.97	1.97	1.97	1.97	1.97	1.97

CONDOLIDATED TEN YEAR PHASE-IN 01/08/99

FINANCIAL FORECAST RUS FORM 325B - PRO FORMA BALANCE SHEET

	** LAST YEAR **	******************** FUTURE YEARS ********************									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. ASSETS AND OTHER DEBITS(SEE NOTE)											
a. TOTAL UTILITY PLANT	125,933,687	135,512,395	144,560,664	152,678,076	163,055,580	172,028,814	181,044,221	191,605,095	199,521,719	208,504,328	215,251,524
b. ACCUM. PROVISION FOR DEPREC. & AMORT.	27,301,780	28,860,531	30,348,622	32,166,215	34,198,780	37,103,497	40,200,533	43,533,836	47,020,524	50,694,638	54,904,681
c. NET UTILITY PLANT	98,631,907	106,651,864	114,212,042	120,511,861	128,856,800	134,925,317	140,843,688	148,071,259	152,501,195	157,809,690	160,346,843
d. NET GENERAL FUNDS	5,655,087	5,113,760	2,148,622	1,905,564	3,610,633	3,716,679	3,615,868	2,135,424	3,892,766	4,912,071	6,265,984
e. GENERAL FUNDS EXCLUDABLE ITEMS	4,891,668	4,961,018	5,010,178	4,925,539	4,814,896	4,873,296	4,910,193	4,933,355	4,965,327	4,998,654	5,018,708
f. OTHER ASSETS AND DEBITS	27,001,315	27,108,595	27,222,284	27,344,423	27,461,372	27,582,996	27,714,751	27,858,146	28,012,623	28,176,915	28,349,928
g. TOTAL ASSETS AND OTHER DEBITS	136,179,977	143,835,237	148,593,126	154,687,387	164,743,701	171,098,288	177,084,500	182,998,184	189,371,911	195,897,330	199,981,463
2. LIABILITIES AND OTHER CREDITS(SEE NOTE)											
a. TOTAL MARGINS AND EQUITIES	50,761,749	52,893,284	50,301,294	50,693,349	51,272,699	51,476,221	51,451,116	51,005,610	53,172,528	54,661,071	55,804,216
b. LONG TERM DEBT - RUS											
(1). LONG TERM DEBT - RUS 2%	1,992,122	1,630,667	1,261,983	954,225	640,312	394,615	185,040	0	0	0	0
(2). LONG TERM DEBT - RUS 5%	15,151,358	14,497,128	13,802,040	13,055,464	12,254,825	11,414,154	10,531,450	9,604,611	8,631,430	7,609,590	6,536,658
(3). LONG TERM DEBT - RUS 5% (POST 6/83)	27,384,611	31,441,340	37,745,638	45,027,939	56,115,120	61,261,016	66,277,215	71,549,494	75,223,632	79,510,822	82,349,803
c. LONG TERM DEBT - OTHER	15,131,572	17,614,254	19,723,606	19,197,845	18,702,179	20,793,716	22,881,114	25,079,903	26,585,756	28,357,282	29,532,221
d. OTHER LIABILITIES AND CREDITS	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565
e. TOTAL LIABILITIES AND OTHER CREDITS	136,179,977	143,835,237	148,593,125	154,687,387	164,743,700	171,098,288	177,084,500	182,998,183	189,371,910	195,897,330	199,981,463

CONDOLIDATED TEN YEAR PHASE-IN 01/08/99

FINANCIAL FORECAST RUS FORM 325C - STATEMENT OF OPERATIONS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. ACCRUAL BASIS											
a (1). ADDITIONAL REVENUE REQUIREMENTS FOR TIER/EQUITY	0	0	0	0	356,247	543,365	706,555	769,425	744,062	629,585	$3,749,239
(2). OPER. REV. & PATRON. CAP. - PRESENT RATES	230,305,259	235,295,088	255,188,986	256,970,970	258,679,835	260,440,450	262,248,984	264,089,642	266,009,169	267,889,960	$2,557,118,343
b. COST OF POWER	205,459,944	209,843,706	228,699,623	229,500,331	230,267,065	231,057,214	231,868,973	232,695,208	233,557,265	234,401,029	$2,267,350,356
c. OPER. REV. LESS COST OF POWER	24,845,315	25,451,382	26,489,363	27,470,639	28,769,017	29,926,602	31,086,566	32,163,859	33,195,966	34,118,516	$293,517,225
d. OPERATIONS & MAINTENANCE EXPENSE	7,363,608	7,959,655	8,041,554	8,102,395	8,156,918	8,199,674	8,217,943	8,248,028	8,258,856	8,287,399	$80,836,030
e. CONSUMER ACCOUNTS AND SALES EXPENSE	2,293,965	2,439,701	2,494,822	2,552,003	2,611,216	2,672,081	2,735,279	2,800,669	2,868,184	2,938,566	$26,406,486
f. ADM. & GEN. & OTHER DEDUCTIONS EXPENSE	3,335,096	3,391,827	3,537,093	3,690,437	3,850,521	4,017,733	4,194,619	4,375,910	4,566,662	4,761,364	$39,721,262
g. DEPRECIATION AND AMORTIZATION EXPENSE	3,972,184	4,280,888	4,575,898	4,887,411	5,156,315	5,427,441	5,745,271	5,983,075	6,253,073	6,455,404	$52,736,960
h. TAX EXPENSE	224,275	244,000	252,540	261,379	270,527	279,996	289,796	299,938	310,436	321,302	$2,754,189
i. INTEREST EXPENSE	3,379,691	3,494,558	3,979,875	4,342,374	4,747,572	5,055,716	5,378,527	5,660,358	5,906,524	6,118,747	$48,063,940
j. TOTAL COST OF ELECTRIC SERVICE	226,028,762	231,654,335	251,581,405	253,336,330	255,060,134	256,709,855	258,430,407	260,063,186	261,720,999	263,283,811	$2,517,869,224
k. PATRONAGE CAPITAL & OPERATING MARGINS	4,276,497	3,640,753	3,607,581	3,634,640	3,975,948	4,273,961	4,525,132	4,796,881	5,032,232	5,235,734	$42,998,358
l. NON-OPERATING MARGINS	749,200	244,244	650,000	650,000	650,000	650,000	710,000	710,000	710,000	710,000	$6,433,444
m. G&T AND OTHER CAPITAL CREDITS (CFC CTC's)	107,280	113,689	122,139	116,949	121,624	131,755	143,395	154,477	164,292	173,013	$1,348,613
n. TOTAL ACCRUAL MARGINS	5,132,977	3,998,686	4,379,720	4,401,589	4,747,572	5,055,716	5,378,527	5,660,358	5,906,524	6,118,747	$50,780,415
2. CASH BASIS											
a. CASH FROM OPERATIONS BEFORE DEBT SERVICE	12,377,571	11,660,443	12,813,354	13,514,425	14,529,835	15,407,118	16,358,929	17,149,314	17,901,828	18,519,885	
b. TOTAL DEBT SERVICE	5,534,965	5,687,316	6,175,950	6,667,062	7,145,930	7,637,811	8,174,214	8,481,399	8,972,170	9,411,096	
c. CASH MARGINS AFTER DEBT SERVICE	6,842,606	5,973,127	6,637,404	6,847,363	7,383,904	7,769,307	8,184,715	8,667,915	8,929,658	9,108,789	

CONDOLIDATED TEN YEAR PHASE-IN 01/08/99

FINANCIAL FORECAST

RUS FORM 325D - GENERAL FUNDS SUMMARY

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. SOURCES OF GENERAL FUNDS											
a. NET GENERAL FUNDS BEGINNING OF YEAR	5,655,087	5,113,760	2,148,622	1,905,564	3,610,633	3,716,679	3,615,868	2,135,424	3,892,766	4,912,071	
b. CASH MARGINS AFTER DEBT SERVICE	6,842,606	5,973,127	6,637,404	6,847,363	7,383,904	7,769,307	8,184,715	8,667,915	8,929,658	9,108,789	
c. OTHER PROCEEDS	0	0	0	0	0	0	0	0	0	0	
d. SALE OF EXCLUDABLE ITEMS	0	0	0	0	0	0	0	0	0	0	
e. REIMBURSEMENT FROM RUS/SUPPL PRIORITY LOAN FUNDS	0	0	0	0	0	0	0	0	0	0	
f. REIMBURSEMENT FROM SPECIAL LOANS (NON-PRIORITY)	0	0	0	0	0	0	0	0	0	0	
2. TOTAL GENERAL FUNDS AVAILABLE	12,497,693	11,086,888	8,786,026	8,752,927	10,994,537	11,485,986	11,800,584	10,803,339	12,822,423	14,020,860	
3. PROPOSED USE OF GENERAL FUNDS											
a. PURCHASE OF EXCLUDABLE ITEMS	69,350	49,160	(84,639)	(110,643)	58,400	36,897	23,162	31,972	33,327	20,054	$45,737,948
b. CAPITAL CREDIT RETIREMENTS	3,001,442	6,590,676	3,987,665	3,822,239	4,544,050	5,080,821	5,824,032	3,493,440	4,417,981	4,975,602	
c. GENERAL FUNDS INVESTED IN PLANT	4,313,141	2,298,430	2,977,436	1,430,698	2,675,408	2,752,400	3,817,966	3,385,161	3,459,044	2,759,220	
d. OTHER USES OF GENERAL FUNDS	0	0	0	0	0	0	0	0	0	0	
4. TOTAL PROPOSED USES OF GENERAL FUNDS	7,383,933	8,938,266	6,880,462	5,142,294	7,277,858	7,870,118	9,665,160	6,910,573	7,910,352	7,754,876	
5. NET GENERAL FUNDS - END OF YEAR	5,113,760	2,148,622	1,905,564	3,610,633	3,716,679	3,615,868	2,135,424	3,892,766	4,912,071	6,265,984	

Tab 7 Scenario 1 Forecast adjusted for a 4% rural ratepayer rate reduction.

4% RATE REDUCTION
IMMEDIATE PHASE-IN

Adjustments made to Base Case:

A. Assumes immediate impact of consolidation utilizing NRECA provided ratios. Total ten-year reduction in O&M, A&G and customer account expense of $21,981,000.

B. Wholesale power cost was reduced to reflect estimated savings due to diversity realized when combining a winter and summer peaking load. Total ten-year reduction of $1,279,000.

C. 2000 and 2001 loan funds were assumed to be 100% RUS. Total ten-year reduction of $359,000.

D. A 4% rate reduction to non-dedicated delivery point customers for the 5 year period 2000 – 2004. The total 5 year reduction is $12.8 million

E. The minimum TIER was lowered to 1.00, utilizing the RUS provision that TIER can fall to 1.00 during the first 5 years after consolidation, providing the forecast indicates that TIER will be at 1.50 or above after the initial 5 year period.

F. Capital credit retirements were adjusted to equalize years oustanding. Total retirements over the ten-year period are $33 million.

CONDOLIDATED FOUR PERCENT RATE REDUCTION IMMEDIATE PHASE IN 01/12/99

FINANCIAL FORECAST

RUS FORM 325A- RATIOS

FINANCIAL FORECAST
RUS - AIEC VER. 6.0

CONSOLIDATED FF IMMEDIATE PHASE-IN
SPECIAL FIVE YEAR RATE 4% REDUCTION
REDUCE CAPITAL CREDITS FROM $45M TO $32M
REDUCE MINIMUM TIER FROM 2.00 TO 1.50

	** LAST YEAR **	********************* FUTURE YEARS *********************									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. EQUITY RATIO (WITH ADD. REV.) (%)	37.28	37.45	35.18	34.30	32.75	31.59	30.29	28.68	29.36	29.54	29.85
2. DEBT SERVICE COVERAGE (WITH ADD. REV.)	1.92	2.54	2.33	1.92	1.86	1.79	1.74	1.69	2.01	1.96	1.92
3. TIMES INTEREST EARNED RATIO (WITH ADD. REV.)	1.96	2.98	2.57	1.83	1.72	1.61	1.55	1.50	1.95	1.92	1.90
3a EQUITY TO TOTAL CAPITALIZATION RATIO	45.97	45.52	42.38	40.97	38.65	37.05	35.34	33.32	33.88	33.90	34.13
4. AVERAGE REVENUE PER KWH SOLD (CENTS)	3.18	3.09	3.11	3.04	3.05	3.06	3.07	3.08	3.13	3.14	3.15
5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)		-2.55	0.58	-2.30	0.34	0.33	0.33	0.34	1.40	0.37	0.36
6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)	1.76	1.82	1.91	1.84	1.96	2.06	2.16	2.28	2.36	2.46	2.53
7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)	4.49	4.93	3.59	3.61	4.65	4.35	3.73	2.20	3.67	4.54	5.49
8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)	21.68	21.30	20.99	21.07	20.97	21.57	22.20	22.72	23.57	24.31	25.51
9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER ($)	105.35	121.30	132.31	133.46	134.15	135.53	137.01	138.26	140.22	142.05	144.71
10. ADMIN. & GEN. EXPENSE PER CONSUMER ($)	100.63	73.32	72.66	73.80	75.02	76.32	77.64	79.02	80.33	81.70	83.14
11. PLANT REVENUE RATIO	5.46	5.45	5.68	6.34	6.53	6.65	6.77	6.92	6.36	6.43	6.43
12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)		8.31	7.25	5.21	5.02	4.91	4.82	4.69	6.42	6.37	6.43
13. RATE BASE = 106% OF NET UTILITY PLANT		110,917,939	118,780,624	125,332,335	134,011,072	140,322,330	146,477,436	153,994,109	158,601,243	164,122,078	166,760,717
13a. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)(RURAL)		-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00
14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)		-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00
15. MODIFIED DSC (FOR RUS USE)		2.52	2.31	1.90	1.84	1.78	1.72	1.67	1.99	1.94	1.90
16. MODIFIED TIER (NET OF G&T & OTHER CAP. CREDITS)		2.95	2.54	1.80	1.70	1.59	1.53	1.47	1.92	1.89	1.87

CONDOLIDATED FOUR PERCENT RATE REDUCTION IMMEDIATE PHASE IN 01/12/99

FINANCIAL FORECAST RUS FORM 325B - PRO FORMA BALANCE SHEET

	** LAST YEAR **	******************** FUTURE YEARS ********************									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1 ASSETS AND OTHER DEBITS(SEE NOTE)											
a. TOTAL UTILITY PLANT	125,933,687	135,512,395	144,560,664	152,678,076	163,055,580	172,028,814	181,044,221	191,605,095	199,521,719	208,504,328	215,251,524
b. ACCUM. PROVISION FOR DEPREC. & AMORT.	27,301,780	28,860,531	30,348,622	32,166,215	34,198,780	37,103,497	40,200,533	43,533,836	47,020,524	50,694,638	54,904,681
c. NET UTILITY PLANT	98,631,907	106,651,864	114,212,042	120,511,861	128,856,800	134,925,317	140,843,688	148,071,259	152,501,195	157,809,690	160,346,843
d. NET GENERAL FUNDS	5,655,087	6,674,000	5,190,574	5,512,607	7,589,258	7,488,960	6,750,242	4,207,036	7,315,815	9,474,425	11,823,848
e. GENERAL FUNDS EXCLUDABLE ITEMS	4,891,668	4,961,018	5,010,178	4,925,539	4,814,896	4,873,296	4,910,193	4,933,355	4,965,327	4,998,654	5,018,708
f. OTHER ASSETS AND DEBITS	27,001,315	27,108,595	27,222,284	27,344,423	27,461,372	27,582,996	27,714,751	27,858,146	28,012,623	28,176,915	28,349,928
g. TOTAL ASSETS AND OTHER DEBITS	136,179,977	145,395,477	151,635,078	158,294,430	168,722,326	174,870,569	180,218,874	185,069,796	192,794,960	200,459,684	205,539,327
2. LIABILITIES AND OTHER CREDITS(SEE NOTE)											
a. TOTAL MARGINS AND EQUITIES	50,761,749	54,453,524	53,343,246	54,300,392	55,251,324	55,248,502	54,585,489	53,077,223	56,595,577	59,223,424	61,362,079
b. LONG TERM DEBT - RUS											
(1). LONG TERM DEBT - RUS 2%	1,992,122	1,630,687	1,261,983	954,225	640,312	394,615	185,040	0	0	0	0
(2). LONG TERM DEBT - RUS 5%	15,151,358	14,497,128	13,802,040	13,055,464	12,254,825	11,414,154	10,531,450	9,604,611	8,631,430	7,609,590	6,536,658
(3). LONG TERM DEBT - RUS 5% (POST 6/83)	27,384,611	31,441,340	37,745,638	45,027,939	56,115,120	61,261,016	66,277,215	71,549,494	75,223,632	79,510,822	82,349,803
c LONG TERM DEBT - OTHER	15,131,572	17,614,254	19,723,606	19,197,845	18,702,179	20,793,716	22,881,114	25,079,903	26,585,756	28,357,282	29,532,221
d. OTHER LIABILITIES AND CREDITS	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565
e. TOTAL LIABILITIES AND OTHER CREDITS	136,179,977	145,395,477	151,635,077	158,294,430	168,722,325	174,870,569	180,218,873	185,069,796	192,794,960	200,459,684	205,539,327

CONDOLIDATED FOUR PERCENT RATE REDUCTION IMMEDIATE PHASE IN 01/12/99

FINANCIAL FORECAST RUS FORM 325C - STATEMENT OF OPERATIONS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. ACCRUAL BASIS											
a (1). ADDITIONAL REVENUE REQUIREMENTS FOR TIER/EQUITY	0	0	0	0	0	0	0	0	0	0	$0
(2). OPER. REV. & PATRON. CAP. - PRESENT RATES	230,305,259	235,295,088	252,767,427	254,479,701	256,121,798	257,813,604	259,551,442	264,089,642	266,009,169	267,889,960	$2,544,323,090
b. COST OF POWER	205,459,944	209,843,706	228,699,623	229,500,331	230,267,065	231,057,214	231,868,973	232,695,208	233,557,265	234,401,029	$2,267,350,356
c. OPER. REV. LESS COST OF POWER	24,845,315	25,451,382	24,067,804	24,979,370	25,854,733	26,756,390	27,682,469	31,394,434	32,451,904	33,488,931	$276,972,734
d. OPERATIONS & MAINTENANCE EXPENSE	5,853,398	6,527,573	6,718,226	6,890,983	7,091,812	7,302,882	7,506,237	7,753,925	8,000,636	8,287,304	$71,932,976
e. CONSUMER ACCOUNTS AND SALES EXPENSE	2,040,938	2,197,516	2,278,630	2,362,672	2,450,254	2,540,993	2,635,038	2,732,470	2,833,426	2,938,566	$25,010,503
f. ADM & GEN. & OTHER DEDUCTIONS EXPENSE	3,538,093	3,584,382	3,714,963	3,853,329	3,993,649	4,138,309	4,290,230	4,442,351	4,601,274	4,761,364	$40,917,944
g. DEPRECIATION AND AMORTIZATION EXPENSE	3,972,184	4,280,888	4,575,898	4,887,411	5,156,315	5,427,441	5,745,271	5,983,075	6,253,073	6,455,404	$52,736,960
h. TAX EXPENSE	224,275	244,000	252,540	261,379	270,527	279,996	289,796	299,938	310,436	321,302	$2,754,189
i. INTEREST EXPENSE	3,379,691	3,494,558	3,979,875	4,342,374	4,747,572	5,055,716	5,378,527	5,660,358	5,906,524	6,118,747	$48,063,940
j. TOTAL COST OF ELECTRIC SERVICE	224,468,522	230,172,623	250,219,755	252,098,479	253,977,194	255,802,551	257,714,071	259,567,325	261,462,633	263,283,716	$2,508,766,869
k. PATRONAGE CAPITAL & OPERATING MARGINS	5,836,737	5,122,465	2,547,672	2,381,222	2,144,604	2,011,053	1,837,371	4,522,317	4,546,536	4,606,244	$35,556,221
l. NON-OPERATING MARGINS	749,200	244,244	650,000	650,000	650,000	650,000	710,000	710,000	710,000	710,000	$6,433,444
m. G&T AND OTHER CAPITAL CREDITS (CFC CTC's)	107,280	113,689	122,139	116,949	121,624	131,755	143,395	154,477	164,292	173,013	$1,348,613
n. TOTAL ACCRUAL MARGINS	6,693,217	5,480,398	3,319,811	3,148,171	2,916,228	2,792,808	2,690,766	5,386,794	5,420,828	5,489,257	$43,338,278
2. CASH BASIS											
a. CASH FROM OPERATIONS BEFORE DEBT SERVICE	13,937,811	13,142,155	11,753,445	12,261,007	12,698,491	13,144,210	13,671,168	16,875,750	17,416,132	17,890,395	
b. TOTAL DEBT SERVICE	5,534,965	5,687,316	6,175,950	6,667,062	7,145,930	7,637,811	8,174,214	8,481,399	8,972,170	9,411,096	
c. CASH MARGINS AFTER DEBT SERVICE	8,402,846	7,454,839	5,577,495	5,593,945	5,552,560	5,506,400	5,496,955	8,394,351	8,443,962	8,479,299	

CONDOLIDATED FOUR PERCENT RATE REDUCTION IMMEDIATE PHASE IN 01/12/99

FINANCIAL FORECAST RUS FORM 325D - GENERAL FUNDS SUMMARY

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. SOURCES OF GENERAL FUNDS											
a. NET GENERAL FUNDS BEGINNING OF YEAR	5,655,087	6,674,000	5,190,574	5,512,607	7,589,258	7,488,960	6,750,242	4,207,036	7,315,815	9,474,425	
b. CASH MARGINS AFTER DEBT SERVICE	8,402,846	7,454,839	5,577,495	5,593,945	5,552,560	5,506,400	5,496,955	8,394,351	8,443,962	8,479,299	
c. OTHER PROCEEDS	0	0	0	0	0	0	0	0	0	0	
d. SALE OF EXCLUDABLE ITEMS	0	0	0	0	0	0	0	0	0	0	
e. REIMBURSEMENT FROM RUS/SUPPL PRIORITY LOAN FUNDS	0	0	0	0	0	0	0	0	0	0	
f. REIMBURSEMENT FROM SPECIAL LOANS (NON-PRIORITY)	0	0	0	0	0	0	0	0	0	0	
2. TOTAL GENERAL FUNDS AVAILABLE	14,057,933	14,128,840	10,768,069	11,106,552	13,141,818	12,995,360	12,247,196	12,601,388	15,759,777	17,953,724	
3. PROPOSED USE OF GENERAL FUNDS											
a. PURCHASE OF EXCLUDABLE ITEMS	69,350	49,160	(84,639)	(110,643)	58,400	36,897	23,162	31,972	33,327	20,054	$32,737,948
b. CAPITAL CREDIT RETIREMENTS	3,001,442	6,590,676	2,362,665	2,197,239	2,919,050	3,455,821	4,199,032	1,868,440	2,792,981	3,350,602	
c. GENERAL FUNDS INVESTED IN PLANT	4,313,141	2,298,430	2,977,436	1,430,698	2,675,408	2,752,400	3,817,966	3,385,161	3,459,044	2,759,220	
d. OTHER USES OF GENERAL FUNDS	0	0	0	0	0	0	0	0	0	0	
4. TOTAL PROPOSED USES OF GENERAL FUNDS	7,383,933	8,938,266	5,255,462	3,517,294	5,652,858	6,245,118	8,040,160	5,285,673	6,285,352	6,129,876	
5. NET GENERAL FUNDS - END OF YEAR	6,674,000	5,190,574	5,512,607	7,589,258	7,488,960	6,750,242	4,207,036	7,315,815	9,474,425	11,823,848	

Tab 8 Scenario 2 Forecast adjusted for a 4% rural ratepayer rate reduction

4% RATE REDUCTION
5 YEAR PHASE-IN

Adjustments made to Base Case:

A. Assumes five-year impact of consolidation utilizing NRECA provided ratios. Total ten-year reduction in O&M, A&G and customer account expense of $18,293,000.

B. Wholesale power cost was reduced to reflect estimated savings due to diversity realized when combining a winter and summer peaking load. Total ten-year reduction of $1,279,000.

C. 2000 and 2001 loan funds were assumed to be 100% RUS. Total ten-year reduction of $359,000.

D. A 4% rate reduction to non-dedicated delivery point customers for the 5 year period 2000 – 2004. The total 5 year reduction is $12.8 million

E. The minimum TIER was lowered to 1.00, utilizing the RUS provision that TIER can fall to 1.00 during the first 5 years after consolidation, providing the forecast indicates that TIER will be at 1.50 or above after the initial 5 year period.

F. Capital credit retirements were adjusted to equalize years oustanding. Total retirements over the ten-year period are $33 million.

CONDOLIDATED FOUR PERCENT RATE REDUCTION 01/08/99

FINANCIAL FORECAST RUS FORM 325A- RATIOS

FINANCIAL FORECAST
RUS - AIEC VER. 6.0

CONSOLIDATED FF FIVE YEAR PHASE-IN
SPECIAL FIVE YEAR RATE REDUCTION
REDUCE CAPITAL CREDITS FROM $45M TO $32M
REDUCE MINIMUM TIER FROM 2.00 TO 1.50

	** LAST YEAR **			********** FUTURE YEARS **********							
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. EQUITY RATIO (WITH ADD. REV.) (%)	37.28	36.85	34.09	32.98	31.37	30.30	29.07	27.53	28.26	28.49	28.84
2. DEBT SERVICE COVERAGE (WITH ADD. REV.)	1.92	2.29	2.14	1.82	1.82	1.81	1.76	1.71	2.01	1.96	1.92
3. TIMES INTEREST EARNED RATIO (WITH ADD. REV.)	1.96	2.57	2.25	1.68	1.66	1.65	1.58	1.53	1.95	1.92	1.90
3a EQUITY TO TOTAL CAPITALIZATION RATIO	45.97	44.88	41.21	39.54	37.16	35.65	34.02	32.06	32.70	32.77	33.04
4. AVERAGE REVENUE PER KWH SOLD (CENTS)	3.18	3.09	3.11	3.04	3.05	3.06	3.07	3.08	3.13	3.14	3.15
5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)		-2.55	0.58	-2.24	0.34	0.33	0.33	0.34	1.35	0.37	0.36
6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)	1.76	1.82	1.91	1.84	1.96	2.06	2.16	2.28	2.36	2.46	2.53
7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)	4.49	3.90	1.86	1.56	2.58	2.47	2.02	0.66	2.19	3.13	4.13
8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)	21.68	21.30	20.99	21.07	20.97	21.57	22.20	22.72	23.57	24.31	25.51
9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER ($)	105.35	149.12	154.08	148.48	142.02	135.53	137.01	138.26	140.22	142.05	144.71
10. ADMIN. & GEN. EXPENSE PER CONSUMER ($)	100.63	69.68	69.73	71.78	73.96	76.32	77.64	79.02	80.33	81.70	83.14
11. PLANT REVENUE RATIO	5.46	5.45	5.68	6.30	6.49	6.62	6.73	6.88	6.36	6.43	6.43
12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)		7.06	6.32	4.71	4.82	5.02	4.93	4.78	6.42	6.37	6.43
13. RATE BASE = 106% OF NET UTILITY PLANT		110,917,939	118,780,524	125,332,335	134,011,072	140,322,330	146,477,436	153,994,109	158,601,243	164,122,078	166,760,717
13a. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)(RURAL)		-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00
14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)		-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00
15. MODIFIED DSC (FOR RUS USE)		2.27	2.12	1.80	1.80	1.80	1.74	1.69	1.99	1.94	1.90
16. MODIFIED TIER (NET OF G&T & OTHER CAP. CREDITS)		2.54	2.22	1.65	1.64	1.62	1.56	1.50	1.92	1.89	1.87

CONDOLIDATED FOUR PERCENT RATE REDUCTION 01/08/99

FINANCIAL FORECAST RUS FORM 325B - PRO FORMA BALANCE SHEET

	** LAST YEAR **	********************* FUTURE YEARS *********************									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1 ASSETS AND OTHER DEBITS(SEE NOTE)											
a. TOTAL UTILITY PLANT	125,933,687	135,512,395	144,560,664	152,678,076	163,055,580	172,028,814	181,044,221	191,605,095	199,521,719	208,504,328	215,251,524
b. ACCUM. PROVISION FOR DEPREC. & AMORT.	27,301,780	28,860,531	30,348,622	32,166,215	34,198,780	37,103,497	40,200,533	43,533,836	47,020,524	50,694,638	54,904,681
c. NET UTILITY PLANT	98,631,907	106,651,864	114,212,042	120,511,861	128,856,800	134,925,317	140,843,688	148,071,259	152,501,195	157,809,690	160,346,843
d NET GENERAL FUNDS	5,655,087	5,287,143	2,692,489	2,385,518	4,198,690	4,247,524	3,657,938	1,263,864	4,372,643	6,531,253	8,880,676
e GENERAL FUNDS EXCLUDABLE ITEMS	4,891,668	4,961,018	5,010,178	4,925,539	4,814,896	4,873,296	4,910,193	4,933,355	4,965,327	4,998,654	5,018,708
f. OTHER ASSETS AND DEBITS	27,001,315	27,108,595	27,222,284	27,344,423	27,461,372	27,582,996	27,714,751	27,858,146	28,012,623	28,176,915	28,349,928
g. TOTAL ASSETS AND OTHER DEBITS	136,179,977	144,008,620	149,136,993	155,167,341	165,331,758	171,629,133	177,126,570	182,126,624	189,851,788	197,516,512	202,596,155
2. LIABILITIES AND OTHER CREDITS(SEE NOTE)											
a. TOTAL MARGINS AND EQUITIES	50,761,749	53,066,667	50,845,161	51,173,303	51,860,756	52,007,066	51,493,185	50,134,051	53,652,405	56,280,252	58,418,907
b. LONG TERM DEBT - RUS											
(1). LONG TERM DEBT - RUS 2%	1,992,122	1,630,667	1,261,983	954,225	640,312	394,615	185,040	0	0	0	0
(2). LONG TERM DEBT - RUS 5%	15,151,358	14,497,128	13,802,040	13,055,464	12,254,825	11,414,154	10,531,450	9,604,611	8,631,430	7,609,590	6,536,658
(3). LONG TERM DEBT - RUS 5% (POST 6/83)	27,384,611	31,441,340	37,745,638	45,027,939	56,115,120	61,261,016	66,277,215	71,549,494	75,223,632	79,510,822	82,349,803
c. LONG TERM DEBT - OTHER	15,131,572	17,614,254	19,723,606	19,197,845	18,702,179	20,793,716	22,881,114	25,079,903	26,585,756	28,357,282	29,532,221
d. OTHER LIABILITIES AND CREDITS	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565
e. TOTAL LIABILITIES AND OTHER CREDITS	136,179,977	144,008,620	149,136,992	155,167,341	165,331,757	171,629,133	177,126,569	182,126,624	189,851,788	197,516,512	202,596,155

CONDOLIDATED FOUR PERCENT RATE REDUCTION 01/08/99

FINANCIAL FORECAST RUS FORM 325C - STATEMENT OF OPERATIONS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. ACCRUAL BASIS											
a (1). ADDITIONAL REVENUE REQUIREMENTS FOR TIER/EQUITY	0	0	0	0	0	0	0	0	0	0	$0
(2). OPER. REV. & PATRON. CAP. - PRESENT RATES	230,305,259	235,295,088	252,916,559	254,628,833	256,270,930	257,962,736	259,700,574	264,089,642	266,009,169	267,889,960	$2,545,068,750
b. COST OF POWER	205,459,944	209,843,706	228,699,623	229,500,331	230,267,065	231,057,214	231,868,973	232,695,208	233,557,265	234,401,029	$2,267,350,356
c. OPER. REV. LESS COST OF POWER	24,845,315	25,451,382	24,216,936	25,128,502	26,003,865	26,905,522	27,831,601	31,394,434	32,451,904	33,488,931	$277,718,394
d. OPERATIONS & MAINTENANCE EXPENSE	7,195,844	7,601,578	7,474,508	7,294,781	7,091,812	7,302,882	7,506,237	7,753,925	8,000,636	8,287,304	$75,509,507
e. CONSUMER ACCOUNTS AND SALES EXPENSE	2,265,851	2,379,155	2,402,168	2,425,782	2,450,254	2,540,993	2,635,038	2,732,470	2,833,426	2,938,566	$25,603,703
f. ADM. & GEN. & OTHER DEDUCTIONS EXPENSE	3,357,591	3,439,966	3,613,279	3,799,032	3,993,649	4,138,309	4,290,230	4,442,351	4,601,274	4,761,364	$40,437,045
g. DEPRECIATION AND AMORTIZATION EXPENSE	3,972,184	4,280,888	4,575,898	4,887,411	5,156,315	5,427,441	5,745,271	5,983,075	6,253,073	6,455,404	$52,736,960
h. TAX EXPENSE	224,275	244,000	252,540	261,379	270,527	279,996	289,796	299,938	310,436	321,302	$2,754,189
i. INTEREST EXPENSE	3,379,691	3,494,558	3,979,875	4,342,374	4,747,572	5,055,716	5,378,527	5,660,358	5,906,524	6,118,747	$48,063,940
j. TOTAL COST OF ELECTRIC SERVICE	225,855,379	231,283,851	250,997,891	252,511,090	253,977,194	255,802,551	257,714,071	259,567,325	261,462,633	263,283,716	$2,512,455,701
k. PATRONAGE CAPITAL & OPERATING MARGINS	4,449,880	4,011,237	1,918,668	2,117,743	2,293,736	2,160,185	1,986,503	4,522,317	4,546,536	4,606,244	$32,613,049
l. NON-OPERATING MARGINS	749,200	244,244	650,000	650,000	650,000	650,000	710,000	710,000	710,000	710,000	$6,433,444
m. G&T AND OTHER CAPITAL CREDITS (CFC CTC's)	107,280	113,689	122,139	116,949	121,624	131,755	143,395	154,477	164,292	173,013	$1,348,613
n. TOTAL ACCRUAL MARGINS	5,306,360	4,369,170	2,690,807	2,884,692	3,065,360	2,941,940	2,839,898	5,386,794	5,420,828	5,489,257	$40,395,106
2. CASH BASIS											
a. CASH FROM OPERATIONS BEFORE DEBT SERVICE	12,550,954	12,030,927	11,124,441	11,997,528	12,847,623	13,293,342	13,820,300	16,875,750	17,416,132	17,890,395	
b. TOTAL DEBT SERVICE	5,534,965	5,687,316	6,175,950	6,667,062	7,145,930	7,637,811	8,174,214	8,481,399	8,972,170	9,411,096	
c. CASH MARGINS AFTER DEBT SERVICE	7,015,989	6,343,611	4,948,491	5,330,466	5,701,692	5,655,532	5,646,087	8,394,351	8,443,962	8,479,299	

CONDOLIDATED FOUR PERCENT RATE REDUCTION 01/08/99

FINANCIAL FORECAST RUS FORM 325D - GENERAL FUNDS SUMMARY

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1 SOURCES OF GENERAL FUNDS											
a. NET GENERAL FUNDS BEGINNING OF YEAR	5,655,087	5,287,143	2,692,489	2,385,518	4,198,690	4,247,524	3,657,938	1,263,864	4,372,643	6,531,253	
b. CASH MARGINS AFTER DEBT SERVICE	7,015,989	6,343,611	4,948,491	5,330,466	5,701,692	5,655,532	5,646,087	8,394,351	8,443,962	8,479,299	
c. OTHER PROCEEDS	0	0	0	0	0	0	0	0	0	0	
d. SALE OF EXCLUDABLE ITEMS	0	0	0	0	0	0	0	0	0	0	
e. REIMBURSEMENT FROM RUS/SUPPL PRIORITY LOAN FUNDS	0	0	0	0	0	0	0	0	0	0	
f. REIMBURSEMENT FROM SPECIAL LOANS (NON-PRIORITY)	0	0	0	0	0	0	0	0	0	0	
2. TOTAL GENERAL FUNDS AVAILABLE	12,671,076	11,630,755	7,640,980	7,715,984	9,900,382	9,903,056	9,304,024	9,658,216	12,816,605	15,010,552	
3. PROPOSED USE OF GENERAL FUNDS											
a. PURCHASE OF EXCLUDABLE ITEMS	69,350	49,160	(84,639)	(110,643)	58,400	36,897	23,162	31,972	33,327	20,054	$32,737,948
b. CAPITAL CREDIT RETIREMENTS	3,001,442	6,590,676	2,362,665	2,197,239	2,919,050	3,455,821	4,199,032	1,868,440	2,792,981	3,350,602	
c. GENERAL FUNDS INVESTED IN PLANT	4,313,141	2,298,430	2,977,436	1,430,698	2,675,408	2,752,400	3,817,966	3,385,161	3,459,044	2,759,220	
d. OTHER USES OF GENERAL FUNDS	0	0	0	0	0	0	0	0	0	0	
4. TOTAL PROPOSED USES OF GENERAL FUNDS	7,383,933	8,938,266	5,255,462	3,517,294	5,652,858	6,245,118	8,040,160	5,285,573	6,285,352	6,129,876	
5. NET GENERAL FUNDS - END OF YEAR	5,287,143	2,692,489	2,385,518	4,198,690	4,247,524	3,657,938	1,263,864	4,372,643	6,531,253	8,880,676	

Tab 9 Scenario 3 Forecast adjusted for a 4% rural ratepayer rate reduction.

4% RATE REDUCTION
10 YEAR PHASE-IN

Adjustments made to Base Case:

A. Assumes ten-year phase-in impact of consolidation utilizing NRECA provided ratios. Total ten-year reduction in O&M, A&G and customer account expense of $12,879,000.

B. Wholesale power cost was reduced to reflect estimated savings due to diversity realized when combining a winter and summer peaking load. Total ten-year reduction of $1,279,000.

C. 2000 and 2001 loan funds were assumed to be 100% RUS. Total ten-year reduction of $359,000.

D. A 4% rate reduction to non-dedicated delivery point customers for the 5 year period 2000 – 2004. The total 5 year reduction is $12.8 million

E. The minimum TIER was lowered to 1.00, utilizing the RUS provision that TIER can fall to 1.00 during the first 5 years after consolidation, providing the forecast indicates that TIER will be at 1.50 or above after the initial 5 year period.

F. Capital credit retirements were adjusted to equalize years oustanding. Total retirements over the ten-year period are $33 million.

CONDOLIDATED FOUR PERCENT RATE REDUCTION 10 YRPHASE-IN01/11/99

FINANCIAL FORECAST RUS FORM 325A- RATIOS

FINANCIAL FORECAST
RUS - AIEC VER. 6.0
CONSOLIDATED FF TEN YEAR PHASE-IN
SPECIAL FIVE YEAR RATE REDUCTION
REDUCE CAPITAL CREDITS FROM $45M TO $32M
REDUCE MINIMUM TIER FROM 2.00 TO 1.00

	** LAST YEAR **			******************** FUTURE YEARS	********************						
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. EQUITY RATIO (WITH ADD. REV.) (%)	37.28	36.77	33.85	32.42	30.42	28.86	27.21	25.31	25.96	26.19	26.60
2. DEBT SERVICE COVERAGE (WITH ADD. REV.)	1.92	2.26	2.07	1.70	1.67	1.64	1.62	1.60	1.95	1.93	1.92
3. TIMES INTEREST EARNED RATIO (WITH ADD. REV.)	1.96	2.52	2.14	1.49	1.44	1.39	1.37	1.37	1.86	1.87	1.90
3a EQUITY TO TOTAL CAPITALIZATION RATIO	45.97	44.80	40.95	38.94	36.13	34.08	31.98	29.63	30.19	30.27	30.62
4. AVERAGE REVENUE PER KWH SOLD (CENTS)	3.18	3.09	3.11	3.04	3.05	3.06	3.07	3.08	3.13	3.14	3.15
5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)		-2.55	0.58	-2.30	0.34	0.33	0.33	0.34	1.40	0.37	0.36
6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)	1.76	1.82	1.91	1.84	1.96	2.06	2.16	2.28	2.36	2.46	2.53
7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)	4.49	3.77	1.49	0.73	1.19	0.44	-0.49	-2.16	-0.77	0.18	1.26
8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)	21.68	21.30	20.99	21.07	20.97	21.67	22.20	22.72	23.57	24.31	25.51
9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER ($)	105.35	152.59	161.34	159.74	157.74	155.89	153.83	151.37	149.16	146.64	144.71
10. ADMIN. & GEN. EXPENSE PER CONSUMER ($)	100.63	69.11	68.75	70.26	71.85	73.59	75.38	77.26	79.13	81.08	83.14
11. PLANT REVENUE RATIO	5.46	5.45	5.68	6.34	6.53	6.65	6.77	6.92	6.36	6.43	6.43
12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)		6.90	6.01	4.12	4.09	4.14	4.21	4.22	6.11	6.21	6.43
13. RATE BASE = 106% OF NET UTILITY PLANT		110,917,939	118,780,524	125,332,335	134,011,072	140,322,330	146,477,436	153,994,109	158,601,243	164,122,078	166,760,717
13a. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)(RURAL)		-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00
14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)		-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00
15. MODIFIED DSC (FOR RUS USE)		2.24	2.05	1.68	1.65	1.63	1.60	1.58	1.93	1.91	1.90
16. MODIFIED TIER (NET OF G&T & OTHER CAP. CREDITS)		2.49	2.11	1.46	1.41	1.36	1.35	1.34	1.84	1.85	1.87

CONDOLIDATED FOUR PERCENT RATE REDUCTION 10 YRPHASE-IN01/11/99

FINANCIAL FORECAST

RUS FORM 325B - PRO FORMA BALANCE SHEET

	** LAST YEAR **	********************* FUTURE YEARS *********************									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. ASSETS AND OTHER DEBITS(SEE NOTE)											
a. TOTAL UTILITY PLANT	125,933,687	135,512,395	144,560,664	152,678,076	163,055,580	172,028,814	181,044,221	191,605,095	199,521,719	208,504,328	215,251,524
b. ACCUM. PROVISION FOR DEPREC. & AMORT.	27,301,780	28,860,531	30,348,622	32,166,215	34,198,780	37,103,497	40,200,533	43,533,836	47,020,524	50,694,638	54,904,681
c. NET UTILITY PLANT	98,631,907	106,651,864	114,212,042	120,511,861	128,856,800	134,925,317	140,843,688	148,071,259	152,501,195	157,809,690	160,346,843
d. NET GENERAL FUNDS	5,655,087	5,113,760	2,148,622	1,109,005	1,947,805	764,567	(881,455)	(4,140,997)	(1,528,079)	372,165	2,721,493
e. GENERAL FUNDS EXCLUDABLE ITEMS	4,891,668	4,961,018	5,010,178	4,925,539	4,814,896	4,873,296	4,910,193	4,933,355	4,965,327	4,998,654	5,018,708
f. OTHER ASSETS AND DEBITS	27,001,315	27,108,595	27,222,284	27,344,423	27,461,372	27,582,996	27,714,751	27,858,146	28,012,623	28,176,915	28,349,928
g. TOTAL ASSETS AND OTHER DEBITS	136,179,977	143,835,237	148,593,126	153,890,828	163,080,873	168,146,176	172,587,177	176,721,763	183,951,066	191,357,424	196,436,972
2. LIABILITIES AND OTHER CREDITS(SEE NOTE)											
a. TOTAL MARGINS AND EQUITIES	50,761,749	52,893,284	50,301,294	49,896,790	49,609,871	48,524,109	46,953,792	44,729,190	47,751,683	50,121,164	52,259,724
b. LONG TERM DEBT - RUS											
(1). LONG TERM DEBT - RUS 2%	1,992,122	1,630,667	1,261,983	954,225	640,312	394,615	185,040	0	0	0	0
(2). LONG TERM DEBT - RUS 5%	15,151,358	14,497,128	13,802,040	13,055,464	12,254,825	11,414,154	10,531,450	9,604,611	8,631,430	7,609,590	6,536,658
(3). LONG TERM DEBT - RUS 5% (POST 6/83)	27,384,611	31,441,340	37,745,638	45,027,939	56,115,120	61,261,016	66,277,215	71,549,494	75,223,632	79,510,822	82,349,803
c. LONG TERM DEBT - OTHER	15,131,572	17,614,254	19,723,606	19,197,845	18,702,179	20,793,716	22,881,114	25,079,903	26,585,756	28,357,282	29,532,221
d. OTHER LIABILITIES AND CREDITS	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565	25,758,565
e. TOTAL LIABILITIES AND OTHER CREDITS	136,179,977	143,835,237	148,593,125	153,890,828	163,080,872	168,146,176	172,587,176	176,721,763	183,951,066	191,357,424	196,436,972

CONDOLIDATED FOUR PERCENT RATE REDUCTION 10 YRPHASE-IN01/11/99

FINANCIAL FORECAST RUS FORM 325C - STATEMENT OF OPERATIONS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. ACCRUAL BASIS											
a (1). ADDITIONAL REVENUE REQUIREMENTS FOR TIER/EQUITY	0	0	0	0	0	0	0	0	0	0	$0
(2). OPER. REV. & PATRON. CAP. - PRESENT RATES	230,305,259	235,295,088	252,767,427	254,479,701	256,121,798	257,813,604	259,551,442	264,089,642	266,009,169	267,889,960	$2,544,323,090
b. COST OF POWER	205,459,944	209,843,706	228,699,623	229,500,331	230,267,065	231,057,214	231,868,973	232,695,208	233,557,265	234,401,029	$2,267,350,356
c. OPER. REV. LESS COST OF POWER	24,845,315	25,451,382	24,067,804	24,979,370	25,854,733	26,756,390	27,682,469	31,394,434	32,451,904	33,488,931	$276,972,734
d. OPERATIONS & MAINTENANCE EXPENSE	7,363,608	7,959,655	8,041,554	8,102,395	8,156,918	8,199,674	8,217,943	8,248,028	8,258,856	8,287,399	$80,836,030
e. CONSUMER ACCOUNTS AND SALES EXPENSE	2,293,965	2,439,701	2,494,822	2,552,003	2,611,216	2,672,081	2,735,279	2,800,669	2,868,184	2,938,566	$26,406,486
f. ADM. & GEN. & OTHER DEDUCTIONS EXPENSE	3,335,096	3,391,827	3,537,093	3,690,437	3,850,521	4,017,733	4,194,619	4,375,910	4,566,662	4,761,364	$39,721,262
g. DEPRECIATION AND AMORTIZATION EXPENSE	3,972,184	4,280,888	4,575,898	4,887,411	5,156,315	5,427,441	5,745,271	5,983,075	6,253,073	6,455,404	$52,736,960
h. TAX EXPENSE	224,275	244,000	252,540	261,379	270,527	279,996	289,796	299,938	310,436	321,302	$2,754,189
i. INTEREST EXPENSE	3,379,691	3,494,558	3,979,875	4,342,374	4,747,572	5,055,716	5,378,527	5,660,358	5,906,524	6,118,747	$48,063,940
j. TOTAL COST OF ELECTRIC SERVICE	226,028,762	231,654,335	251,581,405	253,336,330	255,060,134	256,709,855	258,430,407	260,063,186	261,720,999	263,283,811	$2,517,869,224
k. PATRONAGE CAPITAL & OPERATING MARGINS	4,276,497	3,640,753	1,186,022	1,143,371	1,061,664	1,103,749	1,121,035	4,026,456	4,288,170	4,606,149	$26,453,866
l. NON-OPERATING MARGINS	749,200	244,244	650,000	650,000	650,000	650,000	710,000	710,000	710,000	710,000	$6,433,444
m. G&T AND OTHER CAPITAL CREDITS (CFC CTC's)	107,280	113,689	122,139	116,949	121,624	131,755	143,395	154,477	164,292	173,013	$1,348,613
n. TOTAL ACCRUAL MARGINS	5,132,977	3,998,686	1,958,161	1,910,320	1,833,288	1,885,504	1,974,430	4,890,933	5,162,462	5,489,162	$34,235,923
2. CASH BASIS											
a. CASH FROM OPERATIONS BEFORE DEBT SERVICE	12,377,571	11,660,443	10,391,795	11,023,156	11,615,551	12,236,906	12,954,832	16,379,889	17,157,766	17,890,300	
b. TOTAL DEBT SERVICE	5,534,965	5,687,316	6,175,950	6,667,062	7,145,930	7,637,811	8,174,214	8,481,399	8,972,170	9,411,096	
c. CASH MARGINS AFTER DEBT SERVICE	6,842,606	5,973,127	4,215,845	4,356,094	4,469,620	4,599,096	4,780,619	7,898,490	8,185,596	8,479,204	

CONDOLIDATED FOUR PERCENT RATE REDUCTION 10 YRPHASE-IN01/11/99

FINANCIAL FORECAST RUS FORM 325D - GENERAL FUNDS SUMMARY

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1. SOURCES OF GENERAL FUNDS											
a. NET GENERAL FUNDS BEGINNING OF YEAR	5,655,087	5,113,760	2,148,622	1,109,005	1,947,805	764,567	(881,455)	(4,140,997)	(1,528,079)	372,165	
b. CASH MARGINS AFTER DEBT SERVICE	6,842,606	5,973,127	4,215,845	4,356,094	4,469,620	4,599,096	4,780,619	7,898,490	8,185,596	8,479,204	
c. OTHER PROCEEDS	0	0	0	0	0	0	0	0	0	0	
d. SALE OF EXCLUDABLE ITEMS	0	0	0	0	0	0	0	0	0	0	
e. REIMBURSEMENT FROM RUS/SUPPL PRIORITY LOAN FUNDS	0	0	0	0	0	0	0	0	0	0	
f. REIMBURSEMENT FROM SPECIAL LOANS (NON-PRIORITY)	0	0	0	0	0	0	0	0	0	0	
2. TOTAL GENERAL FUNDS AVAILABLE	12,497,693	11,086,888	6,364,467	5,465,099	6,417,425	5,363,663	3,899,163	3,757,494	6,657,517	8,851,369	
3. PROPOSED USE OF GENERAL FUNDS											
a. PURCHASE OF EXCLUDABLE ITEMS	69,350	49,160	(84,639)	(110,643)	58,400	36,897	23,162	31,972	33,327	20,054	$32,737,948
b. CAPITAL CREDIT RETIREMENTS	3,001,442	6,590,676	2,362,665	2,197,239	2,919,050	3,456,821	4,199,032	1,868,440	2,792,981	3,350,602	
c. GENERAL FUNDS INVESTED IN PLANT	4,313,141	2,298,430	2,977,436	1,430,698	2,675,408	2,752,400	3,817,966	3,385,161	3,459,044	2,759,220	
d. OTHER USES OF GENERAL FUNDS	0	0	0	0	0	0	0	0	0	0	
4. TOTAL PROPOSED USES OF GENERAL FUNDS	7,383,933	8,938,266	5,255,462	3,517,294	5,652,858	6,245,118	8,040,160	5,285,573	6,285,352	6,129,876	
5. NET GENERAL FUNDS - END OF YEAR	5,113,760	2,148,622	1,109,005	1,947,805	764,567	(881,455)	(4,140,997)	(1,528,079)	372,165	2,721,493	

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PUBLIC SERVICE
COMMISSION

99-136

CONSOLIDATION AGREEMENT

THIS CONSOLIDATION AGREEMENT dated as of the 23rd day of January, 1999, by and between **GREEN RIVER ELECTRIC CORPORATION,** Post Office Box 1389, Owensboro, Kentucky 42302, a Kentucky electric cooperative corporation (hereinafter sometimes referred to as "GREC"), and **HENDERSON UNION ELECTRIC COOPERATIVE CORP.,** Post Office Box 18, Henderson, Kentucky 42420, a Kentucky electric cooperative corporation (hereinafter sometimes referred to as "HUEC");

WHEREAS:

(1) GREC, formerly known as Green River Rural Electric Cooperative Corporation, is an electric cooperative corporation duly organized and existing under the laws of the Commonwealth of Kentucky, having been incorporated on June 11, 1937;

(2) HUEC, formerly known as Henderson-Union Rural Electric Cooperative Corporation, is an electric cooperative corporation duly organized and existing under the laws of the Commonwealth of Kentucky, having been incorporated on August 4, 1939;

(3) The boards of directors of these two (2) corporations approved a consolidation, the vote of the GREC board having been taken on January 23, 1999, and the vote of the HUEC board having been taken on January 23, 1999, and these two (2) corporations desire to set forth in writing the terms, provisions and conditions of the proposed consolidation;

EXHIBIT

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NOW, therefore, for valuable consideration including the mutual promises and covenants of the parties hereto, **IT IS AGREED, PROMISED AND UNDERSTOOD** as follows:

1. GREC and HUEC shall become consolidated on the effective date hereinafter set forth.

2. The name of the consolidated corporation shall be **KENERGY CORP.**

3. The effective date of the consolidation shall be the 1st day of July, 1999, provided that the terms, provisions and conditions hereof have been duly approved by (i) a majority vote of the members of each corporation voting and (ii) the Kentucky Public Service Commission ("KPSC"). The vote of the members of GREC and HUEC shall be by mail ballot and shall be conducted simultaneously with votes being tabulated not later than April 15, 1999. Application for approval of KPSC shall be made after approval of the members of each corporation. If approvals of the respective members and KPSC have not been obtained by the aforementioned effective date, this consolidation agreement automatically shall become null and void, and of no further effect, on that date.

4. The principal place of business of the consolidated corporation shall be located at 6402 Old Corydon Road, Henderson, Kentucky 42420, as set forth in "Articles of Consolidation of Kenergy Corp." a copy of which is attached hereto and made a part hereof as "Exhibit A." Upon approval as set forth above in paragraph 3, triplicate originally signed copies of the Articles of

Consolidation, having substantially the same form and content as "Exhibit A," shall be filed of record in the Office of the Kentucky Secretary of State and shall be filed as otherwise required by law.

5. Attached as "Exhibit B" are bylaws which shall become the bylaws of Kenergy Corp. on the effective date of consolidation.

6. The board of directors of Kenergy Corp. shall initially consist of the eight (8) board members of GREC and the nine (9) board members of HUEC who are holding office on the effective date of the consolidation, each of whom shall serve until the board member's successor shall have been duly elected and shall have qualified, or until the board member's earlier death, resignation or removal. The respective names and addresses of such board members at the date hereof are as follows:

Royce E. Dawson, M.D.
1607 Fawn Drive
Owensboro, Kentucky 42301

Jimmy D. Mounts
Route One
Slaughters, Kentucky 42456

Melvin Pat Gibson
62 Rock Creek Lane
Whitesville, Kentucky 42378

William Reid
4818 Highway 144
Owensboro, Kentucky 42303

Richard H. Wilson
1560 Franklin Gaynor Road
Hawesville, Kentucky 42348

William Scott
5956 Ditto Road
Philpot, Kentucky 42366

James E. Long
Box 73
Baskett, Kentucky 224402

Dr. H. M. Smith
405 Robinson Road
Morganfield, Kentucky 42437

Glenn E. Cox
396 Mill Bluff Road
Fredonia, Kentucky 42411

Vickie A. Davis
9089 State Route 109
Sturgis, Kentucky 42459

Sandra Wood
2500 Kentucky 85 East
Island, Kentucky 42350

Larry Elder
2245 Hayden Bridge Road
Owensboro, Kentucky 42301

S. Randolph Powell
8260 Whitelick Road
Corydon, Kentucky 42406

William Denton
12633 Highway 351
Henderson, Kentucky 42420

Orlin Long
877 Emmaus Church Road
Salem, Kentucky 42078

Christopher Mitchell
11920 State Route 270W
Clay, Kentucky 42404

Ben H. Shouse
4262 State Route 758
Morganfield, Kentucky 42437

If, on the effective date of the consolidation, a vacancy shall exist on the board of directors of Kenergy Corp. such vacancy may thereafter be filled in the manner provided by the bylaws of Kenergy Corp. If, on the effective date of the consolidation, any of the board members named above has been succeeded as a board member of either GREC or HUEC, such board member's successor shall become a board member of Kenergy Corp.

7. The officers of Kenergy Corp. shall be elected by the board of directors at its first meeting held after the effective date of consolidation. This meeting shall be held as soon as practicable after said effective date.

8. Dean Stanley, President and Chief Executive Officer of GREC, shall be President and Chief Executive Officer of Kenergy

Corp., to serve at the pleasure of the board. John West, President and Chief Executive Officer of HUEC, shall serve as advisor to Kenergy's President and Chief Executive Officer and board of directors for one (1) year from the effective date of consolidation.

Frank N. King, Jr. of the law firm Dorsey, King, Gray & Norment, 318 Second Street, Henderson, Kentucky 42420, shall be legal counsel of Kenergy Corp., to serve at the pleasure of the board.

9. All employees of GREC and HUEC on the effective date of the consolidation shall become employees of Kenergy Corp. and their respective accrued or vested interests in benefits and pension plans shall remain intact. The consolidation initially shall not cause a reduction of the number of personnel presently employed by GREC and HUEC.

10. All capital credits which have been earned by the members of GREC and HUEC prior to the effective date of the consolidation, pursuant to the bylaws of the respective corporations, shall be preserved unimpaired after the consolidation and shall continue to exist as credits to a capital account of each such member in Kenergy Corp.

11. The time and place of the annual meeting of the members shall be as set forth in the bylaws.

12. Upon the effective date of the consolidation provided for herein, the separate existence of GREC and HUEC shall cease,

and all rights, privileges, powers, immunities and franchises of each of said corporation, both of a public and private nature, and all property, real, personal and mixed, and all debts due on whatever account, and all and every other interest of or belonging to or due to either of said corporations shall be taken and deemed to be transferred to and shall be vested in Kenergy Corp. without further act or deed and all such rights, privileges, powers, immunities, and franchises, property, debts, and all and every other interest of said corporations shall be thereafter as effectually the property of Kenergy Corp. as they were of the respective corporations and the title to any real or other property, or interest therein, whether vested by deed or otherwise in either of said corporations, shall not revert or be in any way impaired by reason of the consolidation; but all rights of creditors and all liens upon any properties of each of said corporations shall be preserved unimpaired, and all debts, liabilities, restrictions and duties of the respective corporations shall thenceforth attach to Kenergy Corp. and may be enforced against it to the same extent as if said debts, liabilities, restrictions and duties had been incurred or contracted by it.

13. GREC and HUEC hereby agree, respectively, that from time to time, as and when requested by Kenergy Corp. or by its successors and assigns, they will execute and deliver or cause to be executed and delivered, all such deeds and other instruments, and will take or cause to be taken such further or other action as

Kenergy Corp. its successor or assigns, may deem necessary or desirable in order to vest or perfect in or conform to, Kenergy Corp. its successors and assigns, title to and possession of all the property, rights, privileges, powers, immunities, franchises and interest referred to in Paragraph 12 hereof, and otherwise to carry out the intent and purpose of this Consolidation Agreement.

14. Until the effective date of the consolidation, neither GREC nor HUEC shall without first obtaining the written approval of the other: engage in any activity or transaction other than in the usual, regular, and ordinary course of business; enter into any contracts of employment or other contracts not in the usual, regular, and ordinary course of business; sell or dispose of any property or assets or lease or encumber any property or assets except in the usual, regular and ordinary course of business; or retire any capital credits except to the estates of deceased members.

15. GREC and HUEC shall immediately apply to KPSC for a rate reduction to go into effect upon the effective date of consolidation or as soon thereafter as may be ordered by KPSC. The application shall seek a 4% reduction for five (5) years for all non-direct serve members, blended so there will be rate parity among all affected members of Kenergy Corp. If, for any reason, KPSC does not approve the requested rate reduction, all reasonable efforts will be made to effectuate a 4% reduction to the existing GREC and HUEC rates of said non-direct serve members, to be

effective upon the effective date of consolidation or as soon thereafter as may be ordered by KPSC.

It shall be the objective of the Kenergy Corp. to provide rate parity for all of its members within a period of two (2) years from the effective date of the consolidation; provided, however, that Kenergy Corp. shall not make any reduction in rates which would violate or interfere with performance of any of the obligations of Kenergy Corp. to any of its lenders.

16. Upon consolidation the corporation's headquarters shall be located at 6402 Old Corydon Road, Henderson, Kentucky 42420, as provided in the bylaws. The former headquarter facilities of GREC located at 3111 Fairview Drive, Owensboro, Kentucky 42302, and the facilities located at Hanson, Hartford, Hawesville, Sturgis and Marion, Kentucky, shall remain open and operational, subject to any future action of the board of directors.

17. Any of the terms or conditions of this Agreement, including exhibits, may be waived or amended by the mutual agreement of the boards of directors of GREC and HUEC if such waiver or amendment will not have a materially adverse effect on the benefits intended under this Agreement to the members of said corporations.

18. This Agreement embodies the entire Agreement between the parties and there have been and are no agreements, restrictions and warranties between the parties other than those set forth herein.

IN TESTIMONY WHEREOF, witness the hands of the parties hereto by and through their duly authorized representatives.

GREEN RIVER ELECTRIC CORPORATION

By Rich Wilson
Richard H. Wilson, Chairman

ATTEST:

William H Reid
William Reid, Secretary

(seal)

DATE SIGNED: January 23, 1999

HENDERSON UNION ELECTRIC COOPERATIVE CORP.

By H. M. Smith
H. M. Smith, Chairman

ATTEST:

William Denton, Secretary

(seal)

DATE SIGNED: January 23, 1999

ARTICLES OF CONSOLIDATION

OF

KENERGY CORP.

Green River Electric Corporation and Henderson Union Electric Cooperative Corp., both being duly created nonprofit electric cooperatives pursuant to Kentucky Revised Statutes Chapter 279, by and through their respective directors, state as follows for the purpose of consolidation, to-wit:

ARTICLE I

The names and addresses of the corporations being consolidated are: Green River Electric Corporation, 3111 Fairview Drive, Owensboro, Kentucky 42303, and Henderson Union Electric Cooperative Corp., 6402 Old Corydon Road, Henderson, Kentucky 42420.

ARTICLE II

The name of the consolidated corporation shall be **KENERGY CORP.**

ARTICLE III

The street address of the corporation's initial registered office is 6402 Old Corydon Road, Henderson, Kentucky 42420, and the name of its initial registered agent at that office is Dean Stanley.

EXHIBIT

A

ARTICLE IV

The mailing address of the corporation's principal office is Post Office Box 18, Henderson, Kentucky 42419-0018. The place, including the county, where its principal office will be located is 6402 Old Corydon Road, Henderson, Kentucky 42420, being located in Henderson County.

ARTICLE V

The Kenergy Corp. is formed for the purpose of making electric energy available to its members at the lowest cost consistent with sound economy and good management. This corporation is also formed for the purpose of transacting any and all lawful business permitted under the applicable laws of the Commonwealth of Kentucky.

ARTICLE VI

The territory in which the corporation's operations initially are to be conducted includes all or portions of the following counties of the Commonwealth of Kentucky: Henderson, Hopkins, Webster, Hancock, Daviess, McLean, Ohio, Muhlenberg, Breckinridge, Caldwell, Crittenden, Lyon, Union and Livingston.

ARTICLE VII

The corporation initially shall have 17 directors, being the eight (8) directors of Green River Electric Corporation and the nine (9) directors of Henderson Union Electric Cooperative Corp. The names and post office addresses of the directors who are to manage the affairs of the corporation for the first three (3) years of its existence, or until the first meeting called to elect directors, or until the successors of the first directors are elected and have qualified are as follows:

Royce E. Dawson, M. D.
1607 Fawn Drive
Owensboro, Kentucky 42301

Jimmy D. Mounts
Route One
Slaughters, Kentucky 42456

Melvin Pat Gibson
62 Rock Creek Lane
Whitesville, Kentucky 42378

William Reid
4818 Highway 144
Owensboro, Kentucky 42303

Richard H. Wilson
1560 Franklin Gaynor Road
Hawesville, Kentucky 42348

Sandra Wood
2500 Kentucky 85 East
Island, Kentucky 42350

Larry Elder
2245 Hayden Bridge Road
Owensboro, Kentucky 42301

S. Randolph Powell
8260 Whitelick Road
Corydon, Kentucky 42406

William Scott
5956 Ditto Road
Philpot, Kentucky 42366

James E. Long
Box 73
Baskett, Kentucky 42402

Dr. H. M. Smith
405 Robinson Road
Morganfield, Kentucky 42437

Glenn E. Cox
396 Mill Bluff Road
Fredonia, Kentucky 42411

Vickie A. Davis
9089 State Route 109
Sturgis, Kentucky 42459

William Denton
12633 Highway 351
Henderson, Kentucky 42420

Orlin Long
877 Emmaus Church Road
Salem, Kentucky 42078

Christopher Mitchell
11920 State Route 270W
Clay, Kentucky 42404

Ben H. Shouse
4262 State Route 758
Morganfield, Kentucky 42437

ARTICLE VIII

The duration of this corporation shall be perpetual.

ARTICLE IX

The corporation is organized without capital stock and members may be admitted by making a written application for membership, paying the required membership fee and receiving electric service from the corporation. Membership shall be terminated upon the death, cessation of existence, expulsion or withdrawal of a member, or as otherwise set forth in the corporation's bylaws.

ARTICLE X

No director of the corporation shall be personally liable to the corporation or its members for monetary damages for breach of his or her duties as a director, except for liability (i) for any transaction in which the director's personal financial interest is in conflict with the financial interests of the corporation or its members, or (ii) for acts or omissions not in good faith or which involve intentional misconduct or are known to the director to be a violation of law, or (iii) for any vote for or assent to an unlawful distribution to members or other conduct prohibited under KRS 271B.8-330, or (iv) for any transaction from which the director derived an improper personal benefit. If the general corporation laws of Kentucky are amended after the effective date of this Article to authorize corporate action further limiting the personal liability of directors, then the liability of a director of the corporation shall be limited to the fullest extent permitted by such general corporation laws as so amended. Any repeal or modification of this Article by the members of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

ARTICLE XI

The incorporators are the 17 directors listed above in Article VII.

ARTICLE XII

The corporate existence shall begin on the 1st day of July, 1999, at 12:00:01 A.M., C.D.T.

IN TESTIMONY WHEREOF, all of the directors of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. have signed and acknowledged these articles as of this the ____ day of ________________, 1999.

________________________	________________________
Royce E. Dawson	James E. Long
________________________	________________________
Jimmy D. Mounts	Dr. H. M. Smith
________________________	________________________
Melvin Pat Gibson	Glenn E. Cox
________________________	________________________
William Reid	Vickie A. Davis

Richard H. Wilson

William Denton

Sandra Wood

Orlin Long

Larry Elder

Christopher Mitchell

S. Randolph Powell

Ben H. Shouse

William Scott

STATE OF KENTUCKY

COUNTY OF DAVIESS

The foregoing was signed, acknowledged and sworn to before me by **ROYCE E. DAWSON, JIMMY D. MOUNTS, MELVIN PAT GIBSON, WILLIAM REID, RICHARD H. WILSON, SANDRA WOOD, LARRY ELDER** and **WILLIAM SCOTT**, this _____ day of ________________, 1999.

My commission expires ______________________________

Notary Public, State of Kentucky at Large

(seal)

STATE OF KENTUCKY

COUNTY OF HENDERSON

The foregoing was signed, acknowledged and sworn to before me by **S. RANDOLPH POWELL, JAMES E. LONG, DR. H. M. SMITH, GLENN E. COX, VICKIE A. DAVIS, WILLIAM DENTON, ORLIN LONG, CHRISTOPHER MITCHELL** and **BEN H. SHOUSE**, this _____ day of _______ _______, 1999.

My commission expires ____________________________

____
Notary Public, State of Kentucky at Large

(seal)

This instrument was prepared by:

____

FRANK N. KING, JR.
DORSEY, KING, GRAY & NORMENT
Attorneys at Law
318 Second Street
Henderson, Kentucky 42420

BYLAWS OF

KENERGY CORP.
6402 OLD CORYDON ROAD - HENDERSON, KENTUCKY 42420

The purpose of KENERGY CORP. (hereinafter "Corporation") is to make electric energy available to its members at the lowest cost consistent with sound economy and good management and to provide other services to its members as permitted by law.

ARTICLE I

Members

Section 1. Qualifications. Any person, corporation or legal entity automatically becomes a member of the Corporation by making a written application for membership, paying the membership fee hereinafter specified and receiving electric service from the Corporation. Membership in the Corporation automatically terminates at such time as service is discontinued.

A husband and wife may jointly become a member by making an application for joint membership.

Section 2. Membership Fee. The membership fee in the Corporation shall be Five Dollars ($5.00).

Section 3. Purchase of Electric Energy. Each member shall, as soon as electric energy shall be available, purchase from the Corporation all electric energy used on the premises specified in his application for membership, and shall pay therefor monthly at rates which shall from time to time be fixed by the Board of Directors; provided, however, that the Board of Directors may limit the amount of electric energy which the Corporation shall be required to furnish to any one member. It is expressly understood that amounts paid for electric energy in excess of the cost of service are furnished by members as capital and each member shall be credited with the capital so furnished as provided in these bylaws. Each member shall pay to the Corporation such minimum

EXHIBIT

B

amount per month regardless of the amount of electric energy consumed, as shall be fixed by the Board of Directors from time to time. Each member shall also pay all amounts owed to the Corporation as and when the same shall become due and payable.

Section 4. Non-liability for Debts of Corporation. The private property of the members of the Corporation shall be exempt from execution for the debts of the Corporation and no member shall be individually liable or responsible for any debts or liabilities of the Corporation solely by reason of being a member.

Section 5. Expulsion of Members. The Board of Directors of the Corporation may, by the affirmative vote of not less than two-thirds (2/3) of the members thereof, expel any member who shall have violated or refused to comply with any of the provisions of the Articles of Consolidation of the Corporation or these bylaws or any rules or regulations adopted from time to time by the Board of Directors. Any member so expelled may be reinstated as a member by the vote of the Board of Directors or by a vote of the members at any annual or special meeting of the members. The action of the members with respect to any such reinstatement shall be final.

Section 6. Withdrawal from Membership. Any member of the Corporation may withdraw from membership upon payment in full of all of the debts and liabilities to the Corporation and upon compliance with and performance of such terms and conditions as the Board of Directors may prescribe.

Section 7. Transfer and Termination of Membership. Membership in the Corporation and a certificate representing the same shall not be transferable, except as hereinafter otherwise provided, and upon the death, cessation of existence, expulsion, or withdrawal of a member the membership of such member shall thereupon terminate, and the certificate of membership of such member shall be surrendered forthwith to the Corporation. Termination of membership in any manner shall not release the member from the debts or liabilities of such member to the Corporation.

A membership may be transferred by a member to himself or herself and his or her spouse, as the case may be, jointly upon the written request of such member and compliance by such husband and wife jointly with the provisions hereof. Such transfer shall be made and recorded on the books of the Corporation.

When a membership is held jointly by a husband and wife, upon the death of either such membership shall be deemed to be held solely by the survivor with the same effect as though such membership had been originally issued solely to him or her, as the case may be, and the joint membership certificate may be surrendered by the survivor and upon the recording of such death on the books of the Corporation the certificate may be reissued to and in the name of such survivor; provided, however, that the estate of the deceased shall not be released from any membership debts or liabilities to the Corporation.

Section 8. Member Resource Committee and Industrial Resource Committee. It shall be the duty of the board of directors to appoint a Member Resource Committee for each district, each committee to be composed of at least ten (10) members residing in the district. It shall also be the duty of the board of directors to appoint an Industrial Resource Committee composed of one (1) representative from each large industrial member. A large industrial member shall have contract demand of at least 2500 kw. No officer or member of the board of directors shall be appointed a member of such committees. The purpose of these committees shall be to foster good relations between the Corporation and the members; these committees shall also be responsible for nominating directors as provided in Article III, Section 3 of these bylaws.

ARTICLE II

Meetings of Members

Section 1. Annual Meetings. The annual meeting of the members shall be held on such date in each year as annually fixed by the board of directors. The annual meeting shall be held at such place in a county served by the Corporation as the board may designate.

Section 2. Special Meetings. Special meetings of the members may be called by the chairman, by at least five (5) directors or upon a written request signed by at least ten percent (10%) of all of the members, and it shall thereupon be the duty of the secretary to cause notice of such meeting to be given as hereinafter provided. Special meetings of the members may be held at any place within the counties served by the Corporation as specified by the board of directors in the notice of the special meeting.

Section 3. Presiding Officer. The chairman, or a person designated by the chairman, shall act as chairman and preside at each annual or special meeting of the members.

Section 4. Notice of Members' Meetings. Notice of an annual or special meeting of the members shall be given by mail or by publication in at least one issue of a newspaper of general circulation published in each county in which the Corporation operates. The notice shall be mailed or published at least five (5) days and not more than thirty (30) days before the date fixed for the meeting. The notice shall state the place, date and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called. In the case of a joint membership, notice given to either husband or wife shall be deemed notice to both members.

Section 5. Failure to Receive Notice. The failure of any member to receive any such notice of an annual meeting or special meeting of the members shall not invalidate any action which may be taken by the members at any such annual or special meeting.

Section 6. Quorum. At least two hundred (200) of the members present in person shall constitute a quorum for the transaction of business at all meetings of members. In case of a joint membership, the presence at a meeting of either husband or wife, or both, shall be regarded as the presence of one member. If less than a quorum is present at any meeting, a majority of those present may adjourn the meeting from time to time without further notice.

Section 7. Voting. Each member shall be entitled to one (1) vote and no more on each matter submitted to a vote of the members. A joint membership shall be entitled to one (1) vote; if a husband and a wife do not have a joint membership, the nonmember spouse may not vote for the member spouse. The election of directors shall be by mail ballot as provided in Article III, Section 4 of these bylaws. All other matters shall be voted on at a meeting of the members or by mail ballot as determined by the board of directors, unless these bylaws specify the manner of voting. If a matter is voted on at a meeting, the question shall be decided by a majority of the members present. Proxy voting shall not be permitted.

Section 8. Member Placing Proposal on Agenda. Any legitimate proposal, as determined by the board, may be placed on the agenda of the annual meeting by any member filing the proposal with the secretary not more than 120 days nor less than ninety (90) days prior to the meeting. If the proposal requires a vote of the member, the board of directors shall decide whether it shall be voted on by the members at the annual meeting or shall be voted on by mail ballot.

Section 9. Order of Business. The order of business at the annual meeting of the members, and so far as possible at all other meetings of the members, shall be essentially as follows:

1. The chairman, or designee, shall ascertain the presence of a quorum
2. Reading of the notice of the meeting and proof of the due publication or mailing thereof, or the waiver of notice of the meeting, as the case may be
3. Reading of unapproved minutes of previous meetings of the members and the taking of necessary action thereon or the waiver of such reading
4. Presentation and consideration of, and acting upon, reports of officers, directors, and committees
5. Report on election of directors and results of any other voting by mail ballot or by members present and voting at the meeting
6. Unfinished business
7. New business
8. Adjournment

ARTICLE III

Directors

Section 1. General Powers. The business and affairs of the Corporation shall be managed by a board of directors which shall exercise all of the powers of the Corporation except such as are by law or the Articles of Consolidation or by the bylaws conferred upon or reserved to the members.

Section 2. Qualifications; Initial Directors; Election and Term of Office.

(a) Each director elected from a district must be a member of the Corporation and a resident of the district from which he or she is elected, and must remain a resident of such district during the term of office. Each director elected as an industrial director shall be a resident of a county, all or a portion of which is located within the territory served by the Corporation. The industrial director shall be a member or the employee of a member that has contract demand of at least 2500 kw. These requirements shall continue to apply during a director's term in office.

When a membership is held jointly by a husband and wife, either one, but not both, may be elected director. A former employee of the Corporation shall not be eligible to become a director until the employment has been terminated for five (5) consecutive years. A director must have legal capacity to enter into a binding contract.

No employee of the Corporation shall be a director during the term of such employment. No member of the immediate family of an employee of the Corporation shall serve as a director of the Corporation during the term of such employment. For purposes of this requirement, the "immediate family" of an employee is (a) any person who is a spouse, parent, child, sibling, aunt or uncle of that employee, or of that employee's spouse or of an individual living in the same home as the employee, (b) any person who is living in the same home as the employee, and (c) any person who is married to or lives in the same home as any of the persons listed in (a) and (b).

(b) The board of directors of the Corporation shall initially consist of 17 members, being the eight (8) board members of Green River Electric Corporation and the nine (9) board members of Henderson Union Electric Cooperative Corp. who are holding office on the effective date of the consolidation, each of whom shall serve until the third annual meeting of the members following the effective date of consolidation.

(c) At the third annual meeting of the members following the effective date of consolidation there shall be elected 11 directors. Ten (10) of the directors shall be elected from districts which shall be determined by the initial board of directors within two (2) years of said effective date. Initially, three (3) of these district directors shall be elected for one (1) year, three (3) shall be elected for two (2) years and four (4) shall be elected for three (3) years, and the durations of the respective initial terms for the districts shall be determined by lot unless the board of directors decides otherwise. As the initial terms expire the successor district directors shall be elected for three (3) year terms.

(d) At the third annual meeting of the members following the effective date of consolidation there shall also be elected one industrial director. The term of the industrial director shall be three (3) years. As a term expires a successor industrial director shall be elected for a three (3) year term.

(e) From and after said third annual meeting of the members the Corporation shall have 11 members of the board of directors; provided, however, the right to increase or decrease the number of directors and to change the number or boundaries of districts shall at all times be reserved in the board.

(f) All directors, except those elected to fill an unexpired term caused by vacancy, shall be elected by members of the Corporation by mail ballot as hereinafter provided.

(g) Retiring directors may, at the discretion of the board, serve as director emeritus. A director emeritus may participate in board meetings, but shall have no voting privilege.

Section 3. Nominations. The Member Resource Committees and the Industrial Resource Committee each shall appoint a nominating committee of at least three members which shall prepare and post at the principal office of the Corporation not more than 120 days nor less than ninety-five (95) days before the annual meeting a list of nominations for directors.

Also, any fifteen (15) or more members may make other nominations of eligible members by written petition over their signatures not less than eighty-five (85) days prior to the meeting and the Secretary shall post the same at the same place where the list of nominations made by the committee is posted. Directors shall be elected only from nominations by committee or by petition as above set out.

If any election for director is contested, the board of directors shall forthwith appoint a Credentials and Election Committee consisting of three (3) members who shall be responsible for verifying the signatures on the petition, validating the election results and performing such other acts as may be determined by the board of directors. No member of the board of directors shall be appointed to this committee. Persons nominated by petition shall be notified promptly regarding the validity of the petition. Each nominee for a vacancy that is contested shall be entitled to appoint one (1) member who is neither on the committee nor a board member to serve as an observer of all official acts of this committee.

Section 4. Election of Directors.

(a) Ballot. A ballot containing the name of each candidate shall be prepared by the Corporation, regardless of whether an election is contested. The order of appearance of the candidates' names in a contested election shall be determined by a drawing. The ballot shall be prepared so that it clearly indicates the district from which a director is being elected with the list of candidates appearing under each such district. The ballot shall note that the member should mark same for only one (1) candidate in each district. Write-in voting shall not be permitted.

The ballot shall not be prepared in such a manner to make it possible to determine the identity of the member voting it. The ballot shall state that in order for it to be valid and counted, it must be received at the principal office of the Corporation, or any district office, by mail or personal delivery, prior to 4:30 P.M. three (3) business days preceding the annual meeting of the members.

(b) Candidate's Resume and Picture. At least eighty (80) days prior to the annual meeting each candidate may furnish to the Corporation a resume of background and qualifications and a recent picture of the candidate. These (or an edited version) shall be furnished to the members along with the ballots.

(c) Mailing of Ballots to Members; Eligibility for Voting. Ballots shall be mailed to each member eligible to vote not more than 30 nor less than 14 days prior to the date set for the annual meeting. All members in good standing 30 days prior to the annual meeting shall be eligible to vote.

(d) Voting and Returning of Ballots. The ballot shall be sealed by the member in the pre-addressed envelope marked "Official Ballot." To be valid and counted ballots must be received at the principal office of the Corporation, or any district office, by mail or personal delivery, prior to 4:30 P.M. three (3) business days preceding the annual meeting date. The Corporation shall keep all ballots received in a secure place.

(e) Counting Ballots. The Credentials and Election Committee shall meet at 9:00 o'clock A.M. two (2) business days prior to the date set for the annual meeting for the purpose of counting the ballots. As the ballots are counted, the validity of each ballot shall be determined. The ballot shall be separated from the outside envelope to assure that the voter's identity is not known. Any member of the Committee may challenge a ballot and a ballot may be disqualified by a majority vote of the Committee.

The following shall not be counted:

(1) Unmarked ballots

(2) Ballots marked for more than one (1) candidate for any one (1) vacancy

(3) Ballots other than the official ballot mailed

(4) Ballots arriving late

The following may be counted:

(1) Ballots on which the mark is not in the place provided, but the intention of the voter is shown

(2) Ballots on which there is an erasure or change of intention shown, but it does not appear that the ballot has been tampered with and the intention of the voter is shown

(f) Certification of Results. The Credentials and Election Committee shall by the signature of a majority of its members certify the number of votes received by each candidate. The candidate for director in each district receiving the highest number of votes as certified by the Committee shall be the person elected and shall take office at the next regular monthly meeting of the board of directors. If the highest number of votes are received by more than one (1) candidate, the Committee shall, at a meeting at a time and place to be fixed by them, at which due notice shall have been given to the candidates tieing with the highest number of votes, cause the candidates or their representatives, or in the absence of a candidate or a representative, the chairman of the Committee to draw for the office, and the person drawing the slip marked "elected" shall be the person so elected. The results of the election shall be reported to the members by the chairman of the Committee at the annual meeting.

Section 5. Removal of Directors for Absence. Any board member who is absent from three (3) consecutive regular meetings of the board, unless excused by the affirmative vote of a majority of the other board members, shall be deemed to have vacated his or her office. After declaring the vacancy to exist, the remaining board members shall proceed to fill the vacancy.

Section 6. Vacancies. Subject to the provisions of these bylaws with respect to the removal of directors, vacancies occurring in the board of directors may be filled by a majority vote of the remaining directors and directors thus elected shall serve until the next annual meeting of the members or until their successors shall have been elected and shall have qualified; provided, however, that if any vacancy is filled prior to the third annual meeting after consolidation, the elected director shall serve until the third annual meeting of the members. The member elected as district director to fill a vacancy must reside in the same district as the director to whose office is succeeded.

Section 7. Removal of a Director by Members. Any member may bring charges for cause against a director by filing them in writing with the secretary, together with a petition signed by at least ten percent (10%) of the members, requesting the removal of such director by reason thereof. The charge shall be considered by the members at the next annual meeting or at a specially called meeting. The director against whom such charges have been brought shall be informed in writing of the charges previous to the meeting and shall have an opportunity at the meeting to be heard in person or by counsel and to present evidence; and the person or persons bringing the charges shall have the same opportunity.

By a majority vote of the members present at the meeting when the charges are considered, the question of such removal shall be submitted to the members within ninety (90) days following said meeting by mailing a ballot to each member setting forth the question of such removal so that it may be answered "Yes" or "No," and the ballots shall be required to be returned within fifteen (15) days after they are mailed. The ballots shall be counted by three (3) impartial members appointed by the board for this purpose.

If the question of removal is voted in the affirmative, the vacancy shall be filled in accordance with Article III, Section 6 of these bylaws.

Section 8. Compensation. By resolution of the board of directors a fixed sum and expenses of attendance, if any, may be allowed for attendance at each meeting authorized by the board of directors. Except in emergencies, no director shall receive compensation for serving the Corporation in any other capacity.

Section 9. Rules and Regulations. The board of directors shall have power to make and adopt such rules and regulations, not inconsistent with law, the Articles of Consolidation of the Corporation, or these bylaws, as it may deem advisable for the management, administration, and regulations of the business and affairs of the Corporation.

Section 10. Accounting System and Reports. The board of directors shall cause to be established and maintained a complete accounting system, which, among other things, shall be subject to applicable laws and rules and regulations of any regulatory body. The board shall also after the close of each audit or fiscal year cause to be made by a certified public accountant a full and complete audit of the accounts, books, and financial condition of the Corporation as of the end of such fiscal year.

ARTICLE IV

Meetings of Directors

Section 1. Regular meetings. A regular meeting of the board of directors shall be held monthly at such time and place as the board of directors may provide by resolution. Such regular monthly meetings may be held without notice other than such resolution fixing the time and place thereof.

Section 2. Special Meetings. Special meetings of the board of directors may be called by the Chairman or any three (3) directors. The person or persons authorized to call special meetings of the board of directors may fix the time and place for the holding of any special meeting of the board of directors called by them. Special meetings of the board of directors may be held at any place within the counties served by the Corporation as specified by the board of directors in the notice of the special meeting.

Section 3. Notice. Notice of the time, place and purpose of any special meeting of the board shall be given at least five (5) days previous thereto, by written notice, delivered personally, mailed, or sent by facsimile, to each director at his or her known address. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except in case a director shall attend a meeting for the express purpose of objecting to the transaction of any business because the meeting shall not have been lawfully called or convened.

Section 4. Quorum. A majority of the board of directors shall constitute a quorum for the transaction of business at any meeting of the board of directors, provided that if less than a majority of the directors is present at said meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Section 5. Manner of Acting. The act of at least a two (2) vote majority (simple majority plus one vote)of the directors present and voting at a meeting at which a quorum is present shall be the act of the board of directors until the third annual meeting of the members following the effective date of consolidation; thereafter the act of the majority of the directors present and voting at a meeting at which a quorum is present shall be the act of the board of directors.

ARTICLE V

Officers

Section 1. Number. The officers of the Corporation shall be a Chairman, Vice Chairman, Treasurer, Secretary, and Assistant Secretary and such other officers as may be determined by the board of directors from time to time. The Assistant Secretary is not required to be a member of the board of directors. The offices of Secretary and of Treasurer may be held by the same person.

Section 2. Election and Term of Office. The officers shall be elected, by ballot, annually by and from the board of directors at the first meeting of the board of directors held after each annual meeting of the members; provided, however, that the initial officers shall be elected at the first meeting of the board of directors. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until the first meeting of the board of directors following the next succeeding annual meeting of the members, or until a successor shall have been duly elected and shall have qualified, subject to the provisions of these bylaws with respect to the removal of officers.

A person shall not be eligible to hold the same office after three (3) consecutive one year terms; however, the eligibility shall be restored following one year's absence from said office.

Section 3. Removal. Any officer or agent elected or appointed by the board of directors may be removed by the board of directors whenever in its judgment the best interests of the Corporation will be served thereby.

Section 4. Vacancies. Except as otherwise provided in these bylaws, a vacancy in any office may be filled by the board of directors for the unexpired portion of the term.

Section 5. Chairman. The Chairman shall:

(a) Preside at all meetings of the members and of the board of directors.

(b) Sign, with the Secretary, documents which shall have been authorized by resolution of the board of directors, and may sign any deeds, mortgages, deeds of trust, notes, bonds, contracts, or other instruments authorized by the board of directors or by these bylaws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed; and

(c) In general perform all duties incident to the office of chairman and such other duties as may be prescribed by the board of directors from time to time.

Section 6. Vice Chairman. In the absence of the Chairman, or in the event of his inability or refusal to act, the Vice Chairman shall perform the duties of the Chairman, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chairman and shall perform such other duties as from time to time may be assigned by the board of directors.

Section 7. Secretary. The Secretary shall perform or cause to be performed the following:

(a) Keep the minutes of the members and the board of directors in one or more books provided for that purpose;

(b) See that all notices are duly given in accordance with these bylaws or as required by law;

(c) Be custodian of the corporate records and of the seal of the Corporation;

(d) Have general charge of the books of the Corporation in which a record of the members is kept;

(e) Keep on file at all times a complete copy of the Corporation bylaws containing all amendments thereto, which copy shall always be open to the inspection of any member; and

(f) In general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned by the board of directors.

Section 8. Assistant Secretary. In the absence of the Secretary or in the event of the Secretary's inability or refusal to act, the Assistant Secretary shall perform the duties of the Secretary, and when so acting shall have the powers of and be subject to all of the restrictions upon the Secretary, and shall further perform such other duties as from time to time may be assigned by the board of directors.

Section 9. Treasurer. The Treasurer shall perform or cause to be performed the following:

(a) The safe keeping and security of all funds and securities of the Corporation;

(b) Receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such bank or banks as shall be selected in accordance with the provisions of these bylaws; and

(c) All the duties incident to the office of Treasurer and such other duties as from time to time may be assigned by the board of directors.

Section 10. President and Chief Executive Officer.

The board of directors shall appoint a person as President and Chief Executive Officer who may be, but who shall not be required to be, a member of the Corporation. The President and Chief Executive Officer shall serve at the pleasure of the board and shall perform such duties as the board of directors may from time to time direct.

Section 11. Bonds of Officers. The board of directors may require the Treasurer or any other officer of the Corporation charged with responsibility for the custody of any of its funds or property, to give bond in such sum and with such surety as the board of directors shall determine. The board of directors in its discretion may also require any other officer, agent, or employee of the Corporation to give bond in such amount and with such surety as it shall determine.

Section 12. Reports. The officers of the Corporation shall submit at each annual meeting of the members reports covering the business of the Corporation for the previous fiscal year and showing the conditions of the Corporation at the close of such fiscal year.

ARTICLE VI

Contracts, Checks, and Deposits

Section 1. Contracts. Except as otherwise provided in these bylaws, the board of directors may authorize any officer or officers, agent or agents to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 2. Checks, Drafts, etc. All checks, drafts, or other orders for the payment of money, and all notes, bonds, or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents, employee or employees of the Corporation and in such manner as shall from time to time be determined by resolution of the board of directors.

Section 3. Deposits. All funds of the Corporation shall be deposited from time to time to the credit of the Corporation in such bank or banks as the board of directors shall select.

ARTICLE VII

Membership Certificates

Section 1. Certificates of Membership. Membership in the Corporation shall be evidenced by a certificate of membership which shall be in such form and shall contain such provisions as shall be determined by the board of directors not contrary to, or inconsistent with, the Articles of Consolidation of the Corporation or these bylaws.

Section 2. Issue of Membership Certificates. No membership shall be issued for less than the membership fee fixed in these bylaws, nor until such membership fee has been fully paid for in cash, and such payment has been deposited with the Treasurer.

Section 3. Withdrawal or Termination of Membership. In case of withdrawal or termination of membership in any manner, the Corporation shall repay to the member the amount of the membership fee paid by him, provided, however, that the Corporation shall deduct from the amount of the membership fee the amount of any debts or obligations owned by the member to the Corporation.

ARTICLE VIII

Nonprofit Operation; Capital Credits

Section 1. Interest on Dividends on Capital Prohibited. The Corporation shall at all times be operated on a cooperative nonprofit basis for the mutual benefit of its members. No interest or dividends shall be paid or payable by the Corporation on any capital furnished by its patrons.

Section 2. Patronage in Connection With Furnishing Electric Energy. In furnishing of electric energy, the Corporation's operations shall be so conducted that all patrons, members, and nonmembers alike, will through their patronage furnish capital for the Corporation. In order to induce patronage and to assure that the Corporation will operate on a nonprofit basis, the Corporation is obligated to account on a patronage basis to all its patrons, members and nonmembers alike, for all amounts received and receivable from the furnishing of electric energy in excess of operating costs and expenses properly chargeable against the furnishing of electric energy. All such amounts in excess of operating costs and expenses at the moment of receipt by the Corporation are received with the understanding that they are furnished by the patrons, members, and nonmembers as capital. The Corporation shall credit to a capital account for each patron all such amounts in excess of operating costs and expenses. The books and records of the Corporation shall be set up and kept in such a manner that at the end of each fiscal year the amount of capital, if any, so furnished by each patron is clearly reflected and credited in an appropriate record. The capital account of any patron shall have the same status as though it had been paid to the patron in cash in pursuance of a legal obligation to do so and the patron had then furnished the Corporation corresponding amounts for capital.

Provided, however, any net loss or negative margin which the Corporation may sustain in any fiscal year from its entire operations, including both operating and nonoperating margin, insofar as permitted by law, may be carried forward to succeeding fiscal year or years and deducted from the net margin for any fiscal year of the Corporation from its entire operation, including both operating and nonoperating margin, until such net loss or negative margin is entirely dissipated. The Capital allocated to the patrons as provided in the first paragraph of this section of the bylaws for any fiscal year shall be the amount remaining after there has been deducted any loss for previous fiscal year or years as herein provided.

In the event of dissolution or liquidation of the Corporation, after all outstanding indebtedness of the Corporation shall have been paid, outstanding capital credits shall be retired without priority on a prorata basis before any payments are made on account of property rights of members. If, at any time prior to dissolution or liquidation, the board of directors shall determine that the financial condition of the Corporation will not be impaired thereby, the capital then credited to patrons' accounts may be retired in full or in part. The board of directors may retire capital credits attributable to any prior fiscal year without giving priority to capital first received and credited.

Capital credited to the account of each patron shall be assignable only on the books of the Corporation pursuant to written instructions from the assignor and only to successors in interest or successors in occupancy in all or a part of such patron's premises served by the Corporation unless the board of directors, acting under policies of general application, shall determine otherwise. In the event that a nonmember patron shall elect to become a member of the Corporation, the capital credited to the account of such nonmember patron may be applied by the Corporation toward the payment of a membership fee on behalf of such nonmember patron.

Provided, however, that the board of directors shall have the power to adopt rules providing for the separate retirement of that portion ("power supply portion") of capital credited to the accounts of patrons which corresponds to capital credited to the account of the Corporation by an organization furnishing electric service to the Corporation. Such rules shall:

(a) Establish a method for determining the power supply portion of capital credited to each patron for each applicable fiscal year

(b) Provide for separate identification on the Corporation's books of a power supply portion of capital credited to the Corporation's patrons

(c) Provide for appropriate notifications to patrons with respect to their accounts, and

(d) Preclude a general retirement of the power supply portion of capital credited to patrons for a fiscal year until the payment therefor is actually received from the power supplier.

Notwithstanding any other provisions of these bylaws, the board of directors, at its discretion, shall have the power at any time upon the death of any member who is a natural person, if the legal representatives of such decedent's estate shall request in writing that the capital credited to any such patron from such service to be retired prior to the time such capital would otherwise be retired under the provisions of these bylaws, to retire capital credited to any such patron immediately upon such terms and conditions as the board of directors acting under policies of general application, and the legal representative of such patron's estate shall agree upon; provided, however, that the financial condition of the Corporation will not be impaired thereby.

The members of the Corporation, by dealing with the Corporation, acknowledge that the terms and provisions of the Articles of Consolidation and bylaws shall constitute and be a contract between the

Corporation and each member, and both the Corporation and the members are bound by such contract, as fully as though each member had individually signed a separate instrument containing such terms and provisions.

Section 3. Patronage Refunds in Connection With Furnishing Other Service. In the event that the Corporation should engage in the business of furnishing goods or services other than electric energy, all amounts properly chargeable against the furnishing of such goods or services shall, insofar as permitted by law, be prorated annually on a patronage basis and returned to those patrons, members, and nonmembers alike, from whom such amounts were obtained.

ARTICLE IX

Waiver of Notice

Any member or director may waive, in writing, any notice of meetings required to be given by these bylaws. In case of joint membership, a waiver of notice signed by either husband or wife shall be deemed a waiver of notice of such meeting by both joint members.

ARTICLE X

Encumbering or Disposing of Property

Section 1. Encumbering Property. The board of directors, without authorization by the members, shall have full power and authority to authorize the execution and delivery of a mortgage or mortgages upon, or the pledging or encumbering of any or all of, the property, assets, rights, privileges, licenses, franchises, and permits of the Corporation, whether acquired or to be acquired, and wherever situated, as well as the revenues and income therefrom, upon such terms and conditions as the board of directors shall determine, to secure any obligation of the Corporation.

Section 2. Disposing of Property. The board may sell any of the following property without authority from the members:

(a) Property that is not necessary in operating and maintaining the system, but sales of such property shall not in any one year exceed ten percent (10%) in value of all the property of the corporation other than merchandise and property acquired for resale;

(b) Services and electric energy;

(c) Property acquired for resale; and

(d) Merchandise.

ARTICLE XI

Indemnification of Directors, Officers, Employees and Agents; Liability of Directors to Corporation

Section 1. Indemnification of Directors. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any threatened, pending, or completion action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact he or she, or a person of whom he or she is a legal representative, is or was a director, or while a director, serves or served at the Corporation's request as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Kentucky Business Corporation act, as the same exists or may hereafter be amended (but in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than the Kentucky Business Corporation Act permitted the Corporation to provide prior to such amendment), against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties, and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such director in connection with any such proceeding. Such indemnification shall continue as a director who has ceased to be a director and shall inure to the benefit of the director's heirs, executors and administrators. Except with respect to proceedings to enforce rights to indemnification by a director, the Corporation shall indemnify any such director in connection with a proceeding (or part thereof) initiated by such director only if such proceeding (or part thereof) was authorized by the board of directors of the Corporation. The right to indemnification conferred in this Article shall be a contract right.

Section 2. Advance of Expenses. The corporation shall pay for or reimburse the actual and reasonable expenses incurred by a director who is a party to a proceeding in advance of final disposition of the proceeding if the director furnishes the Corporation:

(a) a written affirmation of the director's good faith belief that the director's conduct met the standard of conduct described in Kentucky Revised Statutes 271B.8-510 or successor provisions; and

(b) a written undertaking, executed personally or on the director's behalf, to repay any advances if it is ultimately determined that the director is not entitled to indemnification for such expenses under this Article or otherwise. The undertaking must be an unlimited general obligation of the director but need not be secure and may be accepted without reference to the director's financial ability to make repayment.

Section 3. Indemnification of Officers, Employees, and Agents. The Corporation shall indemnify and advance expenses to officers to the same extent as directors, and may indemnify employees or agents who are not directors or officers to the extent permitted by the Articles of Consolidation, the Bylaws, or by law.

Section 4. Insurance. The Corporation may purchase and maintain insurance, at its expense, on behalf of an individual who is or was a director, officer, employee, or agent of the Corporation or who, while a director, officer, employee, or agent of the Corporation, is or was serving at the request of the Corporation as a director, officers, or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, against liability asserted against or incurred by him or her in such capacity or arising from his status as a director, officer, employee, or agent, whether or not the Corporation would have power to indemnify him or her against the same liability under this Article.

Section 5. Liability of Directors to Corporation. No director of the corporation shall be personally liable to the corporation or its members for monetary damages for breach of his or her duties as a director, except for liability (i) for any transaction in which the director's personal financial interest is in conflict with the financial interests of the corporation or its members, or (ii) for acts or omissions not in good faith or which involve intentional misconduct or are known to the director to be a violation of law, or (iii) for any vote for or assent to an unlawful distribution to members or other conduct prohibited under KRS 271B.8-330, or (iv) for any transaction from which the director derived an improper personal benefit. If the general corporation laws of Kentucky are amended after the effective date of this Article to authorize corporate action further limiting the personal liability of directors, then the liability of a director of the corporation shall be limited to the fullest extent permitted by such general corporation laws as so amended. Any repeal or modification of this Article by the members of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

ARTICLE XII

Fiscal Year

The fiscal year of the Corporation shall begin on the first day of January of each year and end on the thirty-first day of December of the same year.

ARTICLE XIII

Membership in Other Organizations

The Corporation may become a member of or purchase stock in any other organization without obtaining approval of the members.

ARTICLE XIV

Seal

The corporation seal of the Corporation shall be in the form of a circle and shall have subscribed thereon the name of the Corporation and words "Corporate Seal, Kentucky."

ARTICLE XV

Location of Headquarters

The headquarters of the Corporation shall be located at 6402 Old Corydon Road, Henderson, Kentucky 42420.

ARTICLE XVI

Amendments

These bylaws may be altered, amended, or repealed by the affirmative vote of not less than two-thirds (2/3) of all the directors at any regular or special meeting, provided the notice of such meeting shall have contained a copy of the proposed alteration, amendment, or repeal.

ARTICLE XVII

Rules of Order

Parliamentary procedure at all meetings of the members, of the board of directors, of any committee provided for in these bylaws, and of any other committee of the members or board of directors which may from time to time be duly established shall be governed by the most recent edition of Robert's Rules of Order, except to the extent such procedure is otherwise determined by law or by the Corporation's Articles of Consolidation or bylaws.

As adopted ____________________

____
Chairman

ATTEST: ________________________
Secretary

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APR 1 9 1999

PUBLIC SERVICE
COMMISSION

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
GREEN RIVER ELECTRIC CORPORATION AND)
HENDERSON UNION ELECTRIC COOPERATIVE)
CORP. FOR APPROVAL OF CONSOLIDATION)

99-136

TESTIMONY OF JOHN WEST, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF HENDERSON UNION ELECTRIC COOPERATIVE CORP.

Q1. Please state your name and business address.

A. John West, 6402 Old Corydon Road, Henderson, Kentucky 42420.

Q2. By whom are you employed and what is your position?

A. Henderson Union Electric Cooperative Corporation as the President and Chief Executive Officer.

Q3. Please describe your education background and work experience.

A. BS and MA degrees from Murray State University. I have worked in management for the rural electric program since 1965.

Q4. Please describe the existing corporation structure of Henderson Union Electric Cooperative Corp.

EXHIBIT
3

A. Henderson Union Electric Cooperative is a nonprofit rural electric distribution cooperative governed by a nine-member board of directors. The cooperative delivers electric service to a seven-county area.

Q5. What cost savings do you see with consolidation?

A. The study has shown annual savings of about $1.75 to $2.5 million. To have all of these potential savings in place, we estimate it will take from five (5) to seven (7) years since we will not terminate employees because of consolidation. Attrition will serve to reduce these costs. Presently there are 194 employees in the two organizations with a target level of 163 for the consolidated utility in five (5) years.

Q6. In your view, what impact, if any, would consolidation have on rates?

A. An application is being filed with the Public Service Commission for a 4% rate reduction for five (5) years for all non-direct serve customers. I believe that with the consolidation savings, the rate reduction can remain in place for longer than five (5) years.

Q7. How do you think service to consumers will be affected by consolidation?

A. It is my opinion that a larger organization will enable us to provide enhanced service for all our members. There will be more support and expertise in areas combined than we have as individual co-ops and we will have 24-hour dispatch service. It will be the responsibility of the new board and management to see that service does not suffer for any reason.

Q8. What is the attitude of your employees regarding this proposed consolidation?

A. There is apprehension among our employees with regard to this proposed consolidation. However, the board has repeatedly confirmed its position that no employees would lose employment due to consolidation. The apprehension will continue until we are able to communicate to them their positions and who their supervisors will be. It is clearly understood by all employees that we must remain competitive in the evolving electric utility industry.

Q9. What is your opinion of whether consolidation will be in the best interest of the members?

A. The members have already approved consolidation. There is no question that consolidation will be in their best interest.

Q10. Does this conclude your testimony?

A. Yes.

VERIFICATION

The undersigned, JOHN WEST, being first duly sworn states that he is the President and Chief Executive Officer of Henderson Union Electric Cooperative Corp.; that he has personal knowledge of the matters set forth in the foregoing testimony; and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

John West

John West

STATE OF KENTUCKY

COUNTY OF HENDERSON

Subscribed, sworn to and acknowledged before me by JOHN WEST this 15th day of April, 1999.

My commission expires September 29, 2001

Carla D. Smithhart

Notary Public, State of Kentucky at Large

(seal)

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APR 1 9 1999
PUBLIC SERVICE
COMMISSION

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
GREEN RIVER ELECTRIC CORPORATION AND)
HENDERSON UNION ELECTRIC COOPERATIVE)
CORP. FOR APPROVAL OF CONSOLIDATION)

99-136

TESTIMONY OF DEAN STANLEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF GREEN RIVER ELECTRIC CORPORATION

Q1. Please state your name and business address.

A. Dean Stanley, 3111 Fairview Drive, Post Office Box 1389, Owensboro, Kentucky 42302-1389.

Q2. By whom are you employed and what is your position?

A. Green River Electric Corporation. I serve as the company's president and chief executive officer.

Q3. Please describe your education background and work experience.

A. My educational background is in accounting and finance. I hold a BS degree in Accounting from Western Kentucky University. I have over 29 years work experience at Green River Electric. I have been president and CEO since 1981.

EXHIBIT
4

Q4. Please describe the existing corporation structure of Green River Electric Corporation.

A. Green River Electric is a not for profit member owned electric distribution cooperative. The company has an eight member board of directors. I serve as president of the company which is organized with four functional departments: Operations, Engineering, Accounting and Finance, Marketing and Public Relations.

Q5. What cost savings do you see with consolidation?

A. Green River and Henderson Union are electric distribution cooperatives and as such, are primarily service oriented companies. Excluding wholesale power cost, our next largest cost item is labor and overhead. In a consolidated organization, we anticipate being able to eliminate duplicate positions which initially exist primarily at the administrative and professional level. Initially, we do not contemplate downsizing staff but rather would accomplish right sizing of staff through retirements and other voluntary terminations.

Q6. In your view, what impact, if any, would consolidation have on rates?

A. We are applying for a 4% rate reduction for five (5) years for all non-direct serve customers. We are hopeful that with the consolidation savings, the rate reduction can remain in place for much longer than five (5) years. Further, we should be able to avoid rate increases in the future that otherwise would have become effective.

Q7. How do you think service to consumers will be affected by consolidation?

A. The respective cooperatives currently experience a high level of customer satisfaction in areas of system reliability and customer service. Upon consolidation, I anticipate we can further improve those areas of operation. Combined resources and parallel service areas should lend itself to improved service, particularly in fringe areas of each cooperative's distribution system.

Q8. What is the attitude of your employees regarding this proposed consolidation?

A. I am of the opinion that employee attitude is generally favorable. The respective cooperatives' boards of directors have assured all employees a position of employment with the new company. I'm sure apprehension still exists among all employees since all aspects of the consolidation are not fully known. I believe, however, if any negative attitude exists, it can be dealt with in a positive manner.

Q9. What is your opinion of whether consolidation will be in the best interest of the members?

A. Based on the consolidation study, and my involvement in developing various aspects of the study, it is my belief that significant economic benefit exists for member owners of the respective cooperatives. Its highly probable system reliability and customer service will improve. The opportunity for cost containment and the potential for long-term lower rates should be favorable once all efficiencies are in place.

Q10. Does this conclude your testimony?

A. Yes.

VERIFICATION

The undersigned, DEAN STANLEY, being first duly sworn states that he is the President and Chief Executive Officer of Green River Electric Corporation; that he has personal knowledge of the matters set forth in the foregoing testimony; and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

Dean Stanley

Dean Stanley

STATE OF KENTUCKY

COUNTY OF DAVIESS

Subscribed, sworn to and acknowledged before me by DEAN STANLEY this 15th day of April, 1999.

My commission expires September 29, 2001

Charla D. Smithhart

Notary Public, State of Kentucky at Large

(seal)

DORSEY, KING, GRAY & NORMENT
ATTORNEYS-AT-LAW
318 SECOND STREET
HENDERSON, KENTUCKY 42420

JOHN DORSEY (1920-1986)
FRANK N. KING, JR.
STEPHEN D. GRAY
WILLIAM B. NORMENT, JR.
J. CHRISTOPHER HOPGOOD

TELEPHONE
(502) 826-3965
TELEFAX
(502) 826-6672

May 14, 1999

RECEIVED
MAY 17 1999
PUBLIC SERVICE COMMISSION

Ms. Helen C. Helton
Kentucky Public Service Commission
730 Schenkel Lane - Post Office Box 718
Frankfort, Kentucky 40601

Re: Case No. 99-136

Dear Ms. Helton:

We enclose herewith for filing the original and eight (8) copies of applicants' response to the Commission's information requests. Thank you for your assistance.

Very truly yours,

DORSEY, KING, GRAY & NORMENT

By Frank N. King

Frank N. King, Jr.

FNKJr/cds
Encls.
Copy/w/encls.: Mr. Dean Stanley
Mr. John West

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF THE APPLICATION OF) GREEN RIVER ELECTRIC CORPORATION AND) HENDERSON UNION ELECTRIC COOPERATIVE) CORP. FOR APPROVAL OF CONSOLIDATION)	CASE NO. 99-136

APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUESTS

Items 1 — 20

Original

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF THE APPLICATION OF) **GREEN RIVER ELECTRIC CORPORATION AND)** **HENDERSON UNION ELECTRIC COOPERATIVE)** **CORP. FOR APPROVAL OF CONSOLIDATION)**	**CASE NO. 99-136**

Following are appliants' responses to the Commission's requests for information set forth in the May 6, 1999, order.

This 14th day of May, 1999.

DORSEY, KING, GRAY & NORMENT
318 Second Street
Henderson, Kentucky 42420
Telephone - 270-826-3965
Telefax - 270-826-6672
Attorneys for Green River Electric Corporation and Henderson Union Electric Cooperative Corp.

By Frank N. King
Frank N. King, Jr.

APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUEST

CASE NO. 99-136

RECEIVED
MAY 17 1999
PUBLIC SERVICE COMMISSION

Item 1. Refer to Application, Exhibit 1 ("Consolidation Study"). Provide the following charts and narratives that were removed and replaced with the phrase "Intentionally Left Blank:"

a. Current Director Compensation Package (page 11).

b. Recommended Job Description for the Special Advisor to the Board of Directors (pages 16-17).

c. Comparison of Cooperative Compensation Plans (page 40).

d. Unidentified (page 41).

Response: a. See Item 1, Attachment 1.

b. See Item 1, Attachment 2.

c. See Item 1, Attachment 3.

d. See Item 1, Attachment 4.

Witness: Dean Stanley

Director Compensation and Benefits

The current Director compensation package is illustrated in the following table. There are some differences which should be addressed for all of the Directors of the consolidated organization.

	Green River	Henderson-Union
Medical	100% premiums paid for director and dependents	<100% premiums paid for director and dependents *(Jan 1999 premium increase of 16% was split 13% Board member/employee, 3% coop)*
		After 20 year's service, premiums paid for life
Dental	Co-op paid for director, 1/2 dependent	N/A
24 hr accident		$10,000
Business travel		$100,000
Compensation	$200/month $100/meeting	$200/board meeting $100/travel day
Per diem	Expenses paid	$40/day (exclusive of travel and lodging)
Life	$5,000	

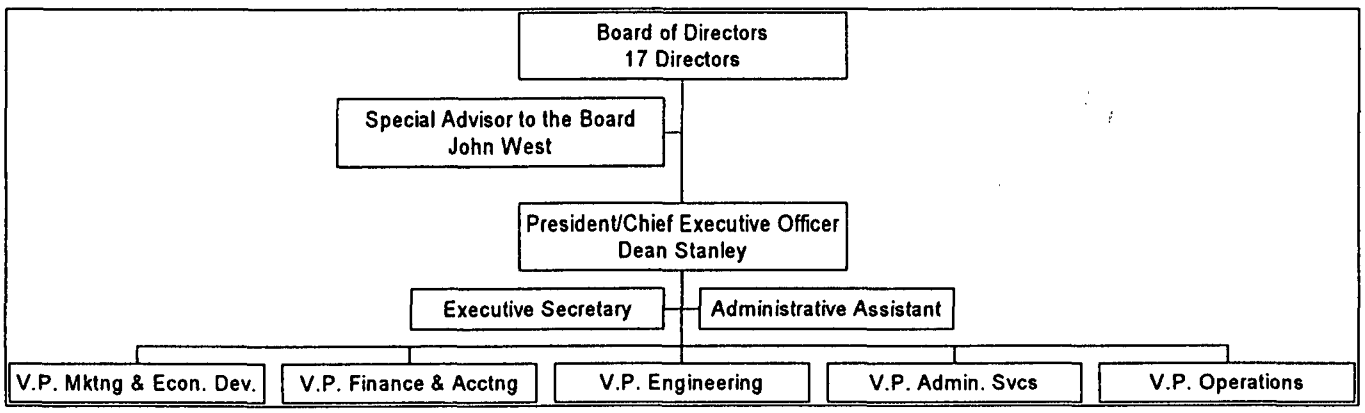
GREC and HUEC Director compensation packages can be compared with results from the 1995 NRECA Director's Compensation and Benefits Survey.

Regular Board Meeting Compensation

Category	Count	Percent
None	3	.4%
$75 or less	144	21.5%
$76 - $100	178	26.5%
$101 - $125	78	11.6%
$126-$200	174	25.9%
Over $200	75	11.2%
No Response	19	2.8%
Total	671	100.0%

Based on discussions with both Boards, we recommend that the Chief Executive Officer be Dean Stanley with an executive level utilizing the following initial management structure.

Combined Organizations
Initial Management Structure



In deference to Mr. West's intention to retire in 1999 his skills should be retained into the new organization with a role as Special Advisor to the Board of Directors for a period of one year. A recommended job description follows:

Kenergy
Job Description for Special Advisor to the Board

Scope:

Act in an advisory capacity to the Board of Directors and President through the consolidation-transition period of Green River Electric and Henderson Union Electric.

Requirements:

15 or more years in a Chief Executive Officer of a rural electric membership cooperative.

Term: 12 months

Compensation:

Monthly retainer: $5,000 per month
Includes attendance monthly Board and Committee meetings, industry meetings/conferences, and regulatory hearings.

$300 per day for any additional duties performed.

Reimbursement will be paid for travel, lodging and out of pocket expenses.

Potential Duties:

Oversee progress of the overall consolidation implementation effort. Develop measurement criteria and reporting system to monitor expected consolidation results. Report findings to the Board.

Attend all meetings of the Board of Directors, Board Committees and Advisory Committees.

Assist the General Manager in developing the organizational structure, staffing selection, SERP and migration plan.

Troubleshoot unexpected transitional problems at the direction of the President.

Assist CEO in developing contacts in the Henderson community.

Develop proposed Board redistricting plan.

Attends industry meetings as requested.

Other duties as assigned by the Board of Directors and President.

Proposed Organizational Structure

One of the most significant cost savings realized from a consolidation comes from the reduction in human resource requirements for the new organization. Since there is an understanding that there would be no staff reduction as a result of a consolidation we have combined the two organizations using the current number of incumbents without any reduction in workforce. By the end of the study period (2007), however, we anticipate a reduction of the direct report and

GREC/HUEC Comparative Modeled Salary Curve Data Points

GREC Position	GREC MP	HUEC Point Equivalents	HUEC Position	HUEC MP
Cashier	$28,558	286	Cashier III	$21,404
Dept. Sec.	$34,590	664	Secretary	$30,911
ROW/Trimmer	$31,408	448	Trimmer/Climber	$27,753
Plant Accountant	$34,590	682	Accountant II	$34,059
Dispatcher	$38,002	790	Dispatcher	$40,322
Heavy Equipment Operator	$38,002	706	Heavy Equipment Operator	$37,196
Meterman I	$41,766	808	Meter Tech II	$40,322
Crew Leader	$45,885	872	First Class Lineman	$43,438
Supv. Field Engineering	$55,608	1216	Staff Engineer	$55,793
Sup. Overhead Construction		1410	Construction Supt.	
VP Operations		1704	VP Eng'g Op's	

The regression curve for each organization's current salary plan, generated by the comparative model suggests that the overall average variance between HUEC and GREC's salary plans is 6.27%; however, significant variations are apparent.

The most significant difference in percentage between the two plans resides in the lowest grades of the organization, which represents the lowest dollar values of both plans; however, the largest numbers of incumbents are in these salary ranges.

HUEC vs. GREC Modeled Salary Curve

	GREC Modeled	HUEC	Variance
Salary Grade	Salary Curve	Salary Curve	(HUEC-GREC)
1	$27,881	$19,479	-30.14%
2	$29,047	$22,413	-22.84%
3	$30,411	$25,330	-16.71%
4	$31,986	$28,266	-11.63%
5	$33,771	$31,221	-7.55%
6	$35,767	$34,195	-4.40%
7	$37,974	$37,187	-2.07%
8	$40,392	$40,197	-0.48%
9	$43,020	$43,227	0.48%
10	$45,859	$46,275	0.91%
11	$48,909	$49,342	0.89%
12	$52,169	$52,428	0.50%
13	$55,640	$55,532	-0.20%
14	$59,322	$58,655	-1.13%
15	$63,215	$61,796	-2.24%
16	$67,318	$64,957	-3.51%
17	$71,633	$68,136	-4.88%
18	$76,157	$71,334	-6.33%
19	$80,893	$74,550	-7.84%
		Overall Average Differential	-6.27%

APPLICANTS' RESPONSE TO
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Item 2. 2. Refer to Consolidation Study at 35. Provide the schedule entitled "GREC and HUEC Existing and Recommended Benefits Plan Design" that includes the estimated cost components and annualized premiums.

Response: See Item 2, Attachment 1.

Witness: Dean Stanley

Green River Electric Corporation

Henderson Union Electric Cooperative

GREC and HUEC Existing and Recommended Benefits Plan Design

	Merger Rates		Estd. Cost 1/	Current Plans and Rates Green River		Estd. Cost	Henderson Union		Estd. Cost
Medical	ElectREmed 300 with: $5,000 Coinsurance, SHARE, PCS, 6% Wellness, 1st $10,000 of Inpatient Hospital Expenses Benefit	EE DEP MED		ElectREmed 200 with: $5,000 Coinsurance, SHARE, PCS, 6% Wellness	EE DEP MED	*10,372 *781,908	ElectREmed 300 with: $5,000 Coinsurance, SHARE, PCS, 6% Wellness, 1st $10,000 of Inpatient Hospital Expenses Benefit	EE DEP MED	*19,392 *500,036
Dental	R&C 100 with Adult Orthodontics	EE DEP		R&C 100 with Adult Orthodontics	EE DEP	*7,611 *51,437	No dental		0
Life Plans	Basic Life - 3x Annual Salary (w/ AD&D)			Basic Life - 3x Annual Salary		54,969	*The following Benefits are not with NRECA* Basic Life - 2x Annual Salary (No AD&D) AD&D - 2x Annual Salary		35,322 3,072
	Dependent Life - $10,000 Spouse Benefit*			Dependent Life - $10,000 Spouse Benefit		4,263	No Dependent Life		0
	Director Life - Flat $5,000 Benefit**			Director Life - Flat $5,000 Benefit		411	No Director Life		0
Disability Plans	A&S (STD) 66 2/3% of weekly earnings, 26 Week Benefit Period*** $300 Weekly Maximum Benefit**** $500 Weekly Maximum Benefit			No short term disability		0	STD 70% of weekly earnings, $100 Weekly Maximum Benefit, 26 Week Benefit Period		4,586
	Long Term Disability - 66 2/3% of Monthly Earnings, $15,000 Maximum Monthly Benefit, 26 Week Waiting Period			Long Term Disability - 66 2/3% of Monthly Earnings, $15,000 Maximum Monthly Benefit, 26 Week Waiting Period		18,079	Long Term Disability - 60% of Monthly Earnings, $2,500 Maximum Monthly Benefit, 26 Week Waiting Period		24,116
	Total Est Annualized Premium			*Total Est Annualized Premium*		929,050	*Total Est Annualized Premium*		586,524

*Includes Directors
**Includes Directors & Attorney
1/ '2000 rates/premiums unavailable/undetermined at present

Item 2
Page 2 of 2

ATTACHMENT 1

APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUEST

CASE NO. 99-136

Item 3. Refer to Consolidation Study at 37. What actions, if any, have the Applicants taken to develop a Special Early Retirement Plan?

Response: Green River's Board of Directors has approved an Early Retirement Incentive Program based upon a study by Pricewaterhouse Coopers, Actuary for Green River's Group Pension Plan. Fifteen Green River Electric employees meet the eligibility requirements, i.e. age 57 and 20 years service on or before December 31, 1999.

Henderson Union's Board approved a Special Early Retirement Program "SERP" prepared by the National Rural Electric Cooperative Association ("NRECA"), Henderson Union's retirement plan administrator. Eight Henderson Union employees met the eligibility requirement of age 57 on or before December 31, 1999, with a minimum of 20 years service.

Witnesses: Dean Stanley and John West

Item 4. Refer to Consolidation Study at 44.

a. How long will management staff continue to operate out of the Owensboro office?

b. What options have the Applicants considered concerning the future of the Owensboro office?

Response: a. President and CEO Dean Stanley will be assigned to the headquarters office in Henderson, Kentucky effective July 1, 1999.

Vice President of Engineering John Newland will be stationed at the headquarters office in Henderson, Kentucky. Assistant Vice President Gerald Ford will be stationed at the Owensboro Office.

Vice President of Operations Ted Crabtree will be stationed at the Owensboro office. Assistant Vice President of Operations Ronnie Hallmark will be stationed at the headquarters office in Henderson, Kentucky.

Vice President of Marketing and Economic Development Ed Sheriff will be stationed at the Owensboro office.

Assistant Vice President Sue Mays will be stationed at the headquarters office in Henderson, Kentucky.

Vice President of Finance and Accounting Steve Thompson will be stationed at the Owensboro office.

Vice President of Administrative Services John Warren will be stationed at the Owensboro office.

We point out that neither the Henderson office nor the Owensboro office has sufficient space to house all management and support staff at this time. Therefore, management staff will be stationed at locations noted above until further evaluations can be made of office facilities and most efficient alignment of overall operation. Early retirements may also impact the alignment of employees and their permanent reporting location.

b. It is contemplated that the Owensboro facility will always be adequately staffed to serve customers within this service district.

Witness: Dean Stanley

APPLICANTS' RESPONSE TO
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Item 5. At pages 45 through 51 of the Consolidation Study, the potential benefits from the consolidation in various operational areas are identified. For each identified area, describe the actions that the Applicants currently plan to implement.

Response: Operations Center: Initial plans are to enhance customer service and reliability by staffing the present Hanson facility accordingly. As load growth and other customer needs increase, making the present Hanson facility inadequate, a more ideal location will be investigated. This effort will also be influenced by experience gained through efforts to improve customer service and response time.

Warehouse Storage, Meter Shop and Garage: The warehouse storage and garage facilities will be the responsibility of Administrative Services. The metering and apparatus functions will initially be performed at separate well-equipped facilities. As new metering technology is implemented, a single approach to utilization will be used. Apparatus needed for any new technology and for all special metering needs (nonresidential) will be kept in a central location to avoid cost duplication.

Mapping Systems: Plans are being developed for putting each mapping system server on a WAN, thus making any portion of the system available at all desired locations.

Computer Systems: The capability of MILSOFT engineering software allows for modeling of the distribution system. Plans are to model possible ties available in areas to evaluate benefit on system-wide basis.

Communications Equipment: The utilization of cell phone technology will be maximized. Multiple frequency mobile radios will be provided for supervisors and other key personnel. At the time, present mobile communication system is outdated. A single new system will be designed to accommodate the entire service area.

Equipment Utilization: An analysis of the cost to own and maintain each major piece of equipment is planned in the initial phase of the consolidation. Any item found to be redundant will be evaluated for removal or leasing to outside parties. The use of this equipment for services that are not directly related to providing customer services will be considered on a cost-effective basis.

Combined Field Operations: Central dispatching for the entire system, on a 24-hour basis, is a top priority. Initial plans include access to customer information at the Owensboro Dispatch Center, immediately, with after-hours answering for the entire system as soon as communication links are adequate. The combination of field crews and other resources will be evaluated on a project basis. The plan for area coverage of trouble calls and other outages will include a distribution of equipment and personnel to accomplish response within prescribed time limits. The final decision will attempt to maximize available resources. The plan is to be developed as soon as is practical following the date of the merger.

Service Reliability Improvements: The three areas indicated will be evaluated to determine the most economical way to serve the load requirements from a one-system concept. Load forecasts and accepted design standards will determine the final outcome. The engineering software, MILSOFT, common to GREC and HUEC, will provide needed input. Design criteria will be developed in a construction work plan, scheduled for fall, 1999. Particular attention will be given to these areas, in terms of accomplishing previous design criteria compared to other solutions now made available.

Witness: Dean Stanley

**APPLICANTS' RESPONSE TO
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Item 6. Refer to Consolidation Study at 52-55.

a. What rotation cycle for general capital credit retirements is currently used by

(1) Green River?

(2) Henderson Union?

b. What rotation cycle for general capital credit retirement will Kenergy Corp. use?

c. Will Kenergy Corp.'s rotation cycle for general capital credit retirements need to be extended because of the 4 percent revenue reduction that the Applicants have proposed? Explain.

d. (1) In light of the proposed 4 percent revenue reduction, will Kenergy Corp. have adequate cash reserves to pay out the anticipated $6.68 million in capital credit retirements modeled for 1999?

(2) If no, what is the amount of capital credits that Kenergy Corp. expects to retire?

Response: 6a(1). The Board of directors adopted a Capital Management Policy July 5, 1995. (See Item 6, Attachment

1) See Tab 1 of Consolidation Study, RUS Form 325D - General Funds Summary, for the Green River projected capital credit retirements.

6a(2). The Board of Directors has not adopted a formal Capital Management Policy. See Tab 2 of the Consolidation Study, RUS Form 325-d - General Funds Summary, for the Henderson Union projected capital credit retirements.

6b. Capital credit retirement policies will be addressed by the Kenergy Board of Directors subsequent to July 1, 1999.

6c. See response to 6b.

6d(1). See response to 6b.

6d(2). See response to 6b.

Witnesses: Dean Stanley and John West

GREEN RIVER ELECTRIC CORPORATION

CAPITAL MANAGEMENT POLICY

Objective

The objective of the capital management policy is prudent equity and debt capital management.

Policy Statements

A. **Equity & Debt Capital Levels**

The corporation should strive to maintain a minimum equity to total capital ratio of 30% and a maximum of 40% (excluding wholesale power supplier capital credits).

B. **Equity Capital Retirement**

The corporation should strive to retire equity capital on a systematic basis, assuring equitable treatment for all members. These retirements should benefit the maximum number of members, and at the same time avoid jeopardizing the financial security of the corporation.

C. **Debt Capital**

The corporation should explore and take advantage of all debt capital sources, seeking always to mitigate risks associated with debt capital by utilizing interest rate and debt composition strategies. The approved debt limit, defined as net loans payable, is $75,000,000.

D. **Long-Range Financial Forecast**

Management should develop and update as needed a ten-year financial forecast incorporating specific recommendations for achieving to the maximum possible extent the objectives of this policy and all other corporate strategies.

APPROVED BY BOARD OF DIRECTORS
AT A MEETING ON JULY 5, 1995

**APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUEST**

CASE NO. 99-136

Item 7. The Consolidation Study indicates that Green River systematically rotates capital credits and discounts its payments to estates, while Henderson Union does not engage in any systematic rotation and makes 100 percent payments to estates. In this study, the National Rural Electric Cooperative Association ("NRECA") recommends that the consolidated cooperative adopt Green River's general retirement methodology and Henderson Union's estate payment policy.

a. Explain the basis for each approach to capital credit payments to deceased estates.

b. Why does the NRECA advocate following Henderson Union's policy of retiring capital credits to estates at the 100 percent level?

c. Is the NRECA generally opposed to discounting capital credits paid to estates?

d. Why does the NRECA recommend the use of Green River's systematic capital credit rotation methodology and Henderson Union's policy of 100 percent payments to deceased estates?

e. Does Kenergy Corp. plan to adopt the study's recommendation?

Response: 7a. There are two policy questions regarding the special retirement of capital credits to estates that the newly constituted Board of Directors of Kenergy, Inc. should discuss and resolve: (1) is it right and equitable to make estate payments, and if so, (2) should these payments be made at their nominal value or discounted to reflect the early retirement value?

The NRECA Management Consulting Group recommends that cooperative boards of directors adopt a thorough, well thought-out Equity Management Plan that balances the financial objectives and resources of the cooperative with equitable treatment of the members. We generally recommend that these plans include provision for periodic general refunds of capital credits and the special payment of capital credits to the estates of deceased members. The payment of a discounted value of the capital credits to an estate is a technically valid technique which equalizes the benefit of the early redemption in favor of those living members who will participate in downstream periodic annual retirements. Where a cooperative executes systematic general refunds to all members the discounting of special retirements to estates is advocated. In the absence of periodic general retirements the nominal retirement of estate payments is recommended. Supporting this logic is the option of the member estate to await participation in the general retirement of capital credits at nominal value.

7b. Henderson Union has not had a history of period general retirements of capital credits; as a result our recommendation is based on this observation. Once a schedule of periodic general retirements of capital credits is established by the Kenergy Board of Directors we would recommend the Board consider adopting the technique of discounting the special retirement to estates.

7c. See Items 7a and 7b.

7d. See Items 7a and 7b.

7e. As noted earlier, this is a matter for discussion, debate, consideration and resolution by the newly constituted Kenergy Board of Directors.

Witness: Joe Slater

APPLICANTS' RESPONSE TO
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CASE NO. 99-136

Item 8. a. State what approvals, if any, of the proposed consolidation are required from:

(1) the National Bank for Cooperatives ("CoBank").

(2) the National Rural Utilities Cooperative Finance Corporation ("CFC").

(3) the Rural Utilities Service ("RUS").

b. If the proposed consolidation requires approval from any of the entities listed above, state the status of the Applicants' request for that approval as of April 19, 1999.

Response: CoBank, CFC and RUS have been furnished with copies of the board resolutions approving consolidation and the consolidation agreement, with proposed articles of consolidation and bylaws attached (this material was furnished after April 19, 1999). CoBank, CFC and RUS are requesting copies of the filed articles of consolidation and the PSC order approving consolidation, along with other certain relevant documents, prior to approving the consolidation. The matter of consolidation has been discussed with representatives of all three entities and assurance has been given that there will be approvals.

Witness: Dean Stanley

APPLICANTS' RESPONSE TO
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Item 9. 9. Refer to Consolidation Study at 57-58.

a. How was the impact of the "Reimbursement of General Funds" incentive modeled in the study's scenarios? If this incentive was not incorporated into the scenarios, why not?

b. How was the impact of the "Deferments of Interest and Principal" incentive modeled in the study's scenarios? If this incentive was not incorporated into the scenarios, why not?

Response: 9a. This incentive was reported in the study but not modeled in the study scenarios. It is our recommendation that Kenergy staff work with the appropriate Rural Utilities Services (RUS) representatives to aggressively identify and optimize all available incentives offered under 7 CFR 1710, 1714, 1717 and 1786.

9b. See response to 9a.

Witness: Joe Slater

APPLICANTS' RESPONSE TO
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Item 10. 10. Refer to Consolidation Study at 77-85.

a. Why does Scenario 1 (Immediate Phase-In—Tab 4) not include an adjustment to the base case related to capital credit retirements while Scenario 2 (5-Year Phase-In—Tab 5) do?

b. Why do the scenario analyses included at Tabs 4 through 6 not incorporate the reduction in minimum Times Interest Earned Ratio ("TIER") available under the RUS incentives.

c. If the scenario analyses included at Tabs 4 through 6 had incorporated the reduced minimum TIER requirements, would any of these scenarios have shown that a rate increase was required during the study period? Explain.

d. Why, if the scenario analyses contained at Tabs 7 through 9 were prepared to only reflect the impact of the 4 percent retail rate reduction, were each of the following changes also made:

(1) The minimum TIER was lowered to 1.00.

(2) The capital retirements were reduced to $33 million over the ten-year period.

Response: 10a. Each of the financial forecast scenarios contained in Tabs 4-9 are a "stand alone" analysis designed to quantify financial results based on the assumptions made. These scenarios are not attempting to predict the future or imply that management or the Kenergy Board of Directors has adopted these assumptions as a future course of action. The main objective of these scenarios was to estimate the dollar savings from consolidation. The number of different forecast scenarios is unlimited, but applicants would be willing to run several additional scenarios should the commission feel these are needed to approve the consolidation application. However, the retirement of capital credits is treated consistently in all three scenarios found under Tabs 4, 5 and 6.

10b. See response to 10a. TIER reduction was not evidenced to be necessary in the Scenarios in Tabs 4 through 6 to meet financial and/or policy objectives. TIER remained at levels consistent with both Green River and Henderson Union's original individual financial targets. Further, Kenergy has no certainty that RUS incentives will be granted.

10c. No. TIER reduction was not evidenced to be necessary in the Scenarios in Tabs 4 through 6 to meet financial and/or policy objectives. TIER remained at levels consistent with both Green River and Henderson Union's original individual financial targets.

10d(1) and (2). The scenarios illustrated under Tabs 7 through 9 allow TIER to move to an indicated level requisite to a 4% rate reduction modeled under the three scenarios for sensitivity analysis. Capital credit retirements were adjusted to maintain equity and net general funds ratios targeted levels.

Witness: Joe Slater

APPLICANTS' RESPONSE TO
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Item 11. Refer to Consolidation Study at 86.

a. Using the format found at page 86, provide a summary of the combined actual consolidation costs incurred by Green River and Henderson Union, as of April 19, 1999, or the most recent financial period for which information is available.

b. How do the Applicants plan to address these costs (i.e., expensing these costs or deferring and amortizing them over a specific period of time)? Explain.

Response: 11a. For the calendar year 1998 and the period January through April 30, 1999, consolidation costs incurred by Green River and Henderson are as follows:

ITEM	COSTS
Legal fees and costs	$ 13,090.80
Member information dissemination	126,783.43
Consulting fees and costs	36,515.94
TOTAL	$176,390.17

Witness: Mary Pinkston

11b. The applicants are sharing these costs equally and have been expensing them as incurred.

Witness: Steve Thompson

APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUEST

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Item 12. Refer to Consolidation Study at Tab 1 ("Financial Forecast — RUS Form 325A—Ratios"). Provide a schedule that compares the 1998 forecast for the 16 items listed with Green River's actual financial results for 1998.

Response: See Item 12, Attachment 1

Witness: Steve Thompson

GREEN RIVER ELECTRIC CORPORATION
RESPONSE TO ITEM 12
CASE NO. 99-136

	PROJECTED 1998	ACTUAL 1998
1. EQUITY RATIO (WITH ADD. REV.) (%)	34.52	33.94
2. DEBT SERVICE COVERAGE (WITH ADD. REV.)	2.28	2.37
3. TIMES INTEREST EARNED RATIO (WITH ADD. REV.)	2.62	2.62
3a EQUITY TO TOTAL CAPITALIZATION RATIO	41.92	42.64
4. AVERAGE REVENUE PER KWH SOLD (CENTS)	3.04	3.04
5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)	-3.10	-3.10
6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)	1.60	1.60
7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)	4.64	5.90
8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)	20.56	20.75
9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER ($)	133.55	137.42
10. ADMIN. & GEN. EXPENSE PER CONSUMER ($)	70.09	73.87
11. PLANT REVENUE RATIO	5.21	5.13
12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)	7.87	7.64
13. RATE BASE = 106% OF NET UTILITY PLANT	63,784,584	63,162,842
13a. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)(RUI	0.00	0.00
14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)	0.00	0.00
15. MODIFIED DSC (FOR RUS USE)	2.26	2.35
16. MODIFIED TIER (NET OF G&T & OTHER CAP. CREDITS)	2.59	2.59

ATTACHMENT 1

APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUEST

CASE NO. 99-136

Item 13. Refer to Consolidation Study at Tab 2 ("Financial Forecast — RUS Form 325A—Ratios"). Prepare a schedule that compares the 1998 forecast for the 16 items listed with Henderson Union's actual financial results for 1998.

Response: See Item 13, Attachment 1.

Witness: Mary Pinkston

HENDERSON UNION ELECTRIC CORPORATION
RESPONSE TO ITEM 13
CASE NO. 99-136

	PROJECTED 1998	ACTUAL 1998
1. EQUITY RATIO (WITH ADD. REV.) (%)	39.78	38.30
2. DEBT SERVICE COVERAGE (WITH ADD. REV.)	2.08	2.01
3. TIMES INTEREST EARNED RATIO (WITH ADD. REV.)	2.10	1.92
3.a EQUITY TO TOTAL CAPITALIZATION RATIO	48.72	47.64
4. AVERAGE REVENUE PER KWH SOLD (CENTS)	3.20	3.20
5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)	-1.48	-1.24
6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)	2.23	2.27
7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)	2.14	3.25
8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)	22.27	21.17
9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER ($)	193.31	198.00
10. ADMIN. & GEN. EXPENSE PER CONSUMER ($)	66.25	67.80
11. PLANT REVENUE RATIO	5.88	5.96
12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)	4.99	4.39
13. RATE BASE = 106% OF NET UTILITY PLANT	47,133,354	48,435,137
13.a INCREASE OVER PRESENT RETAIL RATES REQUIRED(%) (RURAL)	0	0.00
14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)	0	0.00
15. MODIFIED DSC (FOR RUS USE)	2.06	1.97
16. MODIFIED TIER (NET OF G&T & OTHER CAP. CREDITS)	2.06	1.97

ATTACHMENT 1

APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUEST

CASE NO. 99-136

Item 14. a. Why were the analyses included with Consolidation Study based on 1997 actual financial data instead of 1998 actual financial data?

b. Why was the forecast period not extended to 2008?

Response: 14a. 1998 actual financial data was not available when the financial forecast was run.

14b. RUS-AiEC Version 6.0 software utilizes the most recent historical year and the next 10 years.

Witness: Steve Thompson

APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUEST

CASE NO. 99-136

Item 15. Refer to Application at 7. Applicants state that Kenergy Corp. intends "to provide rate parity for all members within two (2) years from the effective date of the consolidation." How will this objective be achieved?

Response: The Consolidation Agreement between Green River and Henderson Union contemplates that Kenergy Corp. will, within two years, undertake a cost of service and rate design study to unify rates, rules, and regulations for furnishing electric service within its certified service area. We do not believe significant differences exist between the respective cooperatives' present tariffs— a situation which should lend itself to a smooth transition and blending of rates, rules, and regulations.

Witness: Dean Stanley

APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUEST

CASE NO. 99-136

Item 16. Refer to Consolidation Study at 31.

a. What positions will the proposed attrition process (including the Special Early Retirement Plan) eliminate?

b. Describe how these positions relate to the consolidated cooperative's managerial, technical and financial expertise.

Response: 16a and b. Kenergy Corp. will begin operations July 1, 1999, with a total of approximately 190 employees. The initial organizational structure will include five operational departments headed by a vice president. Mr. John West, President and CEO of Henderson Union will retire July 1 and serve as an advisor to the board of directors. Green River and Henderson Union will each offer a special early retirement plan (SERP) to employees at least 57 years of age and 20 years of service. A total of 23 employees meet this criteria and are eligible for the SERP. We anticipate several eligible employees will apply for the early retirement option but cannot predict, with any degree of accuracy, the number that will actually retire early. Incumbents in several key positions that are redundant to the new organization have indicated an intent to elect the SERP, which will be beneficial to achieving the appropriate threshold of employees.

In addition to the SERP noted above, we anticipate that additional attrition will occur through normal retirements and voluntary separations which will help achieve desired staffing levels. Reassignments and elimination of staffing positions will also assist in achieving these levels.

Witness: Dean Stanley

APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUEST

CASE NO. 99-136

Item 17. Refer to the Application, Exhibit 2B ("Bylaws of Kenergy Corp.") at 3. Kenergy Corp.'s Board of Directors appoints the 10-district Member Resource Committee which in turn prepares a list of nominees for membership to the Board of Directors. Describe how members to the Member Resource Committee will be appointed.

Response: GREC currently has an established and functioning Member Resource Committee and Industrial Resource Committee. Henderson Union has an established and functioning Member Advisory Committee. These committees will be integrated into Kenergy and function as provided for in Article I, Section 8 of the proposed Kenergy bylaws.

Witness: Dean Stanley

APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUEST

CASE NO. 99-136

Item 18: Assume the Commission approves the proposed consolidation and that the consolidation occurs on July 1, 1999.

a. Describe all special closing financial statements, based on the 6 months ended June 30, 1999, that the Applicants intend to file with the Commission.

b. (1) What period would Kenergy Corp.'s 1999 Annual Report cover?

(2) How would Kenergy Corp.'s 1999 Annual Report address the Applicants' operations prior to July 1, 1999?

c. What effect will the consolidation have on the Applicants' investments in and membership with:

(1) Kentucky Association of Electric Cooperatives.

(2) United Utility Supply.

(3) CoBank.

(4) CFC.

d. Pending completion of a full year of consolidated operations, how will the RUS determine Kenergy Corp.'s compliance with its RUS mortgage financial ratio requirements?

e. Green River's last authorized TIER differs from Henderson Union's last authorized TIER. Which TIER will the Applicants consider as Kenergy Corp.'s authorized TIER until the consolidated cooperative's first general rate adjustment proceeding? Explain.

Response: 18a. The applicants are planning on filing one consolidated 1999 annual report which includes the Kenergy balance sheet at December 31, 1999, and a combined income statement for Green River and Henderson Union (six months ending June 30, 1999) and Kenergy (six months ending December 31, 1999).

18b(1). See response to 18a

18b(2). See response to 18a

18c(1), (2), (3), (4). No impact except refund of one membership fee where applicable.

18d. Attached as See Item 18, Attachment 1 is section CFR 1717.155 Part B "Coverage Ratios."

18e. As stated in response to Item 6b, issues such as TIER, capital credit retirements, targeted equity to capital ratio, etc. will be addressed by the Kenergy Board of Directors subsequent to July 1, 1999.

Witness: Steve Thompson

effective date. In reviewing requests for this longer reimbursement period, RUS will consider the stresses that the transaction and other costs of entering into the merger places on the borrower's rates and cash flows, and the mitigating effects of more generous reimbursement.

(2) A longer reimbursement period may be available if:

(i) All parties to the merger are active distribution borrowers, *or*

(ii) At least one of the merging parties is an active distribution borrower, all merging parties are either active distribution borrowers of former distribution borrowers, *and* the merger is effective after December 19, 1996.

§ 1717.155 Transitional assistance affecting new and preexisting loans.

Requests for transitional assistance affecting new and preexisting loans must be received by RUS no later than 2 years after the effective date.

(a) *Section 12 deferments.* (1) Section 12 of the RE Act (7 U.S.C. 912) allows RUS to extend the time of payment of interest or principal of RUS loans. Section 12 deferments do not extend the final maturity of the loan; lower payments during the deferment period result in higher payments later. Therefore, RUS may approve a Section 12 deferment of loan payments of up to 5 years only if such deferments will help to avoid substantial increases in retail electric rates during the transition period, without placing borrowers in financial stress after the deferment period.

(2) Section 12 deferment may be available following any merger where at least one of the merging parties is an active borrower.

(b) *Coverage ratios.* Required levels for coverage ratios are set forth in 7 CFR 1710.114 and in the loan documents. RUS may approve a plan, on a case by case basis, that provides for a phase-in period for these coverage ratios of up to 5 years from the effective date. Under such a plan the successor would be permitted to project and achieve lower levels for one or more of these coverage ratios during the phase-in period.

(1) A phase-in plan for coverage ratios must provide a pro forma level for each ratio during each year of the phase-in period and be supported by a financial forecast covering a period of not less than 10 years from the effective date of the merger. The plan must demonstrate that a minimum TIER level of 1.00 will be achieved in each year, that trends will be generally favorable, that the borrower will achieve the levels required in its loan documents and RUS regulations by the end of the phase-in period, and that these levels will be maintained in subsequent years.

(2) In reviewing phase-in plans for coverage ratios, RUS will review rates, rate disparity, and likely mitigating effects of the proposed phase-in plan.

(3) The borrower is responsible for obtaining approvals of supplemental lenders.

(4) Upon RUS approval of a phase-in plan, the levels in that plan will be substituted for the levels required in the borrower's preexisting loan documents and will be incorporated in any new loan or security documents.

(5) A phase in plan for coverage ratios may be available if:

(i) All parties to the merger are active distribution borrowers, *or*

(ii) At least one of the merging parties is an active distribution borrower, all merging parties are either active distribution borrowers or former distribution borrowers, and the merger is effective after December 19, 1996.

§ 1717.156 Transitional assistance affecting preexisting loans.

The fund advance period for an insured loan, which is the period during which RUS may advance loan funds to a borrower, terminates automatically after a specific period of time. See 7 CFR 1714.56. If, on the effective date the original fund advance period or the fund advance period as extended pursuant to 7 CFR 1714.56(c), on any preexisting RUS loan to any of the active borrowers involved in a merger has not terminated, such fund advance period shall be automatically lengthened by 2 years. On the borrower's request RUS will prepare documents necessary for the advance of loan funds. RUS will prepare documents for the borrower's execution that will reflect this extension and will provide the legal authority for RUS to advance funds to the successor.

§ 1717.157 Requests for transitional assistance.

(a) If the merger requires RUS approval, the borrower should, where possible, indicate that it desires transitional assistance at the time it requests approval of the merger. The formal request for transitional assistance must be received by RUS as specified in §§ 1717.155 and 171.156. Documents listed in this section may be combined with the documents required by §§ 1717.152 and/or 1717.160 where appropriate. If the request for transitional assistance is submitted at the same time as a loan application, documents listed in this section may be combined with the loan application documents where appropriate. See 7 CFR part 1710, subpart I. A request for transitional assistance must include:

(1) Transmittal letter(s) formally listing the types of transitional assistance requested. If the request is submitted before the effective date, a transmittal letter must be signed by the manager of each party to the transaction. If the request is submitted on or after the effective date, a transmittal letter must be signed by the manager of the successor. Transmittal letter(s) must be signed originals on corporate letterhead stationery;

(2) Board resolution(s). If the request is submitted before the effective date, a separate board resolution must be submitted from each entity involved in the merger. If the request is submitted on or after the effective date, a board resolution from the successor must be submitted. Each board resolution must be a certified original;

(3) A merger plan, financial forecasts, and any available studies such as net present value analyses showing the anticipated costs and benefits of the merger and likely timeframes for the merger. The merger plan must clearly identify those benefits that cannot be achieved without a merger, and those benefits that can be achieved through other means;

(4) If the transitional assistance requires RUS approval, the type and extent of the mitigation that the transitional assistance is expected to provide; and

(5) Other information that may be relevant.

(b) Borrowers are responsible for ensuring that requests for transitional assistance are complete and sound in form and substance when they are submitted to RUS. After submitting a request, borrowers shall promptly notify RUS of any changes or events that materially affect the request or any information in the request.

(c) In considering whether to approve requests for transitional assistance, RUS will evaluate the costs and benefits of the merger; the type and extent of the likely transitional stress; whether the transitional assistance requested is likely to materially mitigate such stress; and the likely impacts on electric rates and on the security of RUS loans. Review factors applicable to each type of transitional assistance are set forth in §§ 1717.154–1717.156.

§ 1717.158 Mergers with borrowers who prepaid RUS loans.

In some cases, an active distribution borrower may merge with a borrower that has prepaid RUS debt at a discount pursuant to 7 CFR part 1786, and whose eligibility for future RUS financing is

APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUEST

CASE NO. 99-136

Item 19: a. Has the size or representation on Big Rivers Electric Corporation's ("Big Rivers") Board of Directors changed as a result of its bankruptcy restructuring? If yes, describe these changes.

b. How many representatives do Green River and Henderson Union each currently have on the Big Rivers' Board of Directors?

c. How many representatives will Kenergy Corp. have on Big Rivers' Board of Directors?

d. (1) Do Big Rivers' current bylaws provide for the consolidation of two member cooperatives?

(2) (a) If yes, how?

(b) If no, have any revisions to Big Rivers' bylaws been proposed to address the Applicants' consolidation?

Response: 19a. Big Rivers Electric Corporation board of directors consists of two representatives from each of the four member cooperatives. Prior to implementation of its business plan and lease of generation assets to LG&E, Big Rivers had a total of 12 board members (3 representatives from each of the member cooperatives).

19b. Two

19c. Two

19d(1). No

19d(2)(a)and(b). No

Witness: Dean Stanley

APPLICANTS' RESPONSE TO
COMMISSION'S INFORMATION REQUEST

CASE NO. 99-136

Item 20. Refer to the Application, Exhibit 2B ("Bylaws of Kenergy Corp."), at 8.

a. Do the Applicants' current bylaws permit a retiring director to serve as a "director emeritus?" If yes, identify the cooperative and provide the pertinent section of its bylaws.

b. Why was the position of "director emeritus" created?

c. How many of the directors currently sit on either Applicant's Board of Directors and who will not sit on Kenergy Corp.'s Board of Directors and will assume the position of "director emeritus?"

d. Are the Applicants aware that the Commission normally does not consider expenses associated with "directors emeritus" as reasonable utility expenses for rate-making purposes?

e. What are the expected annual costs associated with the establishment of "director emeritus" positions? List these costs.

Response: 20a. Green River's current bylaws provide for director emeritus positions. Henderson Union bylaws do not provide for directors emeritus.

20b. By consensus of the GREC and HUEC boards, it was agreed that Kenergy Corp. bylaws would provide for directors emeritus. These retired directors have experience and presence in their communities that will benefit Kenergy.

20c. Two directors emeritus presently serve on the Green River board of directors and will have a like position on the Kenergy board of directors.

20d. No.

20e. Green River directors emeritus receive $100.00 for board meetings attended. Assuming Kenergy Corp. adopts a similar fee and each director attends all monthly board meetings, the annual cost would amount to $2400.00.

Witness: Dean Stanley

Kenergy

89

Kenergy Consolidation Update

Presented To:

Kentucky Public Service Commission

June 22, 2000

Kenergy

Chronology

- 1993 PSC Management Audit of GREC and HUEC recommended exploring the feasibility and benefits of consolidation

- 1996 NRECA/CFC completed a feasibility study outlining the impact of a GREC/HUEC consolidation

Kenergy

Consolidation Initiatives

- 1996
  - Consolidation Committee formed
  - Boards agree to submit the proposed consolidation to their memberships for a vote

Kenergy

Consolidation Initiatives

- 1997
  - Boards approve the Consolidation Agreement and Articles of Consolidation
  - PSC approves the cooperatives' joint consolidation application
  - Consolidation defeated by membership

Kenergy

Consolidation Initiatives

- 1998
  - The Kentucky General Assembly enacted a law allowing members to cast ballots via mail instead of being present at an annual meeting

Kenergy

NRECA Consolidation Study Update

Consolidation Will...

- Lower operating costs
- The new organization will be more competitive in a restructured electric environment
- Result in annual savings of $1.75 - $2.5 million

Kenergy

Consolidation Initiatives

- January 23, 1999   Boards vote in favor of the Consolidation Agreement

Kenergy

Consolidation Initiatives

- April 15, 1999 — Customers approve consolidation
- April 19, 1999 — Application filed to approve consolidation
- May 20, 1999 — Application filed with KPSC to reduce rates 4%
- June 18, 1999 — KPSC issues Order approving consolidation

Kenergy

"The financial impact and economies of scale achievable through the consolidation will allow Green River and Henderson Union to best serve their member-consumers in the future."

-Kentucky PSC

Kenergy

"The consolidation should provide significant long-term benefits to member-consumers...and should be able to provide electric service at a total cost that is lower than otherwise achievable without a consolidation."
-Kentucky PSC

Kenergy

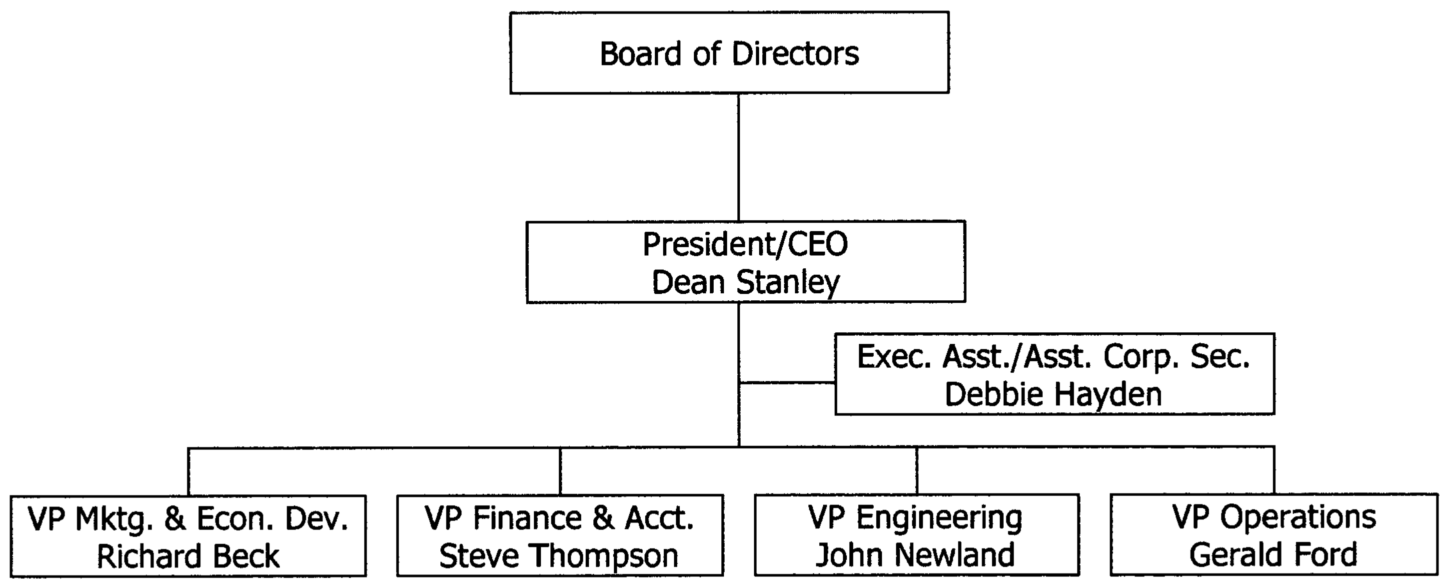
Consolidation Activities

July 1, 1999

Kenergy Corp. is born!

Kenergy

Organizational Structure



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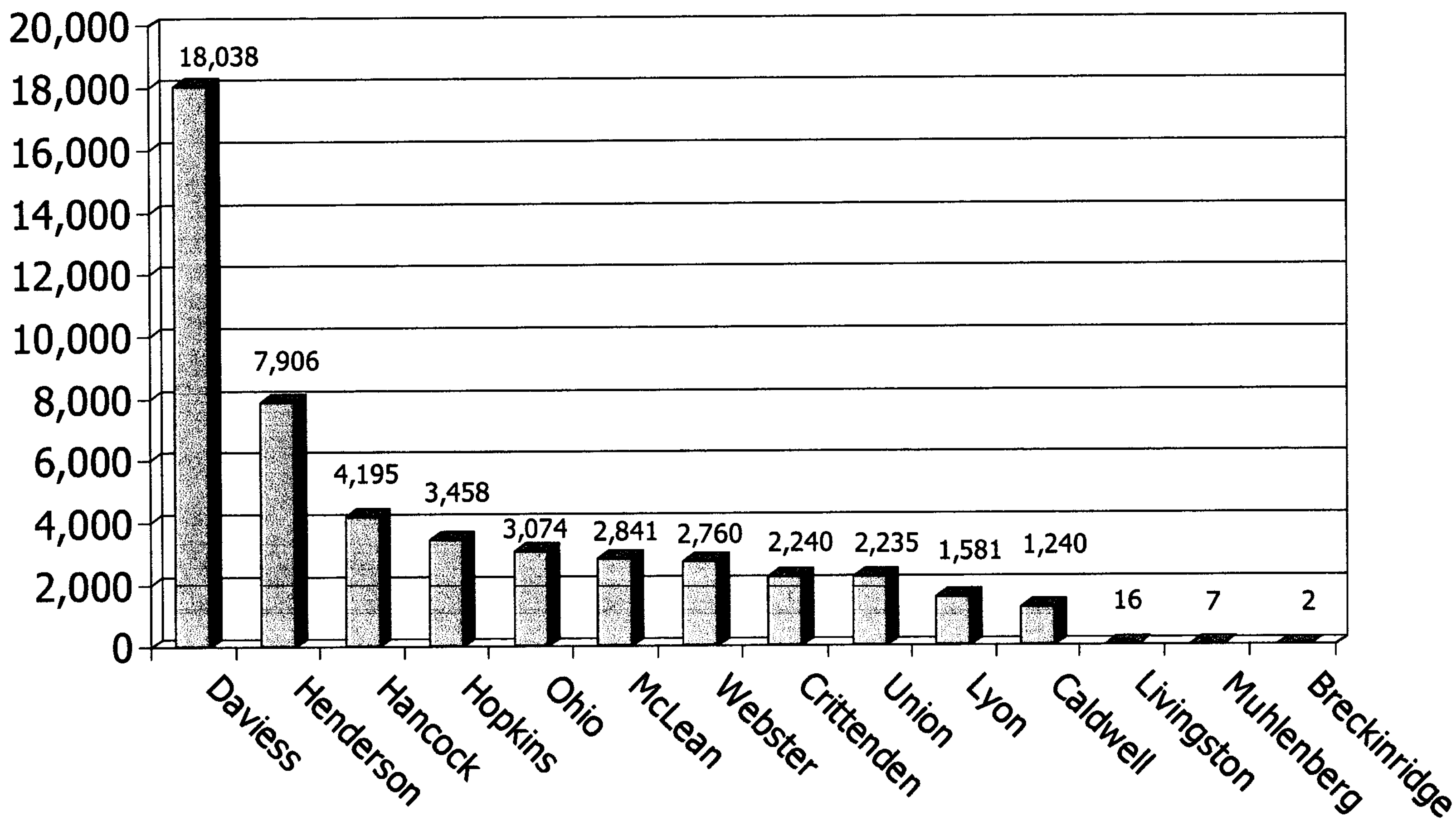
Customers By County



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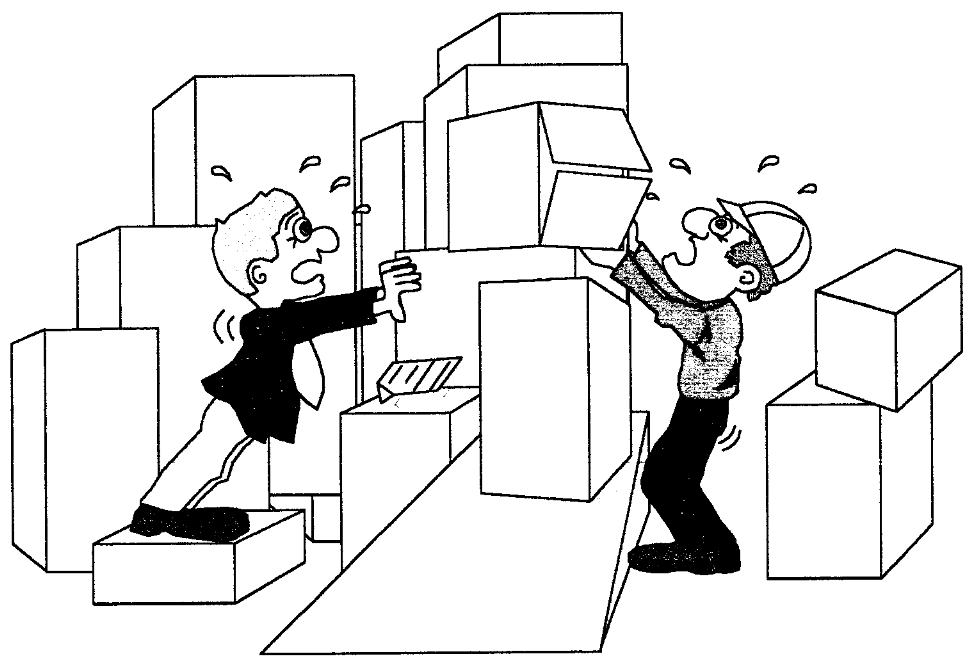
How Do We Stack Up?



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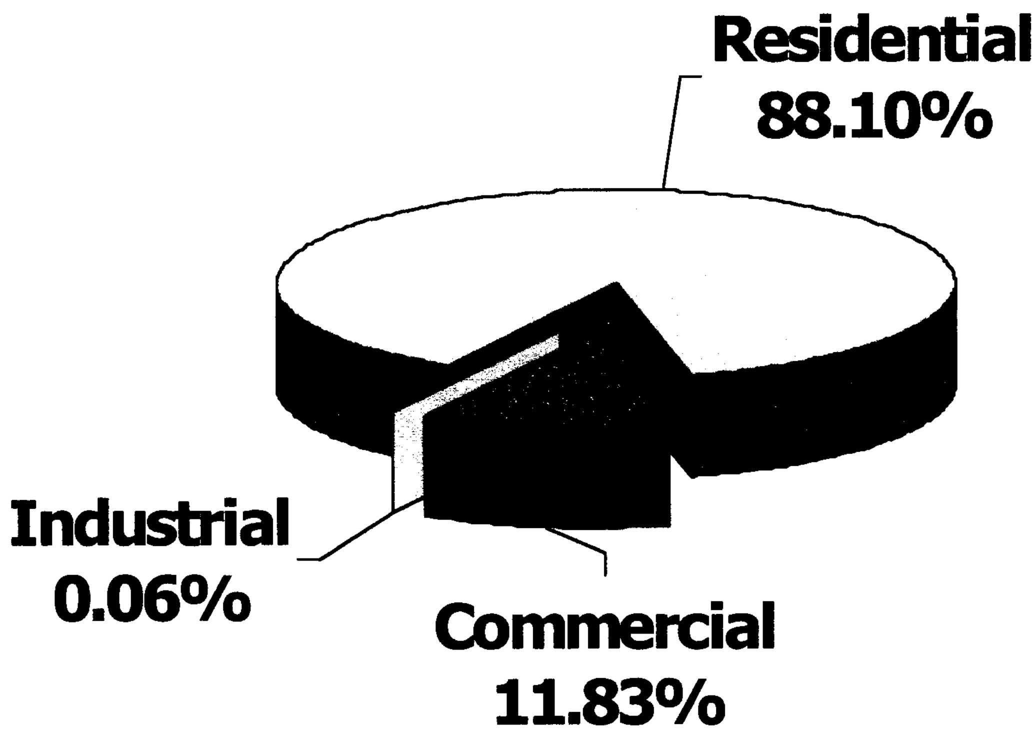
Customer Distribution



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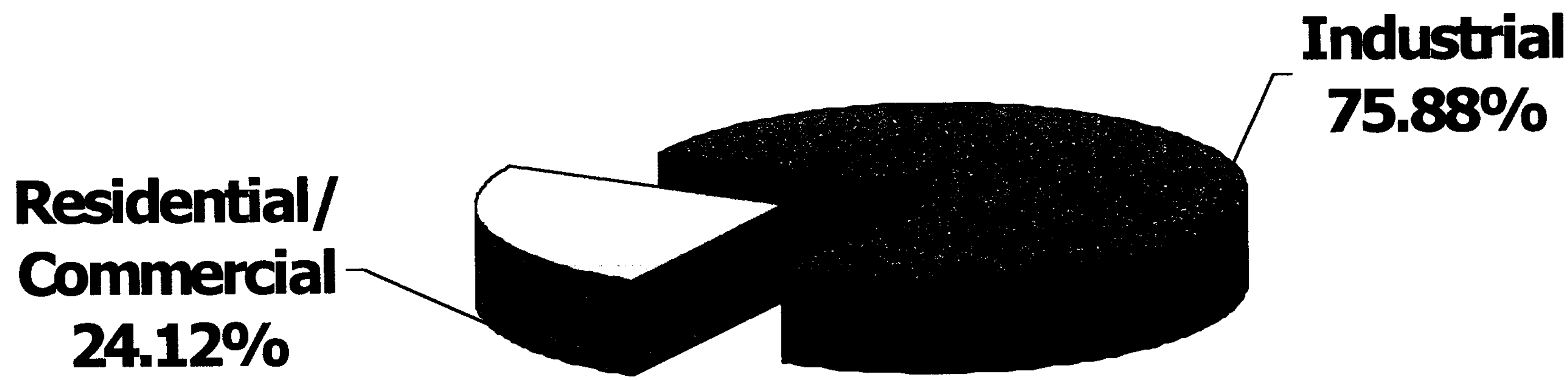
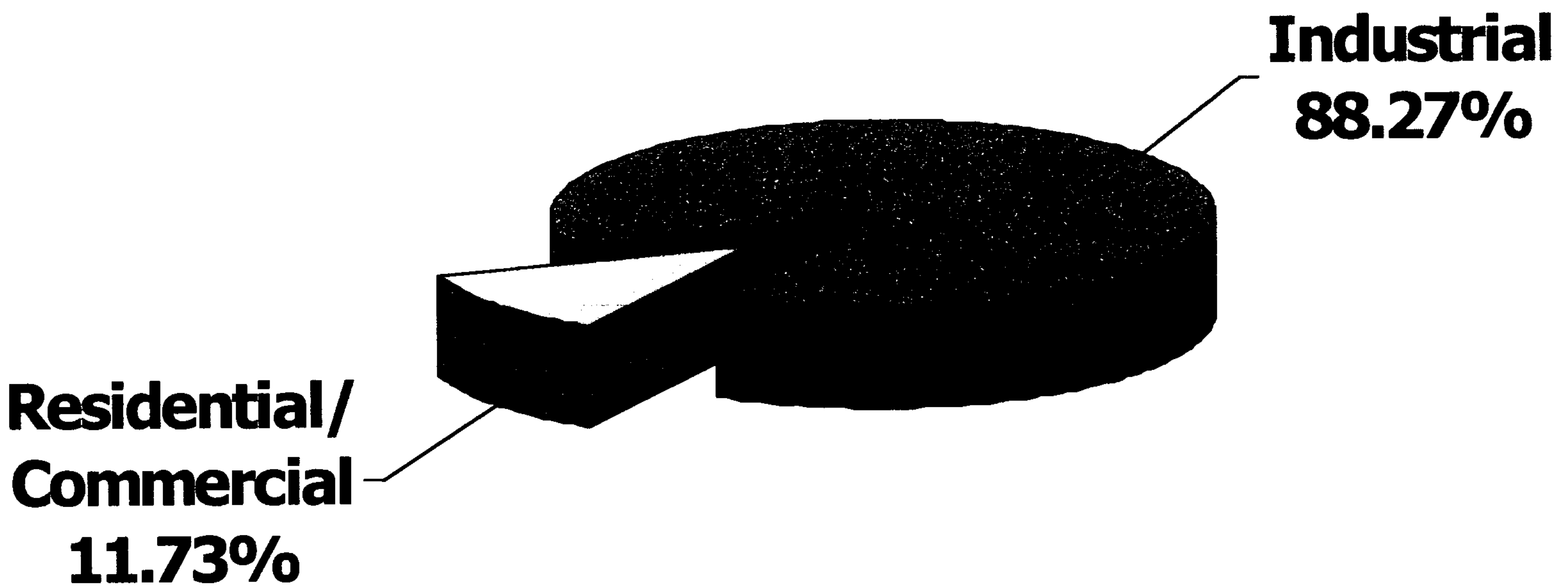
Energy Revenue



Kenergy

Energy Sales (KWH)



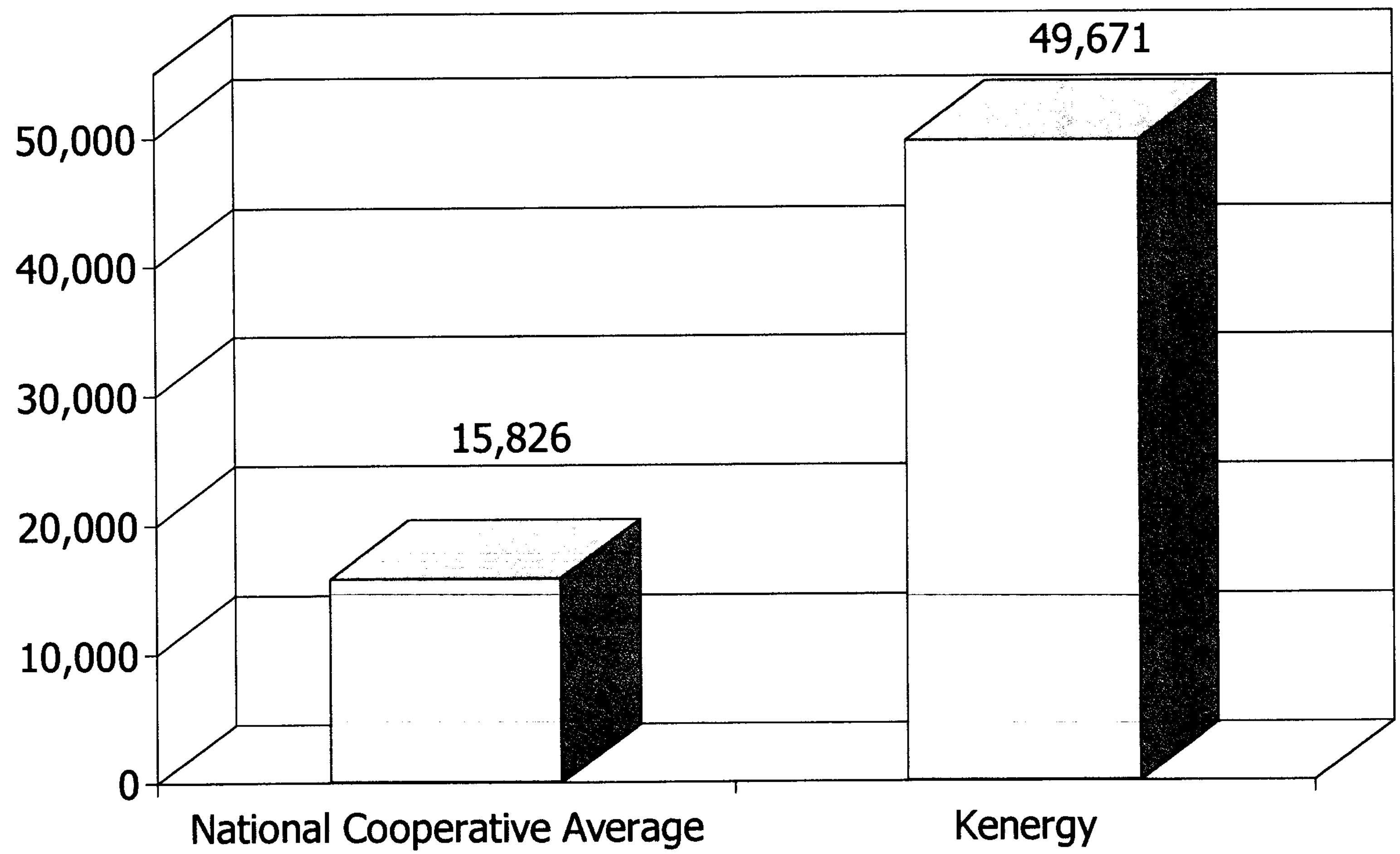
Kenergy

Co-ops

- There are over 900 consumer-owned rural electric co-ops
- Co-ops are in 47 states
- Co-ops represent about 29% of U.S. electric utilities
- Co-ops Have in excess of 2 million miles of line

Kenergy

Number of Customers



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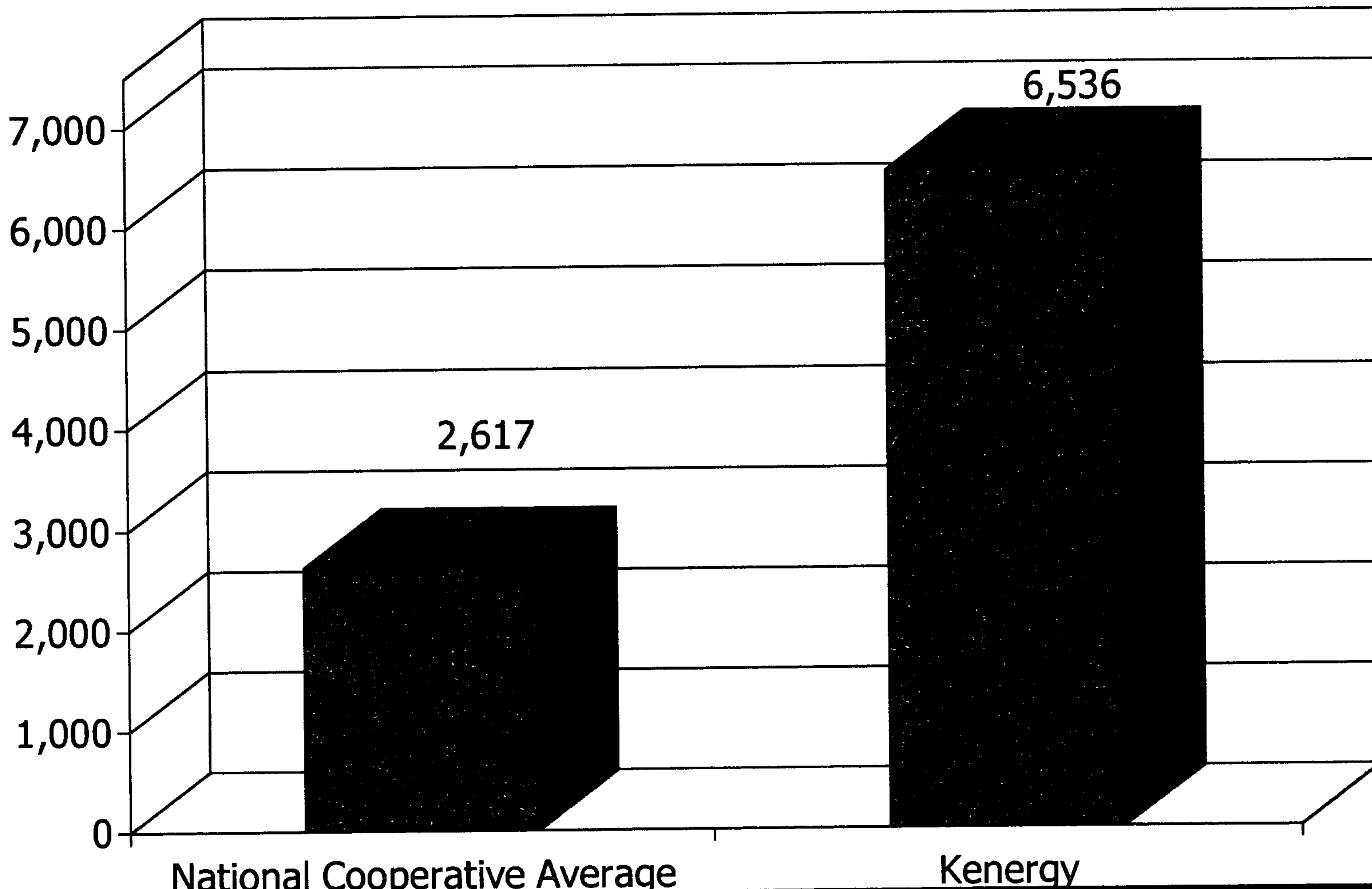
Miles of Line



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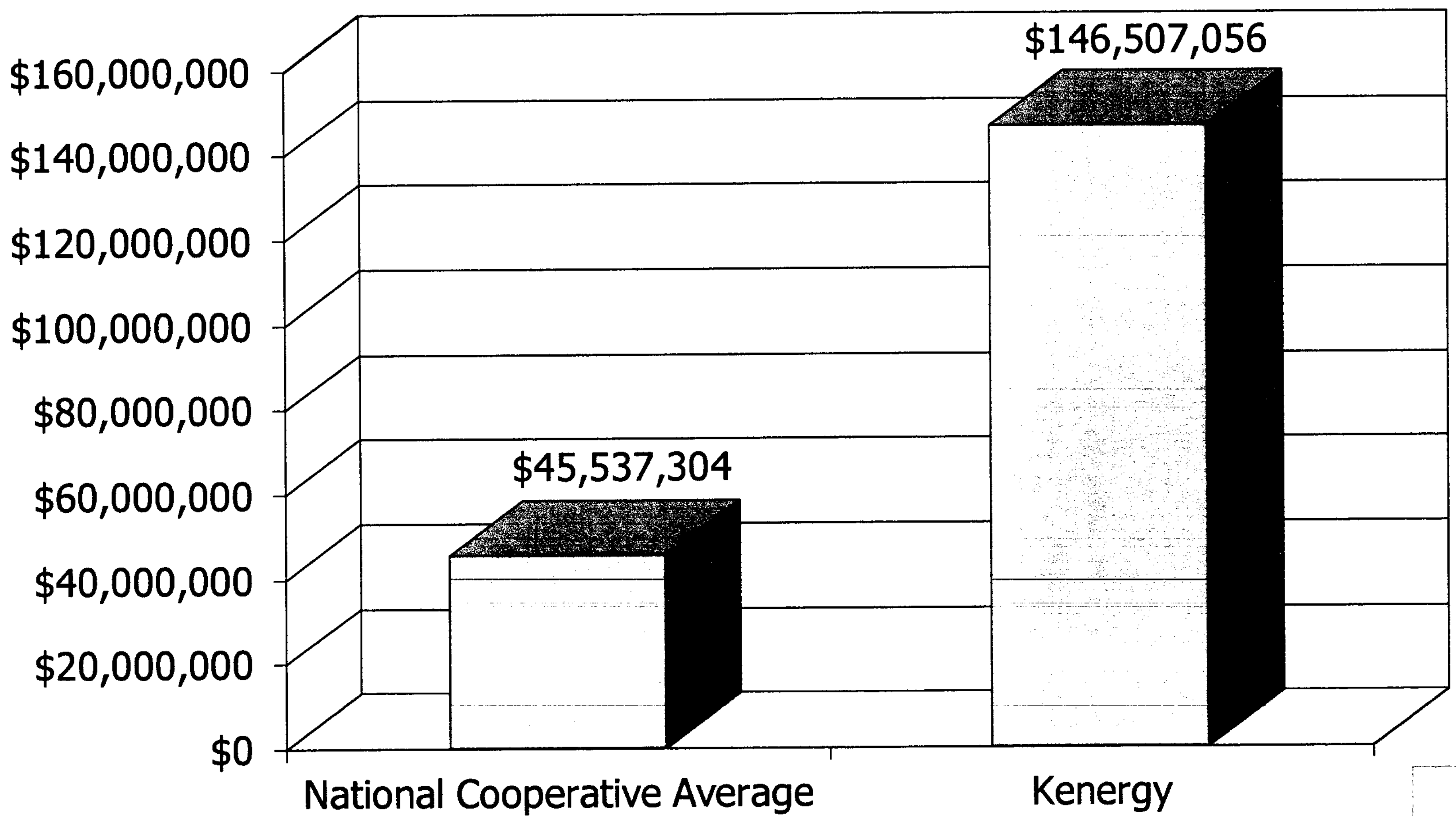
Total Utility Plant



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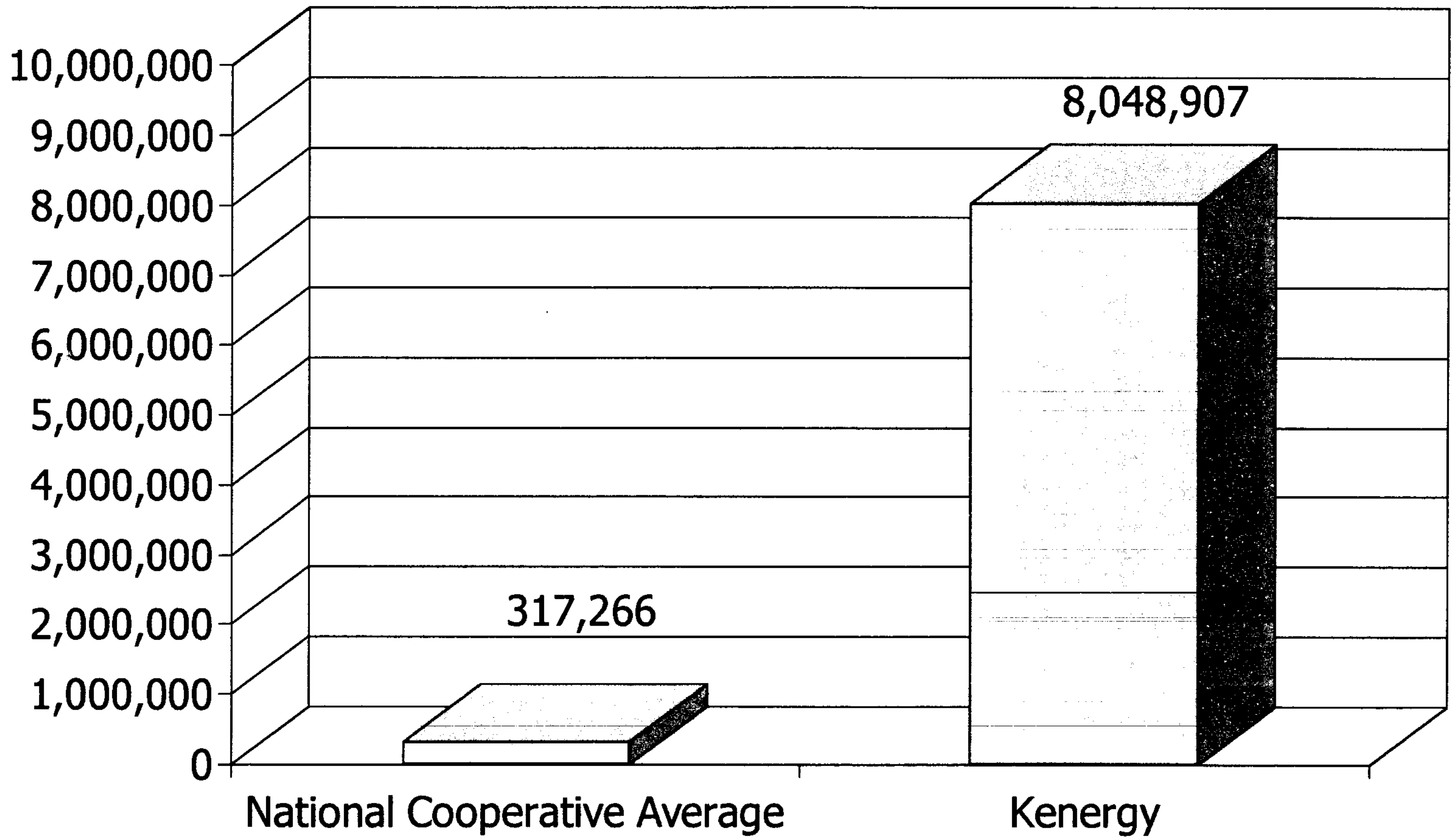
Megawatt Hour Sales



Kenergy

Consolidation Goals

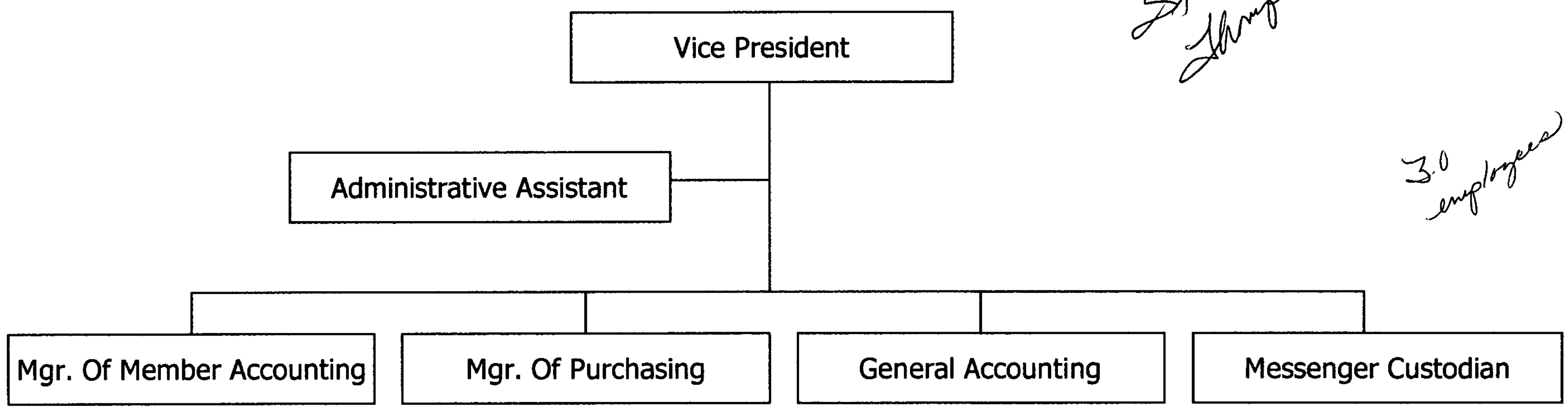
- Enhanced customer service
- Improved reliability
- Lower rates
- Long-term cost savings

Kenergy

Departmental Structure

Steve Thompson

3.0 employees



Kenergy

Finance and Accounting

- Progress in Achieving the Benefits of Consolidation
  - 4% Rate Decrease – implemented on interim basis on 9/2/99
  - Implemented Special Early Retirement Plan (SERP)
    - 22 staff reductions
    - Approximately $1,400,000 in annual savings
  - Filed $57,000,000 loan application – 100% RUS municipal rate - $427,000 annual savings
  - Computer Systems – general accounting merged into one system

Kenergy

Finance and Accounting

- Progress in Achieving the Benefits of Consolidation
  - Capital Credits
    - Equalized estate funds
    - Began discounting
  - Blend fiscal years for annual audit report
  - PSC application – Kenergy's assumption of predecessor loans
  - Administrative issues related to a new corporation

Kenergy

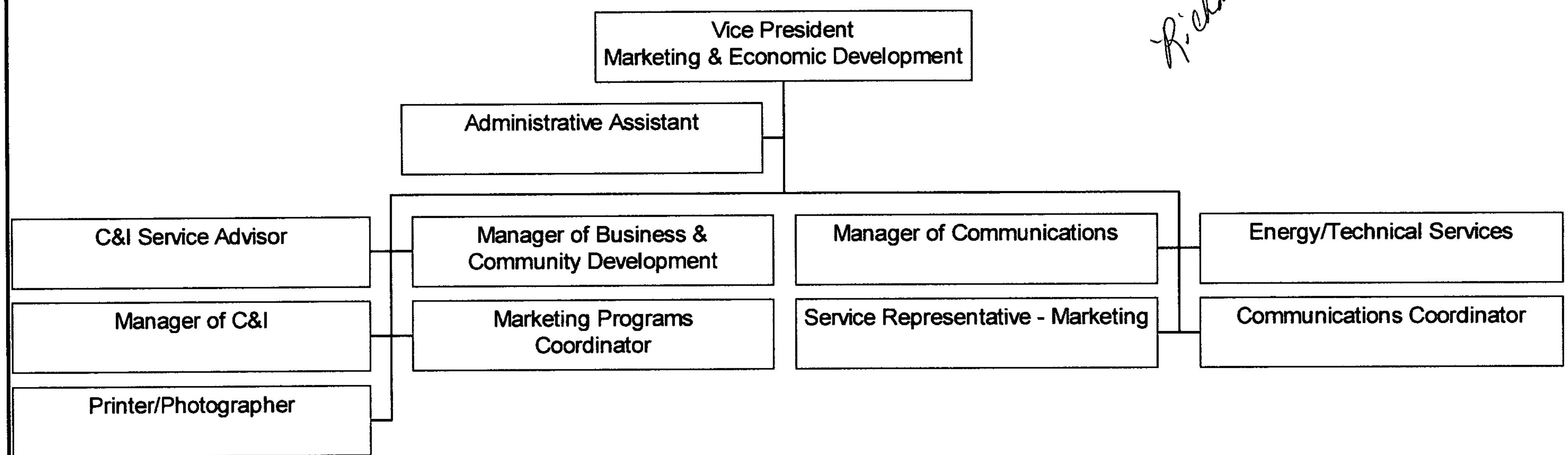
Finance and Accounting

- Ongoing Tasks
  - Rate Parity – application to be filed in January 2001
  - Integration of two tariffs
  - Equalize outstanding capital credits
  - Computer Systems – billing systems merged in 2001

Kenergy

Departmental Structure

Richard Beck



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Marketing & Economic Development

- Progress in Achieving the Benefits of Consolidation
  - Consolidated Kenergy and BREC marketing departments
  - Development of planning documents
    - Community Involvement Plan
    - Communications Plan
    - Economic Development Plan
    - C&I Account Management Plan

Kenergy

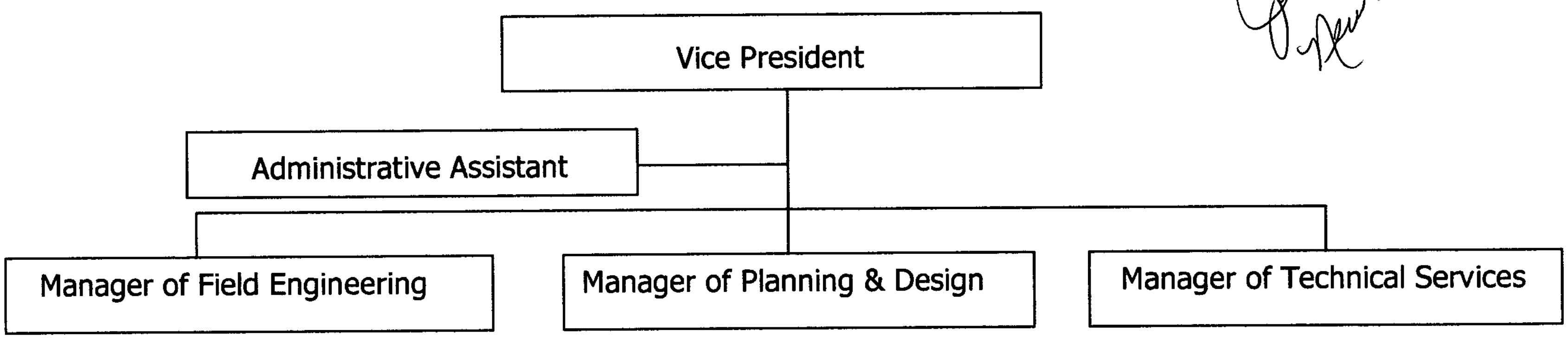
Marketing & Economic Development

- Progress in Achieving the Benefits of Consolidation
  - Enhanced and expanded programs and value-added services
    - Expanded economic development program
    - Expanded C&I program
    - Combined IRC program 13
    - Combined ERC loan program Geothermal
    - Combined MRC program

Kenergy

Departmental Structure

John Newland



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Engineering

- Progress in Achieving the Benefits of Consolidation
  - Integrated mobile radio systems
  - Integration of SCADA for central dispatch (Complete In Yr. 2000)
  - Integrated PBX's ($6,000 annual savings)
  - Integration of construction units

Kenergy

Engineering

- Progress in Achieving the Benefits of Consolidation
  - Design and implementation of an integrated communications system between headquarters and the Owensboro service center (late 2000)
  - Upgrade of corporate network
  - Planning & design for 2000-2001 Construction Work Plan
  - Integration of system coordination criteria

36m 2yr work plan
3500 new customers

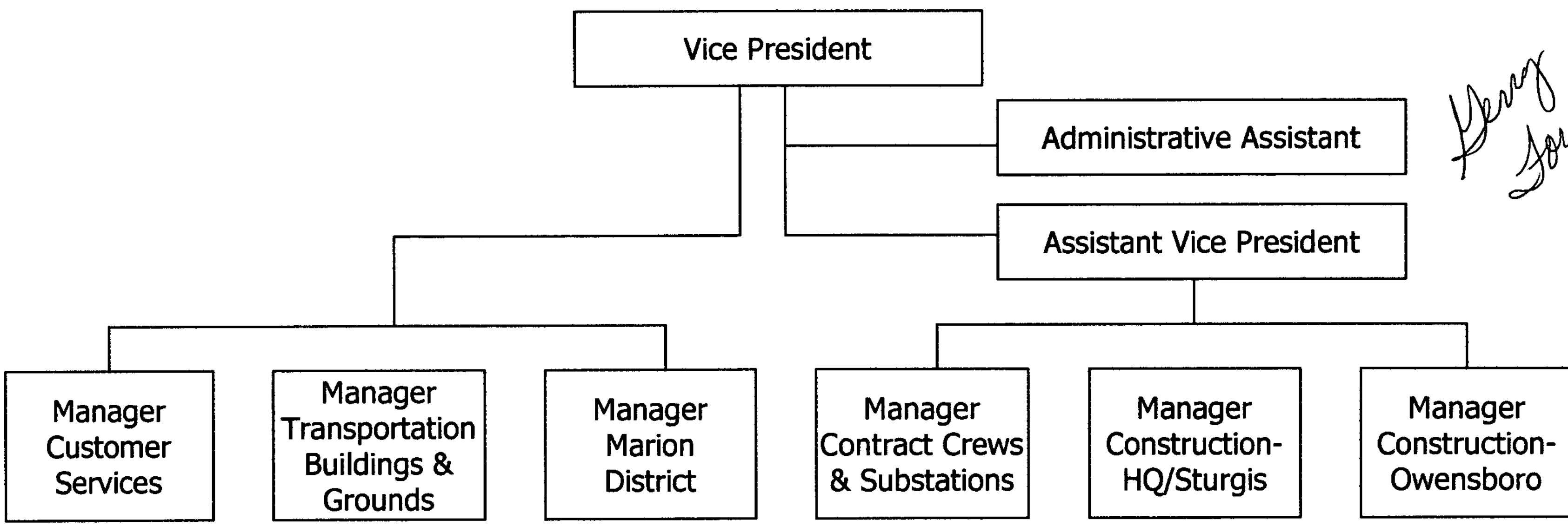
Kenergy

Engineering

- Ongoing Tasks
  - Tie lines between radial feeders at extremities – partially completed
  - Centralized environmental compliance and reporting (Individual components functioning normally)
  - Mapping systems – separate with both functioning normally

Kenergy

Departmental Structure



Jerry Ford

Kenergy

Operations

- Progress in Achieving the Benefits of Consolidation
  - Combine mobile radio individual call numbers
  - Implement Kenergy Construction Work Plan
  - 24-hour dispatch in operation
  - 4-Year ROW trimming schedule
  - Train operations personnel on east & west system maps

Kenergy

Operations

- Progress in Achieving the Benefits of Consolidation
  - Vehicle fleet reduced from 129 to 110
  - Combined field operations-crews are working across old boundaries
  - 2-Year Line Inspection Schedule
  - Apprenticeship Program-lineman progression

Kenergy

Operations

- Ongoing Tasks
  - System-wide implementation of automated outage reporting systems
  - Integrating metering methods & policies
  - Emergency Response Plan
  - Redistricting of Service areas
  - Centralized Substation Records

Kenergy

Executive

- Progress in Achieving the Benefits of Consolidation
  - Customer service meeting or exceeding pre-consolidation levels
  - KPSC approved 4% rate reduction
  - Future organizational structure achieved
  - SERP implemented
  - Maximized RUS incentives

Kenergy

Executive

- Progress in Achieving the Benefits of Consolidation
  - Transportation fleet reduced
  - Technology systems being consolidated and enhanced
  - Blending of two wage & salary plans
    - Implementation of Employee Performance Evaluation Plan
  - Blending of two employee benefit plans
  - Partial integration of personnel policies & procedures

Kenergy

Executive

- Ongoing Tasks
  - Rate Parity
  - Board redistricting
  - Consolidated services

Kenergy

Executive

- Long-Term Issues
  - Centralized operations
    - Headquarters
    - Staffing levels
    - Operations center
    - Call center
    - Material management & warehousing
    - Vehicle shop
    - Meter shop

CASE NUMBER:

99-136

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF GREEN RIVER ELECTRIC CORPORATION AND HENDERSON UNION ELECTRIC COOPERATIVE CORPORATION FOR APPROVAL OF CONSOLIDATION

CASE NO. 99-136

TRANSCRIPT OF EVIDENCE

DATE OF HEARING: MAY 20, 1999

CONNIE SEWELL
COURT REPORTER
1705 SOUTH BENSON ROAD
FRANKFORT, KENTUCKY 40601
(502) 875-4272

APPEARANCES

HON. B. J. HELTON, CHAIRWOMAN
HON. EDWARD J. HOLMES, VICE CHAIRMAN
HON. GARY GILLIS, COMMISSIONER

HON. GERALD WUETCHER, COUNSEL FOR COMMISSION STAFF

FOR GREEN RIVER ELECTRIC CORPORATION
AND HENDERSON UNION ELECTRIC COOPERATIVE
CORPORATION:
HON. FRANK N. KING, JR.
318 SECOND STREET
HENDERSON, KENTUCKY 42420

FOR KENTUCKY INDUSTRIAL UTILITY CUSTOMERS
(ALCAN ALUMINUM, KIMBERLY CLARK,
COMMONWEALTH ALUMINUM):
HON. MICHAEL KURTZ
2110 CBLD CENTER
CINCINNATI, OHIO 45202

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COURT REPORTER
1705 SOUTH BENSON ROAD
FRANKFORT, KENTUCKY 40601
(502) 875-4272

CHAIRWOMAN HELTON:

We're here in the matter of the application of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation for approval of consolidation. Could I hear the appearances of the parties, please?

MR. KING:

Counsel for the Green River Electric Corporation and Henderson Union Electric Cooperative Corp., Frank N. King, Jr., 318 Second Street, Henderson, Kentucky 42420.

MR. KURTZ:

On behalf of Kentucky Industrial Utility Customers, who, in this case, are comprised of Alcan Aluminum smelter, Kimberly Clark, and Commonwealth Aluminum, I'm Michael Kurtz, 2110 CBLD Center, Cincinnati, Ohio 45202.

MR. WUETCHER:

On behalf of the Commission staff, Gerald Wuetcher.

CHAIRWOMAN HELTON:

Do we have anyone here who would like to give public comment?

MR. LIGGETT:

Yes, ma'am.

CHAIRWOMAN HELTON:

Mr. Liggett, and I believe Commission staff needs to enter something into the record.

MR. WUETCHER:

Yes, ma'am. I would just like to note for the record that I discussed - Mr. Liggett has a request for intervention pending before the Commission, and I discussed that with him prior to the hearing, and he was informed of the procedural Order in this case that would limit the rights of the intervenors or prohibits the intervenors from making opening statements, and he, at this time, since his motion is still pending, has simply requested that he be permitted to make public comment according to the terms of the Commission's Order, and he can correct me if I've mischaracterized what we discussed.

CHAIRWOMAN HELTON:

Mr. Liggett, come on up and you can give your public comment.

MR. LIGGETT:

Pardon?

CHAIRWOMAN HELTON:

Come on up and you can give your public comment.

MR. KING:

Madam Chairman, . . .

CHAIRWOMAN HELTON:

Uh-huh.

MR. KING:

. . . may I ask a question? Does that mean that the Petition for Intervention is being withdrawn?

MR. WUETCHER:

I don't believe we discussed that. I believe, at this point, that was not mentioned. He just is simply not going to request that the Commission rule on his Petition for Intervention today.

MR. KING:

Okay. So Mr. Liggett will not be an intervenor in this case; is that correct?

CHAIRWOMAN HELTON:

What Mr. Wuetcher said is we have not ruled on that yet.

MR. KING:

Will the ruling be made today or . . .

MR. WUETCHER:

I assume the Commission could go ahead and make a ruling at this time or, if Mr. Liggett wants to withdraw his request for intervention and just make a public comment, he's free to make that decision.

CHAIRWOMAN HELTON:

Mr. Liggett?

MR. LIGGETT:

I would like to hold that decision until later if possible.

CHAIRWOMAN HELTON:

Okay. We'll . . .

MR. LIGGETT:

Is it necessary that I need to make that decision immediately?

CHAIRWOMAN HELTON:

You can make the decision, or the Commissioners can discuss it at break and rule on the intervention request.

MR. LIGGETT:

I really don't have any problem with just making my public statement, . . .

CHAIRWOMAN HELTON:

Uh-huh.

MR. LIGGETT:

. . . and, as far as following up with formal intervention, I think I can do without that . . .

CHAIRWOMAN HELTON:

Okay.

MR. LIGGETT:

. . . if it will put the counsel at ease here.

CHAIRWOMAN HELTON:

Okay. Go ahead with your public comment, then.

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(502) 875-4272

STATEMENT BY MR. RICHARD L. LIGGETT:

Okay. I understand that the statement that I made when I was here before is part of the record, and I would like to try not to reiterate on any of that. A couple of things that come to mind that I would like to bring up, I went back to this audit that was done in '92, and I think the results were given in '93, and, throughout this audit, there are several statements that lean toward the problem of Big Rivers and the association that the co-ops had with them. What I had brought out in my previous statement two years ago was that the corrupt element of Big Rivers came out of Green River Rural Electric, and I feel that part of that element is still in place. I picked up the Annual Reports for '98 just a short while ago, and, as I look at the structure of the management, I see the same thing that was a problem at Big Rivers. One time they had, I think, six people paid over $100,000, and this was a major controversy of co-op members. I see the same structure at Green River Rural Electric, and I see people left in management there that were part of the problems from Big Rivers. I would like to mention that. Now, the other thing that I want to bring up that concerns me is why this was allowed to be brought to a second vote, why it was brought up again, when it was defeated with

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1705 SOUTH BENSON ROAD
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a perfectly legal vote the first time. I realize that the number of people who voted was considerably smaller, but the thing that really bothers me about this is the way this vote was held. I have here my March electric bill with a statement at the bottom of it that says, "Your bill could be 4 percent lower. How? Vote for consolidation. Watch for your ballot in the mail after March 29. Vote yes and return ballots no later than 4:30 p.m., April 13. You could be the lucky winner in a $1,000 cash drawing. Call for information." I feel like that that is a deceiving statement and that this type statement and the way this vote was held as far as the publicity that was put out about it, the amount of money that was spent - I understand over $300,000 or in the vicinity of that - versus what we, a handful of people, spent out of our own pockets, we didn't lose this vote; they bought it, and personally I resent that. I feel like they're there to represent me, you know, not to spend my money to fight me. When I look at the annual statements and see the amount of money that these people have gotten in an increase since '97, I have a problem with that also. There was a survey that was taken evidently by this team that was hired for their PR, and the paper printed an article that said that 90 percent of those people polled were in favor of this. Well, in the same article, it said that, when they were first called, 32 percent were in favor, but the people who were doing the polling asked leading questions. I think there was about five questions. If they got a yes anywhere in those questions, they considered it a yes vote. Well, it was not just my opinion that this was wrong and deceit in the fact that there were 90 percent for this, but I contacted a college math professor and told him how this was done, and he agreed with me right off. The information was totally slanted, and I feel like that this is part of the problem; that most of the vote that was bought are people who don't understand really anything about what's going on here. Most of them got into it for the $1,000 drawing or that there was going to be a tremendous savings, and I want to say that I feel like these savings are possible, but they are speculation. I really can't see reaching the goal that's there. I would like for this Commission to consider the fact that this second vote has been held under deceitful and fraudulent conditions and to disregard that and uphold the first vote that was taken. Other than that, I would like to leave you with just two thoughts. Proverbs 17:15, "He that justifieth the wicked and he that condemneth the just, even they both are abomination to the Lord." Deuteronomy 25:1, "If there be a controversy between men, and they come unto judgment, that the judges may judge them; then they shall justify the righteous, and condemn the wicked." People, there's nothing right about this merger, and I want you to consider that when you make your decision.

CHAIRWOMAN HELTON:

Thank you, Mr. Liggett.

MR. LIGGETT:

Okay.

CHAIRWOMAN HELTON:

Mr. King, call your first witness.

MR. KING:

All right. If it's acceptable with the Commission, we would like to have Mr. Stanley and Mr. West as a panel.

CHAIRWOMAN HELTON:

Yes.

MR. KING:

I talked to Mr. Wuetcher and he has no problem with that.

CHAIRWOMAN HELTON:

Yes.

WITNESSES SWORN EN MASSE

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The witness, DEAN STANLEY, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. KING:

Q. Mr. Stanley, state your name for the record, please.

A. My name is Dean Stanley.

Q. And what is your position with Green River Electric?

A. I am President and CEO.

Q. Has filed testimony been presented for you in this case?

A. It has.

Q. Is that information current?

A. Yes, it is.

Q. And do you adopt that as part of your testimony here today?

A. I do.

The witness, JOHN WEST, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. KING:

Q. Mr. West, state your full name for the record, please.

A. John West.

Q. And what is your position with Henderson Union Electric?

A. President and CEO.

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Q. Has your filed testimony also been presented in this record?
A. It has.
Q. Is the testimony current today?
A. It is.

MR. KING:

Okay. Madam Chairlady, if I could follow up with one additional line of questioning to Mr. Stanley and I will say to you, admittedly, it is in response to what Mr. Liggett said. He made some what could be construed to be personal comments about Green River personnel, and we would just like to get in the record our response to that, if I may.

CHAIRWOMAN HELTON:

Mr. King, I didn't think that he named anybody specifically . . .

MR. KING:

He did not.

CHAIRWOMAN HELTON:

. . . and public comment we usually do not - we take public comment. It's entered into the record and, unless there are questions that, on redirect, you can ask that information, I think it would be better if we just proceed.

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MR. KING:

Okay. All right. Thank you, ma'am. No further questions of these witnesses.

CHAIRWOMAN HELTON:

Would you like to move the testimony into the record?

MR. KING:

I move that the testimony be introduced into the record.

CHAIRWOMAN HELTON:

So ordered. Mr. Kurtz, I understand you have no questions of the witnesses.

MR. KURTZ:

That's correct.

CHAIRWOMAN HELTON:

Okay. Mr. Wuetcher?

MR. WUETCHER:

Thank you, Your Honor.

CROSS EXAMINATION OF PANEL

BY MR. WUETCHER:

Q. Good afternoon, gentlemen. I'll direct these questions to the panel. For the Court Reporter's ease, if you would, go ahead and identify yourself before speaking so we can clarify for the record who the speaker is. Let me start out with just asking; there was mention

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made of a $1,000 drawing in relation to the election surrounding the vote on consolidation. Would you briefly describe the circumstances surrounding that? Was there some type of prize or drawing in relation to the election?

MR. WEST:

John West. I'll respond to it and Mr. Stanley can also. We hired a public relations firm who, in turn, helped us to plan our strategies to get the people to vote, and the $1,000 prize to be drawn from all participants who voted, both negative and for, was made a part of the proposal, and, upon the counting of our votes at Henderson Union, there was an innocent nonmember person who reached down in the barrel and pulled the name out of the barrel. So there was absolutely no relationship to the way the person voted nor did we ever intend it to be.

Q. So all persons who voted were eligible for the drawing?

MR. WEST:

All persons who voted were eligible.

Q. Was there any indication made that negative votes would still be eligible for the drawing?

MR. WEST:

We made no reference to it either way.

Q. Okay. I want to refer back to the Consolidation Study which is Exhibit 1 to the applicants' application. There were several charts and narratives that were omitted from the study when it was filed with the case. Do you have an explanation as to why those charts and narratives were omitted?

MR. STANLEY:

Dean Stanley. As we were initially drafting the study itself, there is data in the document that identifies individuals by salary, and there were some other things that we thought were maybe not appropriate to release at that point in time. So, when we printed this study, then we left those pages intentionally blank. They obviously have been filed in this case, and you see now what that data is, but there was simply a period in time when we felt like that that information ought to remain private. So that's primarily the reason why it was handled in that fashion.

Q. Okay. Under the terms of the Consolidation Study, a new position is going to be created at Kenergy, the Special Advisor to the Board. Is the term of the Special Advisor to the Board subject to renewal?

MR. WEST:

As far as I'm concerned, it's not.

Q. So it's for 12 months only?

MR. WEST:
For 12 months only.
Q. At the conclusion of that time, it's expected that that position will be terminated?
MR. WEST:
That's my understanding.
Q. Are there any expectations that it would be renewed or continued?
MR. WEST:
There's certainly none on my part and nor would I seek renewal.
Q. I'm going to refer you to the applicants' Response to Item 2 of the Commission's Order of May 6. Is it your expectation that the total estimated annualized premium for Kenergy will exceed the sum of the amounts shown for Green River and Henderson Union?
MR. STANLEY:
Dean Stanley. Yes, I think that it will. There are coverages that we are trying to equalize between the two different plans. So therefore the total cost of that, under the scenario that you question, would cause an increase in cost.
Q. Okay. This question is directed to Mr. Stanley. Would you briefly summarize for us the provisions of the early retirement incentive program that Green River's

Board of Directors has approved?

MR. STANLEY:

The presentation that has been made to the employees - and we attempted to do this between the two cooperatives in a very similar way. So the basic criteria for the Special Early Retirement Plan would be for those individuals who are age 57 and older and have 20 years of service. We've tried to keep that consistent between the two plans. The plans do differ in their basic benefits, but we have tried to keep those features as similar as we could.

Q. When was the plan approved by Green River's Board of Directors?

MR. STANLEY:

I don't recall the exact date, but I think it was at our April Board meeting, April, 1999.

Q. Okay. And what's the effective date of the program?

MR. STANLEY:

We have planned for the effective date of the program itself for the early retirement to be year end 1999. There will be a period of time that we will, and are required by law to, offer the early retirement program. We have planned, at this point, to have the window period open August 1 and closed by October; allow the employees a period of time following that to reconsider

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their decision. They can elect or reject during that period of time, and then the plan would become effective at year end.

Q. I believe your Response indicated the number of employees eligible. Do you have any initial indications from the Green River employees as to how many are going to take advantage of the program?

MR. STANLEY:

Anything that I would say now would be purely speculation, . . .

Q. Okay.

MR. STANLEY:

. . . because we have some that have indicated they're going to go forward, but, again, they don't know all of the components that are necessary to make that final decision. So anything that I would say would purely be speculation, and we really will not know until those elections are made, and then we'll deal with those decisions when we get to that point.

Q. Okay. Mr. West, could you summarize briefly the provisions of the Special Early Retirement Program that Henderson Union's Board of Directors has approved?

MR. WEST:

In April of this year, our Board approved an early out option, those with 20 years service and were at the age

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of 57 by the end of the year. There are eight individuals in our organization who fit that criteria. Again, we have visited with those people and given them the numbers. We have no firm indication as to who will take advantage of it. The same time frame beginning July or August and going through October will be applicable to the eight employees at Henderson Union.

Q. I believe there was mention that there are some differences in the retirement programs or in the early retirement incentive programs. Are those differences related to the differences in your current employee benefit programs?

MR. STANLEY:

Dean Stanley. Yes, they are.

Q. Okay. Why are the Administrative Services and Finance and Accounting operations being consolidated in the Owensboro office while Kenergy's Engineering operations and Marketing and Development operations are being operated from both the Owensboro and Henderson offices?

MR. STANLEY:

Dean Stanley. Mr. John Newland is the individual who has been tapped to be the head of the Engineering Department, and he is now located in Henderson. The people primarily responsible for the Accounting and Finance are presently located in Owensboro. We have some indication but no absolute affirmation as to people taking early retirement, but, just purely from a standpoint of having the least amount of physical movement in the organization, it appears to us to work best once we know what the early out options have been. Then it may, again, require some realignment, but I would also point out to you that neither one of our facilities today can house the entire contingent of employees of Accounting, Engineering, Marketing, and so forth. So we simply, I guess, have taken the path that this is the least disruption that would exist with the employees today. So that's primarily the reason that decision has been made.

Q. Okay. Based on Green River's current capital credit rotation policy, what is the length of its rotation cycle?

MR. STANLEY:

Dean Stanley. We presently don't have, I guess, what you would call a firm rotation cycle. What we are working toward and have begun to work toward is a ten year rotation cycle. We are several years away from that, but we are trying to accelerate it as much as we possibly can to get to a ten year cycle.

Q. Okay. At Page 54 of the Consolidation Study, there's a projection that the consolidated 1999 capital credit

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COURT REPORTER
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retirement for Green River and Henderson Union will be $6.68 million. Assuming the Commission approves the consolidation, in light of the proposed 4 percent revenue reduction, will Kenergy have adequate cash reserves to pay out the projected $6.68 million of capital credit retirement in 1999?

MR. STANLEY:

Dean Stanley. Yes, we believe we will.

Q. Okay. Does Kenergy plan to follow the Consolidation Study's recommendations concerning capital credit retirements?

MR. STANLEY:

Dean Stanley. I'm not sure what you mean throughout that statement, . . .

Q. Okay. Let me . . .

MR. STANLEY:

. . . but I will try.

Q. I believe the study recommends that there be a systematic rotation of capital credits but also that there be a 100 percent payment to deceased estates.

MR. STANLEY:

I think we will have a different recommendation. At the time this study was put together, we were working at Green River with the Commission staff attempting to implement a deceased estate retirement program, and we talked with the staff about doing that on a discounted basis. Since the study has been completed, we have, I think, agreement with the staff that that is a reasonable thing to do in light of a planned systematic rotation. So I think we will recommend to the Kenergy Board that we retire general capital credits in the fashion that we have been to the extent that we can and to retire deceased estate capital credits on a discounted basis because of the present value of getting that money today versus people receiving it under a general retirement at a later date. The estate, then, would have the option as to taking the present value discounted capital credit or waiting for the general retirement.

Q. Okay. Assuming the proposed consolidation occurs, is it correct that Kenergy's initial Board of Directors will be comprised of 17 persons?

MR. STANLEY:

Dean Stanley. That's correct.

Q. Is it correct that, by the third annual members meeting after consolidation, the Kenergy Board will be reduced to 11 persons?

MR. STANLEY:

Dean Stanley. That's correct.

Q. Is it anticipated that the Directors serving on the initial Kenergy Board but who are not Board members after the size of the Board is reduced from 17 to 11 persons would be appointed as Directors Emeritus of Kenergy?

MR. STANLEY:

Dean Stanley. I'm not sure what action the Board will take. That is a discretionary item for the Board of Directors.

Q. Do you know if there has been any discussions during the talks concerning consolidation as to what would happen to the members of the Board who will be left off the final third year of the Kenergy Board?

MR. STANLEY:

Dean Stanley. I'm not aware of any discussions that the two Boards may have had relative to what will happen with those individuals, whether they will be granted a Director Emeritus status or not. We have been trying to make this as smooth a transition as we can, but I couldn't speak for the Board what they might do three years from now.

Q. Let me refer you to the applicants' Response to the Commission's Order of May 6, Item 20, concerning Directors Emeritus fees and the ratemaking treatment that's been afforded them. I take it, first of all, that Henderson Union does not have a position of

Directors Emeritus.

MR. WEST:

No, we don't.

Q. So Henderson Union, at least, has not had to deal with expenses associated with Directors Emeritus in a rate case?

MR. WEST:

Directors Emeritus assets we do not have.

Q. Mr. Stanley, are you aware of any rate cases where the Commission has dealt with the issue of Directors Emeritus and their fees?

MR. STANLEY:

No, I'm not.

Q. Okay. I would like to go ahead and just direct your attention to - let me ask, first of all, how long have you been with Green River Electric Corporation as its President?

MR. STANLEY:

Since July 1, 1969.

Q. Okay.

MR. STANLEY:

President since 1981.

Q. I'm going to show to you a copy of an Order which the Commission entered in Case No. 90-152 on December 21, 1990, and I'll present it to both you and your counsel.

On Page 14, there's some discussion about emeritus fees, if you could take a look at that. Okay. Do you recall that case or that issue at this point, sir?

MR. STANLEY:

I do not.

Q. Okay.

MR. STANLEY:

Obviously, it's in the Order, but certainly I didn't recall that.

MR. WUETCHER:

Okay. I think that's all we have. Thank you.

MR. STANLEY:

Thank you.

CHAIRWOMAN HELTON:

Mr. King?

The witness, DEAN STANLEY, after having been first duly sworn, testified further as follows:

REDIRECT EXAMINATION

BY MR. KING:

Q. Mr. Stanley, on the question of the Director Emeritus fees and whether they're part of the rate base, is it your understanding now, then, that they would not be considered as part of the rate base?

A. I took that to be the case whenever the question was asked, that the Commission would not allow those in rate base, and I accept the point that was made here.

Q. And what is the fee that is currently paid by Green River to a Director Emeritus?

A. The fee is $100 for each Board meeting attended. I would like to point out that, in our Director Emeritus situation and I think in fairness to the people who are involved in that, they are active members of our Member Resource Committees, and they participate in those meetings. They do attend Board meetings regularly. They still have contact with our customers in their respective districts and communities, and they receive no other fees other than the ones that I've mentioned, and, to me, they still are a resource to the cooperative. There's good feedback from each of these individuals, and I certainly would speak affirmatively for the action that's been taken by the Board.

Q. Do you have an opinion as to whether retaining Director Emeritus status for certain retired Directors outweighs the disadvantage of not being able to include that fee in the rate base?

A. I think there is an advantage there, and, if that is Commission policy to disallow that in the rate base, then we would simply have to accept that.

MR. KING:

Okay. I have no further questions.

CHAIRWOMAN HELTON:

Mr. Wuetcher, do you have anything?

MR. WUETCHER:

Staff has no further questions.

CHAIRWOMAN HELTON:

You may be dismissed. Mr. King, call your next witness.

MR. KING:

Madam Chairlady, we have no prefiled testimony for Mr. Slater or for Mr. Thompson or for Ms. Pinkston. So, as far as direct evidence is concerned, that concludes our case.

CHAIRWOMAN HELTON:

Okay. Mr. Wuetcher, I believe that you do have some questions for those witnesses.

MR. WUETCHER:

Yes, Your Honor. If we could have just one second, . . .

CHAIRWOMAN HELTON:

Okay.

MR. WUETCHER:

. . . we may be able to narrow it down slightly. We have just a few questions for both Mr. Slater and for Mr. Thompson, if either one could come to the stand.

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MR. KING:

Okay. Joe, why don't you come up here? Steve, . . .

MR. WUETCHER:

It probably would be preferable just to question them individually.

MR. KING:

Okay.

CHAIRWOMAN HELTON:

This is Mr. Slater.

WITNESS SWORN

CHAIRWOMAN HELTON:

Mr. King?

MR. KING:

I have no questions of Mr. Slater.

CHAIRWOMAN HELTON:

Okay. He needs to identify himself for the Court Reporter.

MR. WUETCHER:

For purposes of the record, . . .

CHAIRWOMAN HELTON:

Yeah.

MR. KING:

Do you want me to do that, Jerry?

CHAIRWOMAN HELTON:

Yeah.

MR. WUETCHER:

That's fine.

The witness, AUSTIN JOSEPH SLATER, JR., after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. KING:

Q. For the record, state your name, please.

A. My name is Austin Joseph Slater, Jr.

Q. Okay. And where do you reside, Mr. Slater?

A. My mailing address is P.O. Box 306, Pantego, North Carolina.

Q. What is your current occupation?

A. I'm currently employed as the Chief Executive Officer of Tideland Electric Membership Corporation.

Q. Did you serve as a consultant in connection with the Consolidation Study that's before the Commission today?

A. That's correct.

Q. And would you explain to the Commission, please, then how you were a consultant in connection with that work and now you are the Manager of the co-op?

A. Certainly. During the first study period, I was employed as a principal in the consulting group of National Rural Electric Cooperative Association. In that capacity, I did several consolidation studies. One happened to be the Green River/Henderson Union study back in '96. In 1997, I accepted the position of CEO of Tideland Electric in eastern North Carolina and right after that I was contacted by Mr. West and Mr. Stanley with the proposition of coming back and revising and updating the study based on the desire of their two Boards, and it seemed to make an abundant amount of sense since we had the familiarity with the study and the staff, and so forth. So I headed up the project with two of my colleagues who were still employed as consultants with the NRECA.

Q. For the record, could you briefly state your educational background and your work experience?

A. Yes, sir. I have a bachelor's degree in accounting and a master's degree in finance from George Washington University in Washington, D.C., 20 years of experience in the electric cooperative industry, and gas utility experience prior to that.

Q. All things considered, bottom line on this, what is your recommendation?

A. It's the same as it was in 1996. This is really the product - a sum greater than the product of its parts, two excellent organizations combined which are just offering additional benefits to the membership, and I

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think it should not be overlooked that the ultimate purpose and mission of these organizations is to provide excellent service at the best cost they can, and these two Managers and these two Boards are to be complimented. They persevered. They continued to look for methods and options to deliver better service and better cost, and this is a vehicle to that end, and I would completely commend and recommend the Commission favorably order the consolidation approved.

MR. KING:

Thank you. No further questions.

CHAIRWOMAN HELTON:

Mr. Wuetcher?

MR. WUETCHER:

Thank you.

CROSS EXAMINATION

BY MR. WUETCHER:

Q. Good afternoon, Mr. Slater.

A. Good afternoon.

Q. How many consolidation studies have you prepared or oversaw?

A. Approximately five. I've done two in Ohio, one in Illinois, and one in Colorado, and, of course, this Kentucky experience.

Q. Okay. In addition to preparing the Consolidation

Study, you were also responsible for certain Responses to the Commission's Order of May 6, 1999; is that correct?

A. Yes, sir.

Q. Okay. Did the Consolidation Study recommend that Kenergy establish a systematic rotation for general capital credit retirements to its members?

A. They did.

Q. Okay. And is it correct that the study or the consulting group that you were part of originally generally advocates the discounting of capital credit payments to deceased members' estates when a systematic rotation for general retirements is followed?

A. I would emphasize - I would answer that yes. I would emphasize that it is predicated on the systematic payment of general refunds to its active members.

Q. Okay. One of the recommendations of the study was a systematic rotation but a 100 percent payment to deceased members' estates. Can you explain why the study made that recommendation? It seems somewhat inconsistent with the general approach.

A. Certainly. Henderson Union had not had a record of systematic periodic retirements to its members. I don't think that we really made that clear, that it was our concern that there was not a commitment to periodic

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general retirements. Through the process of this revision and update and the process of communicating with the two Boards, it appears that that will be the recommendation to the Boards to have a systematic periodic retirement of capital credits, and, if that, in fact, be the case, then we would advocate the discounting of estate payments.

Q. Okay. I'm going to refer to the applicants' Response to Item 9 of the Commission's Order of May 6. Why was the impact of the reimbursement of general funds incentive not included in the Consolidation Study scenario analysis?

A. We looked at all the different incentives that are offered by the Rural Utilities Service. The only one that we felt had confidence level high enough to include in our modeling was the 100 percent RUS loan. Not that we want to discount the potential success of acquiring or achieving these other incentives but we wanted to err on the side of a conservative nature in running the model, so we did not include it. We did report it in our study. We do encourage staff to pursue all the incentives that will facilitate the merger to the most vigor they can.

CHAIRWOMAN HELTON:

Mr. Slater, while they're conferring, one of the questions is that, when you updated the Consolidation Study, in each one of the three scenarios, there's quite a bit of difference between the second study and the first study in the amount of savings to be achieved. Could you give me your general opinion as to why there's so much difference in the savings?

A. Sure. There were three dynamics there that I saw. The first is embodied in the modeling technique we use. We take the two cooperatives and combine them and then look for a set of existing cooperatives across the country that most closely resemble the combined organizations' attributes. That's a dynamic model and year-to-year the financial indices that those cooperatives produce change, and those did, in fact, change from the period from our last study to this study. The other is we saw some reduction in some of the costs of the incumbent two cooperatives. Their numbers moved during that period of time, and the final issue had to do with some of the forecasted capital needs and construction projects. Three years ago, when we first came on board to look at the study, there were some specific projects that could have been avoided had the merger been approved and, with the merger not being approved, the cooperatives, which was prudent, went

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ahead with those construction projects to satisfy their own reliability and capacity requirements. So those were avoided costs that were not avoided. So those were basically the three dynamics.

CHAIRWOMAN HELTON:

Okay.

Q. If I can go back for just one second to your Response to the Commission's Order of May 6, Item 9, taking your answer to my last question, can you just tell us why you just simply didn't state that in Response to Item 9?

MR. KING:

Do you understand his question?

A. Yes, I understand the question. I thought I had. I apologize for not, but it was our policy not to include this, just to err to the conservative side. We have no certainty and no control over RUS. These are not guarantees by the RUS. If they had some regulations or code that says that, you know, "You will be accorded these benefits case certain," we certainly would have included them, but they will evaluate each case on a case-by-case basis.

Q. I think that leads into my next question which is, at Pages 57 and 58 of the Consolidation Study, you do discuss the incentives that are available from the

Rural Utilities Service, and, based on your experience and your knowledge of co-op consolidations, has the RUS ever refused to grant any of these incentives?

A. I'm not aware of whether they have refused to grant any.

Q. Okay.

A. Once again, we're not encouraging the cooperative to discount the availability of these criteria. In fact, we are encouraging them to pursue those aggressively.

MR. WUETCHER:

Okay. I believe that's all we have for this witness. Thank you, sir.

A. Thanks.

MR. KING:

No further questions.

CHAIRWOMAN HELTON:

Would you call Mr. Thompson, please?

MR. KING:

All right. Mr. Thompson?

WITNESS SWORN

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COURT REPORTER
1705 SOUTH BENSON ROAD
FRANKFORT, KENTUCKY 40601
(502) 875-4272

The witness, STEPHEN J. THOMPSON, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. KING:

Q. State your name, Please.
A. Stephen J. Thompson.
Q. Where do you reside?
A. 430 Hill Avenue, Owensboro, Kentucky.
Q. What is your occupation?
A. Supervisor of General Accounting for Green River Electric Corporation.
Q. How long have you had that position?
A. Approximately 20 years.
Q. What is your educational background?
A. Graduate of Brescia College with a B.S. in accounting.
Q. What professional licenses do you hold?
A. I hold a CPA license in Kentucky.
Q. And you have been listed as the witness for some of the Responses filed on behalf of the applicants; is that correct?
A. That's correct.

MR. KING:

No further questions.

CHAIRWOMAN HELTON:

Mr. Wuetcher?

MR. WUETCHER:

Thank you, Your Honor.

CROSS EXAMINATION

BY MR. WUETCHER:

Q. Good afternoon, Mr. Thompson.

A. Good afternoon.

Q. Just a few questions. Could you tell us what allocation basis or method has been used to assign consolidation costs to Green River and Henderson Union?

A. Basically, we have been trying to share those 50-50.

Q. Have there been any expenses that weren't split 50-50?

A. There could be some maybe. I'm not sure. We tried to catch them all, but I believe we pretty well got them all, 50-50.

Q. Okay. In your Response to - you prepared the applicants' Response to Item 11b. to the Commission's Order of May 6?

A. Yes.

Q. Okay. In Response 11b., you indicate that the consolidation costs have been expensed as incurred. Why was this approach chosen rather than seeking regulatory approval to defer the costs and amortizing them over some future period of time?

A. I think we have to stop and think that the consolidation process started up again, I guess, for

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the second go around in probably mid-1998, and, at that time, the outcome, of course, was uncertain as to the vote. Therefore I felt it prudent to take a conservative approach and go ahead and expense these costs at that time.

Q. Okay. I'm going to refer you to the applicants' Response to Item 18 to the Commission's Order of May 6, 1999, and you also prepared that Response?

A. Yes, I did.

Q. Okay. I want you to assume for the moment that the consolidation is approved and becomes effective on July 1, 1999. If you were going to calculate Kenergy's TIER for the 12 months ended November 30, 1999, how would you go about doing that since Kenergy has only existed since July 1, 1999?

A. Yeah. My proposal there is to look at 1999 on a consolidated basis and to group the first six months of '99, Henderson Union and Green River, with the final six months of '99 and to prepare one consolidated audit report, and then you would calculate TIER based on that consolidated total.

Q. Would you agree, subject to check, that the last authorized TIER for Green River is not the same as Henderson Union?

A. Yes, I would.

Q. Okay. Since the last authorized TIERs are not the same for the cooperatives, what will Kenergy consider as its authorized TIER until its first general rate case after consolidation?
A. I really do not have a response to that or an answer to that at this time. I haven't really thought that one through, . . .
Q. Okay.
A. . . . but we'll just have to address it, I guess, when it comes up.
MR. WUETCHER:
Okay. That's all we have for Mr. Thompson. Thank you.

REDIRECT EXAMINATION

BY MR. KING:
Q. Mr. Thompson, let me ask you a question on talking about the TIER. Is it your understanding, though, that, as far as RUS is concerned, application can be made for approval of a TIER at a certain level after consolidation?
A. Yes, it is.
Q. And what is that TIER?
A. A TIER of 1.0.
Q. And for how many years?
A. The first five years after the effective date of the

consolidation.

Q. And is your understanding that, in all likelihood, Kenergy will make that application?

A. Yes, it is.

MR. KING:

Okay. That's all.

CHAIRWOMAN HELTON:

Recross, Mr. Wuetcher?

MR. WUETCHER:

Yes.

RECROSS EXAMINATION

BY MR. WUETCHER:

Q. If you seek authorization from RUS for a TIER of 1.0, that TIER requirement is only going to be dealing with your loan obligations; is that correct?

A. Yes.

MR. WUETCHER:

Okay. Thank you.

MR. KING:

Thank you.

CHAIRWOMAN HELTON:

I think that concludes all the witnesses.

MR. KING:

Yes, it does.

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CHAIRWOMAN HELTON:

Okay. And the procedural schedule did not have the provision for reply briefs, and I don't think that there seems to be any need for any briefing schedule.

MR. KING:

I don't think so, Your Honor.

CHAIRWOMAN HELTON:

Okay. There being no further matters before us, this hearing is adjourned.

FURTHER THE WITNESSES SAITH NOT

HEARING ADJOURNED

OFF THE RECORD

STATE OF KENTUCKY

COUNTY OF FRANKLIN

I, Connie Sewell, the undersigned Notary Public, in and for the State of Kentucky at Large, do hereby certify the foregoing transcript is a complete and accurate transcript, to the best of my ability, of the hearing taken down by me in this matter, as styled on the first page of this transcript; that said hearing was first taken down by me in shorthand and mechanically recorded and later transcribed under my supervision; that the witnesses were first duly sworn before testifying.

My commission will expire November 19, 2001.

Given under my hand at Frankfort, Kentucky, this the 27th day of May, 1999.

Connie Sewell

Connie Sewell, Notary Public
State of Kentucky at Large
1705 South Benson Road
Frankfort, Kentucky 40601
Phone: (502) 875-4272