CASE NUMBER:

99-162

Missing

[illegible]

7/03/2000

Frank King/Kenergy Corp.
Response to PSC Order
Dated 6/14/2000

4/27/2000 Frank N. King/Kenergy
confirmation that counsel will
submit an issues list.

Not on index

Sep 16, 1999 Frank N. King, Jr.

HISTORY INDEX FOR CASE: 1999-162
GREEN RIVER ELECTRIC CORPORATION
Rates - General
& HENDERSON UNION ELECTRIC FOR RATE REDUCTION

IN THE MATTER OF THE APPLICATION OF GREEN RIVER ELECTRIC CORPORATION AND HENDERSON UNION ELECTRIC COOPERATIVE CORP. FOR APPROVAL OF RATE DECREASE FOR KENERGY CORP., CONSOLIDATION SUCCESSOR

SEQ NBR	ENTRY DATE	REMARKS
0001	04/02/1999	Notice of intent to file a rate reduction case.
0016	04/09/1999	Acknowledgement Letter - Notice of Intent
0017	04/21/1999	Ltr. to Frank King confirming telephone conversation.
M0001	05/18/1999	MIKE KURTZ KIUC-PETITION TO INTERVENE
0002	05/20/1999	Application.
0003	05/24/1999	Acknowledgement letter.
0004	05/28/1999	Order granting motion of the KIUC to intervene.
M0002	06/03/1999	MICHAEL KURTZ GREEN RIVER&HENDERSON-REQUEST FOR INTERVENTION
M0003	06/04/1999	MIKE KURTZ KIUC-MOTION TO SUSPEND EFFECTIVENESS OF RATE DECREASE
M0004	06/09/1999	FRANK KING-LETTER OF NOTIFICATION THAT RESPONSE WILL BE FILED ON OR BEFORE JUNE
M0005	06/17/1999	FRANK KING GREEN RIVER ELECTRIC COO-RESPONSE TO MOTION OF KIUC
M0006	06/21/1999	MIKE KURTZ KIUC-RELPLY TO NOTICE TO FILE RATE REDUCTION APPLICATION
0005	07/01/1999	Order entered; amended application due 8/2 or case closed without further Order.
M0007	07/22/1999	FRANK KING KENERGY CORP-MOTION FOR EXTENSION OF TIME
0006	07/29/1999	Order granting ext. of time until 8/20 to submit amended application.
M0008	08/16/1999	FRANK KING GREEN RIVER & HENDERSON-AMENDED APPLICATION
M0009	08/16/1999	FRANK KING KENERGY INC-AMENDED APPLICATION & MOTION TO IMPEMENT RATE REDUCTION
M0010	08/19/1999	MIKE KURTZ KIUC-RESPONSE TO MOTION TO IMPLEMENT REQUESTED RATE REDUCTION ON SEPT 1,99
M0011	08/25/1999	FRANK KING KENERGY CORP-REPLY TO RESPONSE BY KIUC TO FAVOR INPLEMENTATION OF A RATE REDUCTI
0007	08/31/1999	Order granting requested deviations, suspending proposed rates for 1 day, etc.
M0012	09/10/1999	FRANK KING KENERGY CORP-RESPONSE OR ORDER OF AUGUST 31,99 PARAGRAPH 7
M0013	09/13/1999	HARRY EICH CITIZEN-LETTER TO REQUEST APPROVAL OF RATE DECREASE
M0014	09/17/1999	FRANK KING-COPIES OF PUBLICATIONS ALONG WITH AFFIDAVITS REVISED TARIFF SHEETS
0008	11/05/1999	Response letter to Harry T. Eich regarding Kenergy rate change.
0009	12/14/1999	Order setting forth the procedural schedule to be followed in this case.
0010	01/10/2000	Data Request Order; response due 1/24/2000.
M0015	01/11/2000	MIKE KURTZ KIUC-FIRST SET OF DATA REQUEST
M0016	01/18/2000	FRANK KING KENERGY CORP-MOTION FOR EXTENSION OF TIME
0011	01/20/2000	Order granting motion for extension of time; info due 1/31
M0017	02/01/2000	FRANK KING-RESPONSE TO PSC INITIAL REQ FOR INFORMATION & FIRST SET OF DATA REQ
M0018	02/01/2000	FRANK KING KENERGY CORP-RESPONSE TO FIRST SET OF DATA REQ OF KIUC
0012	02/11/2000	Data Request Order; response due 2/25/2000.
M0019	02/14/2000	MIKE KURTZ KIUC-SECOND SET OF DATA REQ OF KIUC
M0020	02/22/2000	MIKE KURTZ KIUC-MOTION TO AMEND PROCEDURAL SCHEDULE OF KIUC
0013	02/23/2000	Order granting KIUC's Motion to Amend Procedural Schedule;set forth in Appendix.
M0021	02/25/2000	FRANK KING KENERGY-RESPONSE TO PSC SUPP REQ FOR INFORMATION,SECOND SET OF DATA REQ OF KI
M0022	03/10/2000	MIKE KURTZ KIUC-DIRECT TESTIMONY & EXHIBITS OF RUSSELL KLEPPER
0014	03/24/2000	Data request order entered, response due 3/31/2000.
M0023	03/24/2000	FRANK KING KENERGY-REQ FOR INFORMATION TO KIUC
M0024	04/04/2000	MICHAEL L. KURTZ/KIUC-RESPONSE TO KENERGY AND PSC
M0025	04/04/2000	MICHAEL L. KURTZ/KIUC-MOTION FOR EXTENSION OF TIME
0015	04/12/2000	Order granting KIUC an ext. of time until 4/3/2000 to file resp. to requests.
M0028	04/13/2000	FRANK N. KING/-NOTICES OF THE HEARING/PROOF OF PUBLICATION AFFIDAVITS
M0026	04/14/2000	FRANK N. KING/KIUC-REBUTTAL TESTIMONY OF DEAN STANLEY AND JACK D. GAINES
M0027	04/19/2000	MICHAEL L. KURTZ/GREEN RIVER-NOTICE OF INTENT TO FILE JOINT APPLICATION
M0029	04/27/2000	FRANK N. KING/KENERGY-CONFIRMATION THAT COUNSEL WILL SUBMIT AN ISSUES LIST
M0030	05/02/2000	CONNIE SEWELL-TRANSCRIPT OF EVIDENCE

GREEN RIVER ELECTRIC CORPORATION
Rates - General
& HENDERSON UNION ELECTRIC FOR RATE REDUCTION

IN THE MATTER OF THE APPLICATION OF GREEN RIVER ELECTRIC CORPORATION AND HENDERSON UNION ELECTRIC COOPERATIVE CORP. FOR APPROVAL OF RATE DECREASE FOR KENERGY CORP., CONSOLIDATION SUCCESSOR

SEQ NBR	ENTRY DATE	REMARKS
M0033	05/12/2000	MICHAEL KURTZ/KIUC-ISSUE LIST FROM KIUC
M0031	05/15/2000	FRANK KING KENERGY-LIST OF ISSUES SUBMITTED
0018	06/14/2000	Final Order approving Kenergy's proposed Consolidation Credit Rider.
M0032	07/03/2000	FRANK KING/KENERGY CORP.-RESPONSE TO PSC ORDER DATED 6/14/2000

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 1999-162
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 14, 2000.

Parties of Record:

Honorable Frank N. King
Attorney for Kenergy Corp.
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

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

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

ORDER

Kenergy Corp. ("Kenergy") has applied for approval of a 4-percent reduction in the rates for its non-direct serve member-customers. By this Order, we grant the proposed reduction effective September 2, 1999.

PROCEDURE

On May 20, 1999, Green River Electric Corporation ("GREC") and Henderson Union Electric Cooperative Corporation ("HUECC") (collectively "the Cooperatives") jointly applied, pursuant to KRS 278.455, for approval of a 4-percent reduction in the rates for non-direct serve member-customers, to become effective upon the Cooperatives' consolidation as Kenergy. Finding that KRS 278.455 did not govern the application, the Commission rejected the application and directed the Cooperatives to conform their application to the requirements of either KRS 278.455 or Administrative Regulation 807 KAR 5:001, Section 10.

On August 16, 1999, Kenergy submitted an amended application in which it requested of a 4-percent reduction, effective September 1, 1999, in the rates of its non-direct serve member-customers. Kenergy further requested deviations from

Administrative Regulation 807 KAR 5:001, Section 10, to permit the acceptance of its application without, inter alia, the submission of a cost-of-service study.

On August 31, 1999, the Commission granted Kenergy's requested deviations and accepted its application for filing. We expressly reserved the right to require Kenergy to perform a cost-of-service study should we determine that such study was necessary. We further ordered that the proposed rate reduction be suspended for one day and then become effective, subject to change, for service rendered on and after September 2, 1999. After subsequently hearing additional arguments on the need for a cost-of-service study, the Commission determined that this proceeding should go forward without such study.

On December 14 1999, the Commission established a procedural schedule in this matter. After the parties[1] conducted discovery and submitted written testimony, the Commission held a public hearing on the proposed rate reduction on April 18, 2000.[2] In lieu of submitting written briefs in this matter, the parties on or about May 12, 2000, submitted written issue lists for the Commission's consideration.

---

[1] Kentucky Industrial Utility Customers ("KIUC") was permitted to intervene in this matter on behalf of its members Alcan Aluminum Corporation ("Alcan"), Southwire Company, Commonwealth Aluminum Corporation ("Commonwealth"), and Kimberly Clark Corporation ("Kimberly Clark").

[2] The following persons testified at this hearing: Dean Stanley, Kenergy's President and Chief Executive Officer; Stephen J. Thompson, Kenergy's Vice President of Finance and Accounting; Jack D. Gaines, Vice President and Manager of Utility Rates Department, Southern Engineering Company; and, Russell L. Klepper, Founder and Principal, Energy Services Group, LLC.

STATEMENT OF THE CASE

Background

An understanding of the issues in this case requires a review of the efforts to consolidate Green River and Henderson Union. In 1993 a Commission-sponsored management audit of Green River and Henderson Union first raised the subject of consolidation. F.E. Jennings and Co. ("Jennings"), an independent management consulting firm retained to perform the audit, recommended in its report that further studies be performed to explore the feasibility of consolidating the entire Big Rivers Electric Corporation ("Big Rivers") system.[3] Although two members of the Big Rivers' system declined to participate, Green River and Henderson Union agreed to consolidation discussions and eventually procured a formal feasibility study.

The National Rural Electric Cooperative Association ("NRECA") and the National Rural Utilities Cooperative Finance Corporation performed a preliminary study. Based upon this study, they recommended further in-depth analysis of consolidation. 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.

[3] At that time Big Rivers' system consisted 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.[4] A majority of Henderson Union members who subsequently voted on the proposed consolidation, however, failed to approve the proposal.[5]

In November 1998, Green River and Henderson Union formed a Consolidation Committee to renew exploration of consolidation. They retained Joseph Slatter, Jr., co-author of the 1996 Study, to revise and update that study. This revised study ("1999 Study") included three scenarios relating to the economic benefits of consolidation. Scenario 1 reflected 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 reflected a phase-in period of 5 years to full realization and results in savings of $19.9 million. Scenario 3 reflected a phase-in period of 10 years to full realization and results in savings of $14.5 million.[6] The study recommended that the "savings be returned immediately to the Green River EC and Henderson Union EC members <u>in the form of a 4% retail reduction to rural members</u>."[7]

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

[5] Case No. 99-136, The Application of Green River Electric Corporation and Henderson Union Corporation for Approval of Consolidation, 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.

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

[7] <u>Id.</u> at 82 (emphasis added).

On January 23, 1999, Green River and Henderson Union executed a Consolidation Agreement. This agreement provided that, subject to the Commission's approval, the two cooperatives would consolidate on July 1, 1999. It also addressed several critical issues involving the consolidated entity's operations, including 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, and the new cooperative's capital credits policy.

The Cooperatives specifically addressed the issue of rate reductions that would occur following consolidation in the Consolidation Agreement. Paragraph 15 provides:

> 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 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.[8]

Pursuant to KRS 279.170, the Cooperatives submitted the proposed consolidation to their members for approval. When placing the Consolidation

---

[8] Kenergy's Response to KIUC's First Set of Data Requests, Item 3.

Agreement before their members, the Cooperatives' management emphasized that the proposed rate reduction to their non-direct serve members was intended to "send a strong signal to the members that voting for consolidation . . . [meant] lower rates than otherwise achievable."[9] The Cooperatives, moreover, made clear that this reduction would not apply to direct serve customers.[10] A majority of members from each cooperative voting approved the proposed consolidation.[11]

After receiving the approval of their memberships, the Cooperatives then applied in Case No. 99-136[12] to the Commission for approval of the consolidation. KIUC intervened in that proceeding of behalf of its members Alcan, Commonwealth, and Kimberly Clark. No party or direct serve customer voiced any objection to the proposed consolidation or to the provisions of the Consolidation Agreement. On June 18, 1999, the Commission approved the proposed consolidation without modifications or conditions.

---

[9] Testimony of Dean Stanley at 2.

[10] See, e.g., Kenergy's Response to the Commission's Order of January 10, 2000, Attachment 3b(1).

[11] Case No. 99-136, 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.

[12] Case No. 99-136, The Application of Green River Electric Corporation and Henderson Union Corporation for Approval of Consolidation.

Proposed Rate Reduction

Kenergy proposes a consolidation credit rider equal to 4 percent of the monthly billing amount will appear on all non-direct serve customer bills[13] for a five year period. It estimates that the credit rider will reduce annual utility revenues by $2,298,780.[14]

Kenergy chose the 4 percent rider for two reasons. First, it wanted to emphasize the benefits of the consolidation. Such emphasis would be lacking if the reduction were placed immediately into base rates.[15] Second, it viewed the flat rate rider as more consistent and predictable than a credit reflecting actual consolidation savings. Because the amount of savings from the consolidation is dependent in large measure upon employee reductions achieved through normal attrition and early retirement, Kenergy asserts, the time frame for realizing those savings is not known and measurable.[16]

Kenergy does not expect the proposed reduction to significantly affect its financial condition. It asserts that, at the time of consolidation, its predecessors had

[13] Non-direct serve customers are those customers who receive electric service through Kenergy's distribution facilities. They are generally customers who receive electric service at voltages much lower than the transmission voltages of Big Rivers, Kenergy's electric supplier. In contrast, direct serve customers are served directly from Big Rivers' transmission system. They demand electric service at transmission voltage levels. There is, therefore, no need for Kenergy facilities to reduce the voltage prior to delivery. With direct serve customers, Kenergy supplies only the meter.

[14] Testimony of Steve Thompson at 2.

[15] After the proposed credit expires, Kenergy intends "to establish base rates reflecting most of the efficiencies gained from consolidation." Testimony of Dean Stanley at 2.

[16] Testimony of Steve Thompson at 2.

"very strong" financial positions.[17] These positions are enhanced by the Rural Utilities Service's reduction in Kenergy's minimum times interest earned ratio from 1.5 to 1.0 for the next 5 years and by the expected efficiencies and cost reductions achieved through the consolidation.

DISCUSSION

Kenergy's application presents the following issue: Is the application of the proposed credit to reflect consolidation savings only to non-direct serve customers reasonable?

Kenergy advances several arguments in support of its decision not to extend the credit rider to all customer classes. First, it contends that application of the credit rider to Alcan and Southwire Company ("the Smelters"), customers served under its smelter rate, would be contrary to the terms of their service contracts. It notes that both customers are currently served under contracts that establish Kenergy's adder at .1 mills per kilowatt hour ("kWH") through December 31, 2000. It further asserts that the language and intent of these contracts is that no change in that rate may occur until January 1, 2001.

Second, Kenergy asserts that application of the credit rider to direct serve customers would require the utility to provide electric service to these customers at a loss. In 1998, Kenergy's gross margin from sales to the Smelters was $514,000 out of $128 million in sales. If the credit rider were applied to these sales, Kenergy's revenues from the sales would decrease by $5.1 million annually. Similarly, Kenergy's gross margins from sales to the direct serve customers that Green River previously served

[17] Testimony of Dean Stanley at 2.

was approximately $565,000 out of $32.9 million in revenue. Application of the credit rider to these sales would decrease Kenergy's revenues by $1.316 million.

Third, Kenergy argues that direct serve customers have been treated more favorably than non-direct serve customers in recent rate proceedings. It notes that in the three of its last four rate proceedings, Green River increased rates beyond that necessary to flow through power costs to its non-direct serve customers while the rates of its direct serve customers were increased only by the amounts necessary to flow through power costs. In each of those cases, Green River's adders were not adjusted. Similarly, in Henderson Union's last rate proceeding, direct serve customer rates were reduced beyond the level necessary to flow through reductions in power costs at the expense of non-direct serve customers.

Responding to these arguments, KIUC first contends that in the absence of a cost-of-service study, no customer class should be excluded from the credit rider. It argues that Kenergy has failed to show that the merger savings will affect only those costs incurred for the benefit of non-direct serve customers and, therefore, any merger savings will be realized from all components of Kenergy's distribution costs.

KIUC further argues that Kenergy's reliance upon the results of earlier rate proceedings is misplaced. The earlier proceedings to which Kenergy refers involved only generation and transmission costs, KIUC contends, while the current proceedings involve only distribution costs. The allocation of any decrease in distribution costs among customers, it asserts, is independent of wholesale generation and transmission costs. Kenergy's proposed exclusion of direct serve customers, it further asserts, is nothing more than an exercise in retroactive rate-making.

KIUC disputes Kenergy's contention that existing contracts bar the Commission's consideration of any reduction in the adder assessed on sales to the Smelters. It notes that the contract specifies the adder's level but permits changes after December 31, 2000 upon either Kenergy or the Smelter's application to the Commission. Its witness argues that KIUC's intervention in this rate proceeding should be considered an application for such reduction.

Finally, KIUC argues that the existing adders are unreasonable and inequitable. It contends that the adders that Alcan, Southwire Company, Commonwealth, and Kimberly Clark are required to pay represent a disproportionate amount of distribution-related excess revenues.

In considering the reasonableness of the proposed credit rider, the Commission acknowledges the absence of any supporting cost-of-service study. The absence of such study is not fatal to the proposed rate. As we recognized in our Order of December 14, 1999, the unusual circumstances in this proceeding made the preparation of any cost-of-service study of limited value. Kenergy did not exist during the proposed test period. The merger savings upon which the proposed credit rider is based are prospective in nature and therefore would be difficult to quantify and allocate. The full extent of any savings will require a review of the consolidated entity's actual operations.

In addition, the Commission cannot accept KIUC's argument that, in the absence of a cost-of-service study, the reduction must be proportional to all customer classes. Given the significant and obvious differences in how Kenergy serves the direct serve and non-direct serve customers,[18] such assumption is not reasonable. Based upon the Consolidation Study, a significant portion of the merger savings is expected to result from distribution functions that are not provided to direct serve customers.

We furthermore are unconvinced by KIUC's arguments that the existing adders are unjust and unreasonable. It has presented no credible evidence to suggest that the adders result in an unreasonable allocation of costs. Moreover, KIUC's position is in direct conflict with its position in Cases No. 97-219[19] and No. 97-220.[20] In those proceedings, it did not object to the adders that Kenergy's predecessors proposed. It has failed to introduce any evidence to demonstrate that Kenergy's current situation differs significantly to render those adders unjust and unreasonable. Moreover, as the adders for the Smelters were negotiated within the past two years and as the parties to those service contracts agreed that they were to remain unchanged until 2001, we are reluctant to make any changes absent some credible evidence to support such changes.

In reviewing the record of this proceeding, we note that, since Green River and Henderson Union first proposed the consolidation in January 1999, the central premises of that proposed consolidation were that savings would result from that consolidation and that non-direct customers would be initial beneficiaries of those savings. The proponents of consolidation represented to the members of both Cooperatives that a

[18] See text accompanying footnote 13.

[19] Case No. 97-219, Application of Green River Electric Corporation for a Decrease in Existing Rates and for Approval of Contracts.

[20] Case No. 97-220, Application of Henderson Union Electric Cooperative Corporation for a Decrease in Existing Rates and for Approval of Contracts.

reduction in non-direct serve rates would immediately result from consolidation. It was a key recommendation of the Consolidation Report. Equally important, consolidation proponents openly represented to the public and to this Commission that only non-direct serve customers would see an immediate reduction in rates. It is clear that approval of the consolidation and, therefore, any resulting consolidation savings were in large measure due to these representations.

The record of this proceeding and of Case No. 99-136, moreover, reveals that no objection to the proposed reduction was raised at any time while the proposed consolidation was before the Cooperatives' members or before this Commission. Although the proposed reduction was an integral provision of the Consolidation Agreement and of the Cooperatives' application for Commission approval of the proposed consolidation, no objection was raised to it. KIUC, though a party to Case No. 99-136, never raised the issue. We approved the proposed consolidation without modification or reservation.

Based upon the above, we find that the proposed credit rider is reasonable and will not result in an unreasonable preference or advantage and should be approved. We further find that the issues of the credit rider and adder for direct serve customers should be revisited at Kenergy's next rate adjustment proceeding. At that proceeding, Kenergy should support its proposed rates with a detailed cost-of-service study. This cost-of-service study should examine in detail the costs of serving direct serve customers and, if possible, identify any merger savings that are directly related to serving this customer class. The Commission expects that Kenergy will honor its stated intention to submit an application for rate adjustment in January 2001.[21]

SUMMARY

Having considered the evidence of record and being otherwise sufficiently advised, the Commission HEREBY ORDERS that:

1. Kenergy's proposed Consolidation Credit Rider is approved for service rendered on and after September 2, 1999 and until September 1, 2004, subject to the reservations described in Ordering Paragraph 3.

2. Kenergy shall file with the Commission no later than January 31, 2001 an application for rate adjustment that shall establish uniform rate schedules for customers within its Kenergy East (formerly Green River) and Kenergy West (formerly Henderson Union) Divisions. This application shall be accompanied by a complete and detailed cost-of-service study that covers Kenergy's consolidated operations.

3. The Commission reserves the right to adjust the Consolidation Credit Rider at such future rate proceedings upon review of the results of the detailed cost-of-service study.

4. Within 20 days of the date of this Order, Kenergy shall file revised tariff sheets that reflect the rate approved herein.

[21] Kenergy's Response to the Commission's Order of January 10, 2000, Item 5(b).

Done at Frankfort, Kentucky, this 14th day of June, 2000.

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

May 12, 2000

RECEIVED
MAY 15 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. 99-162

Dear Mr. Huelsmann:

We enclose herewith for filing in the above case List of Issues submitted by applicant Kenergy Corp.

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/w/encls.: Mr. Dean Stanley
Mr. Michael L. Kurtz

RECEIVED
MAY 1 5 2000
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 RATE DECREASE FOR KENERGY CORP., CONSOLIDATION SUCCESSOR	))))))	**CASE NO. 99-162**

LIST OF ISSUES SUBMITTED BY APPLICANT KENERGY CORP.

As agreed and stipulated by and between **KENERGY CORP.** ("Kenergy") and **KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.** ("KIUC") Kenergy hereby submits the following list of issues in lieu of filing written brief herein, to-wit:

I. Smelters' claims for reduction in adder

A. Section e. of the General Provisions of each smelter tariff provides in relevant part as follows:

"... each kilowatt hour purchased by [Smelter] under this Schedule A shall be subject to a fee charged by [Kenergy] of one-tenth of a mill ($0.0001), payable monthly, provided that after December 31, 2000, the fee shall be subject to change by order of the Kentucky Public Service Commission upon application by either or both of [Kenergy] and [Smelter]."

Is the above provision clear and unambiguous?

B. If the above provision is clear and unambiguous are the smelters then precluded from seeking a reduction in their adder in this proceeding?

C. If the above provision is not clear and unambiguous should it be construed to require the filing of an application after December 31, 2000 (because the additional time and expense regarding TIER 3 service cannot be determined with any degree of accuracy until after that date)?

II. <u>KIUC's contention that there should be an equal percentage decrease in the distribution components of the rates of every customer class</u>

A. If, as assumed by KIUC, merger savings arise from cost reductions realized across all components of Kenergy's distribution costs, and if, as contended by KIUC, Kenergy incurs no cost whatsoever for distribution operations and maintenance that are allocable to direct serve customers, does it logically follow that the appropriate allocation of merger savings would be an equal percentage decrease in the distribution component of the rates of every customer class, including direct serve customers?

B. If KIUC's logic is not sound, should this argument then be rejected?

C. If KIUC's argument is rejected, is there any other support in this record for accepting the "equal percentage decrease" argument?

D. If no other support can be found in the record, should not KIUC's argument on this point be rejected out of hand?

III. <u>Current adders of direct serve customers</u>

A. In light of the testimony of Kenergy consultant Jack Gaines that the present adders of direct serve customers are fair, just and reasonable, is there any countervailing evidence in the record to support a contrary finding?

B. If such countervailing evidence is not present should not the current adders be sustained in this proceeding?

IV. <u>Kenergy's contention that proposal results in fair, just and reasonable rates</u>

A. In deciding this case is it proper for the Commission to take into consideration such factors as (i) in flow through rate cases over the past 10 to 15 years nondirect serve customers have received an increase in rates whereas direct serve customers' rates have not been affected, (ii) the direct serve customers as a whole received a larger rate decrease than the other customers in connection with the Big Rivers bankruptcy workout, and (iii) Kenergy's proposal is to pass on projected consolidation savings for a defined term, five (5) years, to customers who have not fared as well in previous flow through cases and in the Big Rivers bankruptcy workout?

B. Because the Commission is only setting rates prospectively, does the rule prohibiting retroactive rate making apply?

C. Considering the totality of the circumstances, is Kenergy's proposal reasonable and will the proposal result in rates that are fair, just and reasonable, and nondiscriminatory?

DORSEY, KING, GRAY & NORMENT
318 Second Street
Henderson, Kentucky 42420
(270) 826-3965 Telephone
(270) 816-6672 Telefax
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 12th day of May, 2000.

Frank N. King
Frank N. King, Jr.

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

May 11, 2000

Mr. Martin J. Huelsmann, Jr.
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: In The Matter Of: Notice of Intent of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation to File Joint application for Rate Reduction, Case No. 99-162.

Dear Mr. Huelsmann:

Please find enclosed the original and eight (8) copies of the Issue List 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 12th day of May, 2000.

Honorable Frank N. King
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

Michael L. Kurtz, Esq.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
MAY 12 2000
PUBLIC SERVICE COMMISSION

In The Matter Of: The Application of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. For Approval of Rate Decrease for Kenergy Corp., Consolidation Successor	:	Case No. 99-162

ISSUE LIST OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

The following list of issues is submitted by Kentucky Industrial Utility Customers, Inc. ("KIUC") for decision in this proceeding.

1. With respect to Kenergy's proposed allocation among customer classes of revenue reductions arising from distribution related savings anticipated from the merger of Green River Electric Corporation and Henderson Union Electric Cooperative Corp.:

   a. In the absence of a valid cost-of-service justification, should an entire rate class be excluded from the rate reduction, or should the change in rates be allocated proportionately to all of Kenergy's customers based on the total distribution revenues received from each customer in accord with the following precedent from this Commission: <u>Application Of Kentucky Utilities Company To Assess A Surcharge Under KRS 278.183 To Recover Cost Of Compliance With Environmental Requirements For Coal Combustion Wastes And By-Products,</u> Case No. 93-465; <u>The Application Of Louisville Gas And Electric Company For Approval Of A Compliance Plan And To Assess A Surcharge Pursuant To KRS 278.183 To Recover Cost Compliance Using Environmental Requirements For Coal Combustion Wastes And By-Products,</u> Case No. 94-332; <u>Application Of Kentucky Power Company d/b/a American Electric Power To Assess A Surcharge Under KRS 278.183 To Recover Costs Of Compliance With The Clean Air Act And Those Environmental Requirements Which Apply To Coal Combustion Waste And By-Products,</u> Case No. 96-489; <u>Joint Application Of Louisville Gas And Electric Company And Kentucky Utilities Company For Approval Of Merger,</u> Case No. 97-300, <u>Application of Louisville Gas & Electric Company for Approval of an Alternative Method of Regulation Of Its Rates and</u>

Service, Case No. 98-426 and Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation Of Its Rates and Service, Case No. 98-474?

b. Would it be unreasonable or an abuse of discretion to completely exclude an entire rate class from the rate reduction in light of the extensive Commission precedent cited in 1(a) and in light of Kentucky law. *"This Court has held that interpretation of a statute made by an administrative agency, once made and applied over a long period of time, cannot be unilaterally revoked by the agency."* GTC v. Revenue Cabinet, Ky., 889 S.W.2d 788, 792 (1994); *"A construction of a law or regulation by officers of an agency continued without interruption for a long period of time is entitled to controlling weight."* Hagan v. Farris, Ky., 807 S.W. 2d 488, 490 (1991); *"(r)adical departure from (past) administrative interpretation consistently followed cannot be made except for the most cogent reasons."* South Central Bell v. Public Service Commission, Ky. App., 702 S.W.2d 447, 451 (1985) (quoting from Utility Regulatory Commission v. Kentucky Water Co., Ky. App., 642 S.W.2d 591, 593 (1982)).

2. With respect to Kenergy's filing of an application in this general rate proceeding pursuant to KRS 278.190, and based on the evidence demonstrating that the distribution fees paid by Alcan Aluminum Corporation, Southwire Company, Commonwealth Aluminum Corporation and Kimberly Clark Corporation are unfair and discriminatory in that such fees provide to Kenergy a disproportionate amount of distribution related excess revenues (revenues in excess of related expenses):

a. Should the Commission allocate the proposed revenue reduction in a manner that reduces the distribution related component of the rates of Alcan Aluminum Corporation, Southwire Company, Commonwealth Aluminum Corporation and Kimberly Clark Corporation by an amount greater than the distribution related rate reductions to other Kenergy customers in order to cure the existing discrimination?

b. Should the distribution related component of the rates of Alcan Aluminum Corporation, Southwire Company, Commonwealth Aluminum Corporation and Kimberly Clark Corporation be reduced by an amount such that the percentage of distribution related excess revenues received by Kenergy shall be equal over all customers and customer classes?

3. With respect to the application of Alcan and Southwire (together, the Smelters) for rate reductions within the context of this general rate proceeding:

   a. Does the applicable language of the Smelter Tariffs and related agreements for electric service allow the Commission to order a reduction in the distribution fees paid by the Smelters, with such reduction to become effective on January 1, 2001?

   b. If the answer to 3(a) is yes, then should the Smelter distribution fee be reduced proportionally in the manner set forth in the testimony of Mr. Klepper?

4. With respect to the request by Kimberly Clark in this general rate proceeding for a reduction in its distribution fee to the level of the distribution fees paid by Kenergy's only other electric customers of comparable size, Willamette Industries and Commonwealth Industries:

   a. Does the existing contract between Kimberly Clark and Kenergy allow the Commission to order a modification of the distribution fee to be paid to Kenergy by Kimberly Clark?

   b. Has any other evidence been introduced in this general rate proceeding that would provide the basis for Kimberly Clark to continue to pay a distribution fee that is different in structure or amount than the distribution fees to be paid by Willamette Industries or Commonwealth Industries?

Respectfully submitted,

Michael L. Kurtz

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 12, 2000

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

RECEIVED
APR 27 2000
PUBLIC SERVICE
COMMISSION

April 25, 2000

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

Re: Case No. 99-162

Dear Mr. Huelsmann:

This is to confirm that counsel for Kenergy Corp. and Kentucky Industrial Utility Customers, Inc. will each submit to the Commission an issues list in lieu of filing written briefs. These lists will be served by Friday, May 12, 2000. I am authorized by KIUC's counsel to make this representation to the Commission on his behalf.

This arrangement has been approved by staff counsel Gerry Weutcher who is assigned to this case.

Thank you for your assistance.

Very truly yours,

DORSEY, KING, GRAY & NORMENT

By Frank N. King

Frank N. King, Jr.

FNKJr/cds
Copy: Mr. Dean Stanley
Mr. Michael L. Kurtz

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

TELECOPIER (513) 421-2764

RECEIVED
APR 1 9 2000
PUBLIC SERVICE
COMMISSION

April 18, 2000

Mr. Martin J. Huelsmann, Jr.
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: **In The Matter Of: Notice of Intent of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation to File Joint application for Rate Reduction, Case No. 99-162.**

Dear Mr. Huelsmann:

Please find enclosed the original and eight (8) copies of the Response of Kentucky Industrial Utility Customers, Inc. to Staff's On The Record Data Request 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 18th day of April, 2000.

Honorable Frank N. King
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

Michael L. Kurtz, Esq.

RECEIVED
APR 19 2000
PUBLIC SERVICE COMMISSION

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 Rate Decrease for Kenergy Corp., Consolidation Successor	:	Case No. 99-162

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO STAFF ON THE RECORD DATA REQUEST

Kentucky Industrial Utility Customers, Inc. ("KIUC") responds to the on-the-record data requests of Staff as follows:

Question: **Please provide the statutory basis for Mr. Klepper's statement that Kentucky law prohibits retroactive ratemaking.**

Answer: KRS 278.270 reflects the prohibition against retroactive ratemaking and states that, if the Commission, upon its own motion or complaint, after hearing, finds a rate unjust or unreasonable, it *"shall by order prescribe a just and reasonable rate to be followed in the future."* (emphasis added). In addition, the prohibition against retroactive ratemaking was recognized in Commonwealth ex. rel. David R. Armstrong v. Kentucky Public Service Commission, 91 PUR 4th 329, 334 (Franklin Circuit Ct. 1987) (attached); In the Matter of: Kentucky Industrial Utility Customers v. Big Rivers Electric Corporation, Case No. 95-011 at 7-8 (attached); and Application of Kentucky Power to Assess Environmental Surcharge, Case No. 96-489 at 3 (attached).

This question was answered by counsel.

Citation | Found Document | Rank 1 of 1 | Database
91 P.U.R.4th 329 | | | PUR
1987 WL 258083 (Ky.P.S.C.)

(Publication page references are not available for this document.)

Commonwealth of Kentucky ex rel. David R. Armstrong
v.
Kentucky Public Service Commission
84-CI-0936

Ford Motor Company et al. v. Kentucky Public Service Commission
84-CI-1461
Kentucky Circuit Court, Franklin Circuit, Division II
November 12, 1987; modified November 20, 1987

ORDER affirming prior commission decision granting rate increase for retail electric and natural gas service. For prior decision, see 60 PUR4th 375 (Ky.P.S.C.1984).

P.U.R. Headnote and Classification

1.
APPEAL AND REVIEW

s34 -- Review of decisions of state commissions -- Burden of proof -- Clear and satisfactory evidence.
Ky.Cir.Ct. 1987
Orders of the state public service commission can only be vacated or set aside when the court finds such orders to be unlawful or unreasonable, and the party challenging the order has the burden to prove by clear and satisfactory evidence that the commission's orders are unlawful or unreasonable.
Commonwealth of Kentucky ex rel. David R. Armstrong v Kentucky Public Service Commission
91 P.U.R.4th 329, 1987 WL 258083 (Ky.P.S.C.)
P.U.R. Headnote and Classification

2.
APPEAL AND REVIEW

s32 -- Review of decisions of state commissions -- Scope of review -- Substantial evidence.
Ky.Cir.Ct. 1987
The court's scope of review in examining whether orders of the state public service commission are unlawful or unreasonable is limited, because the court may only consider the transcript submitted to the commission and cannot substitute its judgment for that of the fact-finding body if the order of that body is supported by substantial evidence in the record.
Commonwealth of Kentucky ex rel. David R. Armstrong v Kentucky Public Service Commission
91 P.U.R.4th 329, 1987 WL 258083 (Ky.P.S.C.)

91 P.U.R.4th 329
(Publication page references are not available for this document.)

P.U.R. Headnote and Classification

3.
VALUATION

s224 -- Property used or useful -- Construction work in progress -- Method of valuation.
Ky.Cir.Ct. 1987

Pursuant to Ky.Rev.Stat. § 278.290(1), the state public service commission has the authority to determine the method by which the valuation of all new construction, extensions and additions to the property of a utility is made; therefore, an order allowing a utility to include construction work in progress in its rate base is within commission authority to ascertain and fix the value of utility property, and the commission did not abuse its discretion by not computing the rate on property used and useful.

Commonwealth of Kentucky ex rel. David R. Armstrong v Kentucky Public Service Commission
91 P.U.R.4th 329, 1987 WL 258083 (Ky.P.S.C.)
P.U.R. Headnote and Classification

4.
EVIDENCE

s2 -- Jurisdiction and powers -- State commissions -- Deference to essential rules.
Ky.Cir.Ct. 1987

Pursuant to Ky.Rev.Stat. § 278.310, the commission is not bound by the technical rules of evidence, but the commission cannot completely disregard essential rules by which rights are asserted or defended.

Commonwealth of Kentucky ex rel. David R. Armstrong v Kentucky Public Service Commission
91 P.U.R.4th 329, 1987 WL 258083 (Ky.P.S.C.)
P.U.R. Headnote and Classification

5.
VALUATION

s224 -- Construction work in progress -- Evidence -- Admissibility.
Ky.Cir.Ct. 1987

Evidence concerning construction work in progress was relevant and admissible on the issue of the preferable methodology to be used by the commission in rate making.

Commonwealth of Kentucky ex rel. David R. Armstrong v Kentucky Public Service Commission
91 P.U.R.4th 329, 1987 WL 258083 (Ky.P.S.C.)
P.U.R. Headnote and Classification

6.

RATES

s250 -- Schedules, formalities and procedure -- Effective date -- Retroactive liability.
Ky.Cir.Ct. 1987
A surcharge imposed to recover an annual fee of $95,000 assessed against an electric utility by the Federal Energy Regulatory Commission for the use of certain hydroelectric generating facilities by the utility did not constitute retroactive rate making, because at the time of the hearing, the amount resulting from the new calculation of the fee was still unsettled, and the utility, in its application for a rate increase, had requested recovery for the annual fee including its retroactive liability; the authorization to allow the prospective recovery of this lawful expense, once its amount became certain, was not unlawful retroactive rate making, and was within the discretion of the state commission.
Commonwealth of Kentucky ex rel. David R. Armstrong v Kentucky Public Service Commission
91 P.U.R.4th 329, 1987 WL 258083 (Ky.P.S.C.)
P.U.R. Headnote and Classification

7.
RATES

s249 -- Schedules, formalities and procedure relating to -- Effective date -- Tariff filing.
Ky.Cir.Ct. 1987
It was not reversible error for the state commission to allow increased rates to go into effect immediately upon the date of the order authorizing the revenue increase, but before the date that the utility actually filed its revised tariff.
Commonwealth of Kentucky ex rel. David R. Armstrong v Kentucky Public Service Commission
91 P.U.R.4th 329, 1987 WL 258083 (Ky.P.S.C.)
P.U.R. Headnote and Classification

8.
RATES

s249 -- Schedules, formalities and procedure relating to -- Effective date -- Tariff filing.
Ky.Cir.Ct. 1987
It was valid for the commission, in its May 16, 1984 order, to state that the rates approved therein should be effective for service rendered on or after May 14, 1984, which was the date marked for expiration of the five-month suspension period provided for in Ky.Rev.Stat. § 278.190, because May 14, 1984, was the date on which the electric utility, under the statute, could have legally placed the rate into effect; the utility used forbearance in this respect, and the commission's order recognizes that forbearance and ordinary principles of

fairness allows the utility a rate increase on that date.
Commonwealth of Kentucky ex rel. David R. Armstrong v Kentucky Public Service Commission
91 P.U.R.4th 329, 1987 WL 258083 (Ky.P.S.C.)
Before Graham, C.C.J.:

By the COURT:

This action is a consolidated appeal of an order by the Kentucky Public Service Commission (PSC) granting part of a requested rate increase by Louisville Gas & Electric Company (LG & E) on May 16, 1984 (60 PUR4th 375). Protestants before the PSC include the plaintiffs herein: the Attorney General of Kentucky (AG) and Ford Motor Company and other large industrial customers (Ford Motor).

LG & E filed its notice of application for an increase in rates in November of 1983. The PSC, one week later, pursuant to the provisions of KRS Chapter 278 suspended the operation of these rates until May 14, 1984. Ford Motor and other industrial customers moved to intervene in this rate case and this motion was granted by the PSC. The PSC held a hearing on March 20 through 23, 1984. Evidence was presented by all parties.

On May 16, 1984, the PSC issued its order permitting LG & E to increase its rates for some rate classes and set forth.the new rates in an attached appendix. The order did not set forth new rates for the tariffs LC Time-of- Day (LC T-O-D) and LP Time-of-Day (LP T-O-D) under which Ford Motor and other large industrial plaintiffs are served. Instead, the order directed LG & E to file with the PSC LC Time-of-Day and LP Time-of-Day tariff sheets with supporting work papers within twenty (20) days. The May 16 order of the PSC stated that the effective date of the order was May 14, two days earlier.

On June 5, 1984, LG & E filed the required tariff sheets with supporting data. The tariff sheets stated thereon an effective date of May 14, 1984. On June 26, 1984, LG & E filed with the PSC a motion for "clarification" seeking the PSC's clarification of its intent with respect to the effective date of these Time-Of-Day rates. On August 20, 1984, the PSC issued another order amending its May 16 order. The August 20 order set forth the new rates to be applied under the LC T-O-D and LP T-O-D tariffs and stated that the effective date of these tariffs was May 14, 1984.

On September 12, 1984, Ford Motor and others filed a petition for rehearing before the PSC in which these plaintiffs contested the May 14 effective date of the August 20 order. On October 1, 1984, the PSC issued its final order in this case denying the petition for rehearing.

Both the AG and Ford Motor, et al, appealed to this Court and their separate appeals were consolidated in this action.

The AG argues that the PSC's orders are unlawful and unreasonable on the following grounds:

(1) that the PSC abused its discretion in allowing a cash return on Construction Work In Progress (CWIP);

(2) the PSC's authorization of a surcharge to allow LG & E to recover fees for Federal hydro licenses;

(3) the PSC's admission of rebuttal evidence on the issue of capitalizing

AFUDC (accumulated funds used during construction) was unlawful; and
(4) that the order of the PSC is not adequately supported by findings of fact.
Ford Motor alleges in its complaint that the original orders of the PSC did not set forth the rates for the tariffs LC T-O-D and LP T-O-D and that the PSC's subsequent approval of these new rates in a later order constitutes retroactive ratemaking and is unlawful.
[1] KRS 278.410(1) provides that orders of the PSC can only be vacated or set aside when the Court finds such orders to be unlawful and/or unreasonable. KRS 278.430 provides that the party challenging the order has the burden to prove by clear and satisfactory evidence that the PSC's orders are unlawful or unreasonable.
[2] In this case both the Attorney General and Ford Motor bear the burden of proof to demonstrate that the PSC's orders are unlawful or unreasonable. The Court's scope of review in this respect is limited. The Court may only consider the transcript submitted to the PSC and cannot conduct a de novo review of the record. The Court cannot substitute its judgment for that of the fact-finding body if the order of that body is supported by substantial evidence in the record. Kentucky Energy Regulatory Commission v. Kentucky Power Co., 605 S.W.2d 46 (Ky.Ct.App.1980).
In its May 16, 1984, order the PSC found that on the basis of the evidence in the record, LG & E's rate base should continue to include the CWIP associated with the Trimble County project without any capitalization of AFUDC as proposed by the AG. This issue has been addressed by the Kentucky courts in Citizens Teleph. Co. v. Kentucky ub. Service Commission, 247 S.W.2d 510 (Ky.1952) and Jefferson County Fiscal Court v. Kentucky Pub. Service Commission, 29 PUR4th 143 (Ky.Cir.Ct.1979). These cases have held that the approval of a methodology to be used in ratemaking is properly left to the PSC.
The AG argues that KRS 278.190(3) places the burden of showing that an increased rate is just and reasonable upon the utility and that in this case the PSC has blindly adhered to a past policy of allowing CWIP instead of requiring LG & E to present evidence of why they should be permitted to earn on construction expenditures for a project the fate of which is at best uncertain. The AG argues that the PSC should set rates by computing the rate on property used and useful and cites KRS 278.290(3). The AG argues that the Trimble County project may even be cancelled and could hardly be classified as either used or useful. The AG cites Fern Lake Co. v. Kentucky Pub. Service Commission, 44 PUR3d 357, S.W.2d 701 (Ky.Ct.App.1962) as supporting his argument that ratepayers should not be required to bear the cost of overadequate facilities and that such facilities should be excluded from a rate base.
The PSC points out that it has allowed LG & E to use CWIP for over forty years and on previous occasions has selected that methodology in preference to the methodology designated AFUDC (wherein costs of funds used during construction are capitalized). The Commission argues that it has determined that CWIP is the better methodology and adheres to that determination as within its proper discretion.
In Kentucky Pub. Service Commission ex rel. Stephens v. South Central Bell Teleph. Co., 545 S.W.2d 927 (Ky.1976), the Kentucky High Court noted the legislative mandate directing courts "to keep our judicial fingers out of the

ratemaking pie." The PSC argues, correctly, that the statutory provision relied on by the AG as authority for its "used and useful" argument, KRS 278.290(3), applies only to utilities serving two or more municipalities. Such is not the case here.

[3] The ratemaking standard for valuation of property, applicable to LG & E, is set forth in KRS 278.290(1). In that statute the PSC is empowered to "ascertain and fix the value of the whole or any part of the property of any utility insofar as the value is material to the exercise of the jurisdiction of the Commission ... and ascertain the value of all new construction, extensions and additions to the property of the utility." In this statute the legislature makes no mention of the "used and useful" doctrine. This statute grants to the PSC the authority to determine the methodology by which this valuation is made. Its order allowing LG & E to include CWIP in its rate base lies squarely within the PSC's authority to ascertain and fix the value of a utilities property. The PSC did not abuse its authority and its order on this point is amply supported by the evidence in the record.

[4][5] The AG next argues that the PSC unlawfully allowed the introduction of testimony concerning CWIP as it pertained to Mill Creek units which had previously been completed by LG & E. The AG argues that this evidence was irrelevant and immaterial. The PSC counters that the Commission is not bound by the technical rules of evidence and that the testimony was relevant. KRS 278.310 states that the PSC is not bound by the technical rules of evidence, however, the PSC cannot completely disregard essential rules by which rights are asserted or defended. But this evidence was relevant on the issue of what is the preferable methodology to be used by the Commission in ratemaking.

Next, the AG argues that the PSC's order was not supported by adequate findings of facts and conclusions of law. This argument centered chiefly around the PSC's failure to find that the Trimble County project will at some point be "used and useful". This argument is a weak reed. The PSC's order is supported by ample findings and conclusions. The order is over fifty pages long and the PSC is not required to refute any and all arguments raised by the intervenors in its order. The order contains specific findings of evidentiary facts and conclusions that adequately support the order. County of Marshall v. South Central Bell Teleph. Co., 519 S.W.2d 616 (Ky.Ct.App.1975).

[6] Finally, the AG argues that the PSC's treatment of the hydro license fees constitutes retroactive ratemaking prohibited by Kentucky law. The PSC authorized in its order a surcharge included in the ratemaking to recover an annual fee of $95,000 assessed against LG & E by the Federal Energy Regulatory Commission (FERC). This fee was for the use of McAlpine Dam hydroelectric generating facilities by LG & E. FERC had decided in 1981 to raise its fees when it granted LG& E a thirty year renewal of its license period. At the time of the hearing before the PSC, the amount of this proposed new calculation was still unsettled. FERC had decided to impose the fee retroactively to September, 1981. LG & E, in its application for a rate increase, requested recovery for the annual fee including its retroactive liability. The PSC approved a surcharge for this amount amortized over a thirty year period. The AG complains that this is retroactive ratemaking rather than a future expense.

The problem with the AG's argument is that LG & E's total liability for the

Federal. fee was never determined so as to make it a "past due" amount. Although the new fee was to be effective September 1, 1981, it was not yet due and payable since the methodology of its calculation had not yet been determined. The PSC's authorization to allow the prospective recovery of this lawful expense once its amount became certain is not unlawful retroactive ratemaking. The use of a surcharge to allow LG & E to recoup this amount is clearly within the PSC's discretion. The imposition of such surcharges has been approved by the Kentucky Supreme Court in Kentucky Power Co. v. Kentucky Energy Regulatory Commission, 623 S.W.2d 904 (Ky.1981).

[7] In its complaint, Ford Motor challenges the authority of the PSC to promulgate an order with an effective date earlier than the date of the order. The facts concerning this argument have been set out above. Ford Motor and other intervenors contend that they were given no notice that such an action might be taken. They point out that LG & E could have placed the rates in their application into effect upon the expiration of the suspension period (May 14, 1984) if they had given the PSC notice. LG & E did not give such notice.

The PSC's order was entered on May 16, 1984. The order permitted LG & E to increase its rates. However, the rates for tariffs LC T-O-D and LP T-O-D had not been set forth. Instead, the order instructed LG & E within twenty days to file tariff sheets and supporting work papers. These tariffs were to be effective May 14 as provided in the order. The tariffs were filed by LG & E on June 5. Ford Motor refused to pay the new rates from May 14 to June 5 basing their refusal on KRS 278.160(2) which states: "no utility shall charge ... a greater or less compensation for any service rendered ... than that prescribed in its filed schedules ...." On June 26, LG & E filed a motion for clarification. On August 20, 1984, the PSC amended its May 16 order setting forth new rates applied to LC T-O-D and LP T-O-D. This order stated that these rates were effective May 14, 1984. The PSC cited KRS 278.160 as authority.

Ford Motor argues that KRS 278.160 does not allow the PSC to issue an order with an effective date earlier than the date of the order when the order approves increased utility rates pursuant to KRS 278.180.

KRS 278.160(1) provides that: "under the rules prescribed by the PSC, each utility shall file with the Commission, within such time and in such form as the Commission designates, schedules showing all rates established by it and collected or enforced. The utility shall keep copies of its schedules open to public inspection under such rules as the Commission prescribes." Here the PSC designated that the new tariffs be filed within twenty days subsequent to the effective date of the new rates. This seems to be clearly within the discretion of the PSC. Clearly it is impossible for a utility to file new tariffs immediately upon the granting of a rate increase by the PSC since the utility has no knowledge of what the new rates will be until the order is filed. The PSC's decision to allow LG & E to charge an approved rate immediately upon the date of its approval but prior to the filing of the new tariff is in conformity with the rationale of City of Cleveland v. Federal Power Commission, 525 F.2d 845 (D.C.Cir.1976). The order of the PSC is not a violation of the filed rate doctrine. Ford Motor and the other intervenors were made cognizant of the fact that they would be charged a new rate as of May 14. They made no formal objection during the hearing in which the procedure for increasing the T-O-D rates was discussed. The PSC's order on this point was reasonable and not a violation of the filed rate doctrine.

[8] KRS 278.190(2) provides that after a hearing to determine the reasonableness of new rates "the Commission may make such orders with reference thereto as it deems proper in the matter." In its May 16, 1984 the PSC deemed it proper that the rates approved therein should be effective for service rendered on or after May 14, 1984 (60 PUR4th 375). This date marked the expiration of the five month suspension period provided for in KRS 278.190. May 14, 1984, was the date on which LG & E, under the statute, could have legally placed the suspended rates into effect. LG & E used forbearance in this respect. The PSC's order recognizes that forbearance and based on ordinary principles of fairness allows LG & E a rate increase effective on that date.

This is not retroactive ratemaking. Retroactive ratemaking happens when a rate to be collected in the future is designed to recoup past losses. Here there is no attempt to recoup past losses. Ford Motor cites KRS 466.080(3), but this statute does not apply to the facts at bar. This statute was designed to prohibit the application of a statute to a time prior to its enactment. Such is not the case presented here.

The order of the PSC is reasonable and supported by the facts established in the record. It is AFFIRMED in its entirety.

This is a final and appealable order and there is no just cause for delay.

91 P.U.R.4th 329, 1987 WL 258083 (Ky.P.S.C.)

END OF DOCUMENT

*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*

1131703 - BOEHM KURTZ LOWR

Date and Time Printing Started:	04/18/2000	02:42:21 pm (Central)
Date and Time Printing Ended:	04/18/2000	02:42:22 pm (Central)
Offline Transmission Time:		00:00:01
Number of Requests in Group:	1	
Number of Documents Charged:	1	
Number of Lines Charged:	0	

*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*END*

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. 96-489
AMERICAN ELECTRIC POWER

I, Don Mills, Executive Director of the Public Service Commission, do 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 August 18, 1997.

Parties of Record:

Earl K. Wagner
Bruce F. Clark
Elizabeth E. Blackford
Michael L. Kurtz,

Don Mills

Executive Director

DM /sa
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY d/b/a AMERICAN ELECTRIC POWER TO ASSESS A SURCHARGE UNDER KRS 278.183 TO RECOVER COSTS OF COMPLIANCE WITH THE CLEAN AIR ACT AND THOSE ENVIRONMENTAL REQUIREMENTS WHICH APPLY TO COAL COMBUSTION WASTE AND BY-PRODUCTS	CASE NO. 96-489

O R D E R

On July 8, 1997, the Commission granted rehearing on the issue of including short-term debt in the capital structure for Kentucky Power Company, d/b/a American Electric Power ("Kentucky Power"). Kentucky Power was ordered to provide the balances for short-term debt, long-term debt, and common equity as well as the calculations showing the determination of the blended interest rates for short-term and long-term debt as of December 31, 1996. Any request for a hearing on the determination of the amount and cost of Kentucky Power's short-term debt was to be filed within 15 days of the July 8, 1997 Order.

Kentucky Power filed the requested information on July 16, 1997 and no party has requested a hearing on this issue. The information indicates that Kentucky Power's weighted average cost of capital as of December 31, 1996 was 9.215 percent.[1] After adjusting the common equity weighted average cost of capital component for income tax gross-up, the overall weighted average cost of capital is 12.45 percent.[2]

In its May 27, 1997 Order, the Commission established Kentucky Power's weighted average cost of capital to be 9.412 percent based on a capital structure that included only long-term debt and common equity as of December 31, 1996. As noted in the July 8, 1997 Order, detailed information on Kentucky Power's short-term debt as of December 31, 1996[3] was not then in the record. That information having now been provided, the Commission finds it appropriate to include short-term debt as a component of Kentucky Power's capital structure. This results in a weighted cost of capital of 9.215 percent which should be used for all environmental surcharge filings subsequent to the date of this Order.

Also pending is Kentucky Power's motion for the Commission to clarify its prior Orders to provide explicitly that any difference between the surcharge amount collected

---

[1] The Weighted Average Cost of Capital, before income tax gross-up, is determined as follows:

	Capital Structure	Cost	Weighted Cost
Long-Term Debt	49.85%	7.844%	3.910%
Short-Term Debt	8.79%	6.248%	.549%
Common Equity	41.36%	11.500%	4.756%
Weighted Average Cost of Capital			9.215%

[2] Response to the Commission's July 8, 1997 Order, page 1 of 3.

[3] Case No. 96-489, July 8, 1997 Order, at 11.

or refunded and the amount ultimately allowed can be recovered, with interest, through the surcharge should it ultimately be determined that Kentucky Power is entitled to more cost recovery than it has collected.

Traditionally, when the Commission modifies a rate order on rehearing, the modification operates prospectively only since an implementation back to the original rate order would constitute impermissible retroactive rate-making. See Western Kentucky Gas Co. v. Public Service Commission of Kentucky, et al., Ky.App., No. 93-CA-001600-MR (Slip Opinion dated December 2, 1994) (Copy attached hereto as Appendix A.) The only exception to this cardinal rule of rate-making is when the modification is limited to correcting mathematical or clerical errors, since in such cases an implementation back merely effectuates the Commission's originally expressed intent. See Kentucky Power Co. v. Energy Regulatory Commission, Ky., 623 4S.W.2d 904 (1981), and Mike Little Gas Co. v. Public Service Commission, Ky.App., 574 S.W.2d 926 (1978).

Based on these precedents, the modification approved herein to reflect short-term debt in Kentucky Power's capital structure will operate prospectively only since the May 27, 1997 Order did not specify the inclusion of short-term debt. In the event the Commission's Orders are vacated in whole or in part by a court and remanded to the Commission for subsequent modification, whether such modification operates prospectively or retroactively will depend on the nature and scope of the court's remand and the established legal precedents. Thus, the Commission finds no basis to modify its prior Orders to provide that any subsequent modification will be implemented retroactively as Kentucky Power now requests.

IT IS THEREFORE ORDERED that:

1. Kentucky Power shall use a weighted average cost of capital of 9.215 percent in all monthly environmental surcharge filings subsequent to the date of this Order.

2. All other provisions and requirements set forth in the Commission's May 27, 1997 Order shall remain in full force and effect.

3. Kentucky Power's motion for clarification of prior Orders to provide that any subsequent modifications will be implemented retroactively is denied.

Done at Frankfort, Kentucky, this 18th day of August, 1997.

By the Commission

ATTEST:

Don Mills

Executive Director

APPENDIX A

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 96-489 DATED AUGUST 18, 1997

RENDERED: DECEMBER 2, 1994; 2:00 p.m.
NOT TO BE PUBLISHED

RECEIVED
DEC 1994
GENERAL COUNSEL

Commonwealth Of Kentucky

Court Of Appeals

NO. 93-CA-001600-MR

WESTERN KENTUCKY GAS COMPANY APPELLANT

v.

APPEAL FROM FRANKLIN CIRCUIT COURT
HONORABLE WILLIAM L. GRAHAM, JUDGE
ACTION NO. 91-CI-000874

PUBLIC SERVICE COMMISSION OF KENTUCKY;
ATTORNEY GENERAL OF KENTUCKY;
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS;
MARTHA SUE HOLMES;
WESTERN KENTUCKY LEGAL SERVICES;
LOGAN ALUMINUM, INC. AND
EVERETT N. BRAWNER APPELLEE

OPINION
AFFIRMING

* * *

BEFORE: DYCHE, JOHNSON, AND SCHRODER, JUDGES.

SCHRODER, JUDGE: This is an appeal from a judgment of the Franklin Circuit Court affirming an order of the Kentucky Public Service Commission regarding rates and charges for services to be charged by appellant. After reviewing appellant's arguments, the record herein, and the applicable law, we likewise affirm.

Kentucky Gas Company ("Western") was acquired by another corporation, Atmos Energy ("Atmos"), in 1987. The transfer was structured such that the existing deferred tax balance on the books of Western was zeroed out or eliminated. On February 13, 1990, Western filed proposed rate schedules with the Public Service Commission of Kentucky (the "Commission") seeking an 8% increase in revenue (an $8.9 million increase). Under KRS 178.180, Western proposed to make the new rates effective on March 15, 1990. Pursuant to KRS 278.190, the Commission suspended implementation of the proposed rate increases for five months thereafter.

Following exhaustive discovery by the Commission, the Commission held a public hearing on Western's proposed rates on June 20-22 and June 27-28, 1990. On September 13, 1990, the Commission entered an order increasing Western's annual revenues approximately $1.0 million. The main reason Western's full requested rate increase ($8.9 million) was denied was because the Commission utilized a deferred income tax adjustment, which attempted to re-create the balance eliminated when Atmos acquired Western.

When rates are set by the Commission, the amount of a utility's deferred taxes is either deducted from the amount of property dedicated to utility service (rate base) or included as an item of capital with no cost. The effect is to reduce the level of income which the utility would otherwise be permitted to earn by reducing the amount of property upon which the return is earned. In other words, if the Commission did not utilize the deferred income tax adjustment, the utility would be allowed to charge a higher rate, whereas if the Commission did apply the deferred income tax adjustment, it would result in a lower rate to be charged. In arriving at its order of September 13, 1990, the Commission did apply the deferred income tax adjustment by effectively reconstructing the asset, and subsequently applied a lower rate.

Thereafter, pursuant to KRS 278.400, Western requested and was granted a rehearing. After a second public hearing, which considered new evidence, the Commission entered its rehearing order on May 29, 1991, in which it decided not to utilize the deferred tax adjustment and, thus, increased Western's rates by an additional $2.6 million in annual revenues. In so doing, the Commission stated:

> The Commission has determined that the findings contained in the original Order with regard to the rate-making treatment of the transfer-related deferred tax losses are valid, theoretically sound, and would fairly reflect and account for the sources of funds used for investment in utility assets if not for the rulings of the Internal Revenue Service. The uncontested testimony in the rehearing reflects that if the Commission applies this rate-making treatment in this instance, the utility will be subject to rulings of the Internal Revenue Service which would preclude it from utilizing accelerated depreciation for tax purposes. Accelerated depreciation provides, through the normalization process in rate-making, funds from capital investment. The risk of loss of such tax benefits would not be in the best interests of the utility or the ratepayers. Due to the violation of normalization requirements, the Commission finds it appropriate to remove the adjustment for Transfer Related Deferred Tax Losses.

Western had also requested on rehearing a remedial surcharge to recover the lost revenue in the event the Commission reversed its prior ruling and granted a greater increase. The Commission denied Western's request on grounds that it would constitute "retroactive ratemaking".

Western thereafter appealed to the Franklin Circuit Court, which affirmed the Commission's Rehearing Order. From that judgment, Western now appeals.

Western first argues that its constitutional due process rights were violated when the Commission applied the "surprise" deferred income tax adjustment in its original order without giving reasonable advance notice to Western that such an adjustment was under consideration at the time of the first public hearing. Western maintains that because it did not have notice that the Commission was contemplating utilizing the deferred income tax adjustment (which it had never utilized before), it was unconstitutionally precluded at the hearing from presenting evidence to prove the impropriety of such an adjustment.

First, as the circuit court pointed out, Western should not have been surprised by the application of the deferred income tax adjustment, because it appears from the record that both the Commission and the Attorney General made various data requests of Western regarding its deferred taxes and, in particular, its deferred investment tax credit. This inquiry was all due to Atmos's structuring the purchase of Western so as to eliminate the existing deferred tax balance on its books. Secondly, in our view, the Commission was not obliged to inform Western at the initial hearing what its decision would be and how it would arrive at such decision. The Commission should not be required to know at the time of the hearing how it would rule and why. That is the purpose of the hearing. Lastly, the only new evidence presented by Western at the second hearing was regarding the tax consequences and policy consideration of utilizing the deferred income tax adjustment. On rehearing, the Commission simply took the same financial evidence it had before it in the first hearing and decided for policy reasons not to utilize the deferred income tax adjustment, not because it erred in using such an adjustment.

Western next argues that the Commission violated KRS 278.190(3) in not issuing a ruling within ten months after the filing for a rate increase, since the first order was allegedly unconstitutional and the order on rehearing was not entered until some fifteen months after such filing. We believe this argument to be without merit. KRS 278.190(3) states as follows:

> At any hearing involving the rate or charge sought to be increased, the burden of proof to show that the increased rate or charge is just and reasonable shall be upon the utility and the commission shall give to the hearing and decision of such questions preference over other questions pending before it and decide the same as speedily as possible, and in any event not later than ten (10) months after the filing of such schedules.

Notwithstanding that the Commission later reversed its original order, the Commission in good faith entered this first order (which was constitutional) within seven months of Western's filing. The separate statute controlling rehearings, KRS 278.400, states that applications for rehearing must be filed within twenty days of the Commission's order, and the Commission shall grant or deny the rehearing request within twenty days after the application for rehearing has been filed or the application is considered denied. Neither statute provides or implies that rehearing orders must also be entered within ten months of the filing of the rate increase and such an interpretation of these statutes would be absurd.

Western's third and fourth arguments will be considered together. Western argues that the Commission erred in refusing to grant it a remedial surcharge for the revenue lost between the time of the original order and the rehearing order. The Commission and the circuit court both found that a remedial surcharge could not be permitted as it would constitute "retroactive ratemaking." KRS 278.180(1) provides as follows:

> Except as provided in subsection (2) of this section, no change shall be made by any utility in any rate except upon thirty (30) days' notice to the commission, stating plainly the changes proposed to be made and the time when the changed rates will go into effect. However, the commission may, in its discretion, based upon a showing of good cause in any case, shorten the notice period from thirty (30) days to a period of not less than twenty (20) days. The commission may order a rate change only after giving an identical notice to the utility. The commission may order the utility to give notice of its proposed rate increase to that utility's customers in the manner set forth in its regulations.

KRS 278.270 states:

> Whenever the commission, upon its own motion or upon complaint as provided in KRS 278.260, and after a hearing had upon reasonable notice, finds that any rate is unjust,

> unreasonable, insufficient, unjustly discriminatory or otherwise in violation of any of the provisions of this chapter, the commission shall by order prescribe a just and reasonable rate to be followed in the future.

From our reading of the above statutes, we agree that the Commission can only set rates prospectively. KRS 278.190 is the only statute that allows for any retroactive action in that it requires a utility to refund any increased charges during the pendency of a requested rate increase if the Commission later disallows the increase in its order.[1] There is no allowance in the statute for the converse of that situation.

Western cites to two cases which it claims authorize a remedial surcharge in this case. In Kentucky Power Co. v. Energy Regulatory Commission of Kentucky, Ky., 623 S.W.2d 904 (1981), the Commission found that the utility was entitled to earn an additional $7.0 million in revenues. However, the rates which were set by the Commission would produce only $3.5 million in increased revenues. In that case, the circuit court ordered that the Commission set rates that would produce $7.0 million in revenues and further allowed a remedial surcharge to enable the utility to recoup its losses from the time of the order. We believe the case at bar is distinguishable from Kentucky Power Co., supra, in that

---

[1]It should further be noted that KRS 278.190(2) provides that if the Commission has not issued an Order determining the fair, just, and reasonable rates for a utility at the expiration of the five month suspension period, the utility has the legal right to put its proposed rates into effect, subject to refund. In the instant case, Western was entitled to put its proposed rates into effect, subject to refund on August 15, 1990. Western chose not to put its rates into effect on that date even though it had the legal right to do so.

there was no such inconsistency or error in the Commission's original order in the present case. In that order, the Commission found that Western was entitled to earn an additional $1.0 million in revenues and set rates which would produce $1.0 million in additional revenues. In the instant case, the Commission reversed itself for policy reasons only after Western presented new evidence of tax consequences on rehearing. Only then did the Commission find that Western was entitled to earn an additional $2.6 million in revenues.

Even more distinguishable is the case of Mike Little Gas Co., Inc. v. Public Service Commission of Kentucky, Ky. App., 574 S.W.2d 926 (1978), wherein the Court held that the Commission could correct an obvious clerical error in its order and give it retroactive effect. In the present case, the Commission did not make an obvious clerical error. Further, the error in Mike Little Gas Co., supra, was in the utility's favor and, thus, the retroactive effect of the correction was that the ratepayers were entitled to a refund, which, as stated previously, has been authorized by statute.

In sum, we agree with the lower court that the requested remedial surcharge would constitute retroactive ratemaking and, thus, could not be permitted.

For the reasons stated above, the judgment of the Franklin Circuit Court is affirmed.

ALL CONCUR.

ATTORNEYS FOR APPELLANT:

Mark R. Hutchinson
Owensboro, Kentucky

Richard S. Taylor
Frankfort, Kentucky

ATTORNEY FOR APPELLEE, PUBLIC SERVICE COMMISSION OF KENTUCKY:

Rebecca Woodside Goodman
Frankfort, Kentucky

ATTORNEYS FOR APPELLEE, ATTORNEY GENERAL OF KENTUCKY:

Chris Gorman
Attorney General

William Edwin Doyle
Assistant Attorney General
Frankfort, Kentucky

APPELLEE, KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, NOT REPRESENTED BY COUNSEL

ATTORNEY FOR APPELLEE, MARTHA SUE HOLMES:

Anthony G. Martin
Lexington, Kentucky

ATTORNEY FOR APPELLEE, WESTERN KENTUCKY LEGAL SERVICES:

Thomas L. Gilmore
Madisonville, Kentucky

ATTORNEY FOR APPELLEE, LOGAN ALUMINUM, INC.:

C. Kent Hatfield
Louisville, Kentucky

APPELLEE, EVERETT N. BRAWNER, PRO SE
Hopkinsville, Kentucky

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. 95-011
BIG RIVERS ELECTRIC CORPORATION

I, Don Mills, Executive Director of the Public Service Commission, do 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 April 1, 1997.

Parties of Record:

Honorable Michael L. Kurtz
Honorable John Bickel
Honorable David C. Brown
Honorable James Miller
Mr. Paul A. Schmitz
Honorable Allison Wade
Honorable DENNIS HOWARD II

Don Mills
Executive Director

DM /hv
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.; NSA, INC.; ALCAN INGOT; AND COMMONWEALTH ALUMINUM CORPORATION

COMPLAINANTS

v.

BIG RIVERS ELECTRIC CORPORATION

DEFENDANT

) CASE NO. 95-011

O R D E R

Kentucky Industrial Utility Customers, Inc. ("KIUC") and three of its members have brought a complaint against Big Rivers Electric Corporation ("Big Rivers") in which they seek the refund of $5,992,736, plus interest, of unreasonable fuel charges related to Amendment No. 1 to Contract No. 527. Big Rivers has moved for dismissal of the complaint. Its motion poses the following issue: Does the prohibition against retroactive rate-making bar this Commission from re-examining the reasonableness of fuel charges previously reviewed and approved in a biennial fuel adjustment clause review? Finding in the affirmative, we grant Big Rivers' motion and dismiss the complaint.

BACKGROUND

On May 5, 1982, Big Rivers and Green River Coal Company ("Green River") entered Contract No. 527 for coal deliveries to Big Rivers' Wilson Plant over a twenty-year period. Less than two years after deliveries began, however, Green River began complaining about the manner in which productivity changes were factored into price adjustments and requested modifications to the contract.

Contract No. 527 provided for adjusting the labor, insurance, and benefits cost elements included in the base price in direct proportion to changes in labor productivity for western Kentucky underground mines as reported by the U.S. Department of Energy. Increases in productivity reduced the contract coal price while productivity decreases raised it. Contract No. 527 established a base productivity factor of 1.45 tons per man-hour. This factor rose to 2.02 in 1983 and to 2.19 in 1984. In 1985 it fell to 2.11.

To assist its review of Green River's request, Big Rivers retained mining engineer Aubrey Cornette to report on expected changes in underground mining activity. In August 1986 Cornette reported, that "I know of no reliable way of predicting what the productivity rates might do in the future at Western KY underground coal mines."[1]

In December 1986, Big Rivers and Green River agreed to modify the productivity formula to freeze the productivity factor at 2.11 tons per man-hour. No document, however, was executed. In December 1987, Big Rivers received preliminary data for the year 1986 that showed a large improvement in productivity. Based on the preliminary productivity data, the agreed modification would have increased the 1988 price for coal by $2.84 over the price charged Big Rivers under the contract. Big Rivers withdrew the proposal.

Less than two months later in February 1988, Big Rivers and Green River executed Amendment No. 1. The Amendment fixed the productivity factor for 1988 at 2.19 tons per man-hour and limited future changes to .06 tons per man-hour per year. Big Rivers' management acted on the belief that Green River had a strong basis to claim that the

---

[1] Focused Management Audit of Big Rivers Electric Corporation Fuel Procurement ("Overland Report"), May 1993, at Exhibit 15.1.

productivity index was inapplicable and that Big Rivers would have considerable exposure if Green River litigated its claim. They viewed Amendment No. 1 as safer than arbitration. The immediate effect of Big Rivers' decision to enter Amendment No. 1 was a price increase of $2.10 per ton.

After Amendment No. 1's execution, Big Rivers filed a copy of the agreement with the Commission.[2] In Cases No. 10436[3] and No. 90-360,[4] which were biennial reviews of the operation of Big Rivers fuel adjustment clause ("FAC"), the Commission reviewed, inter alia, fuel charges associated with Amendment No.1 for these periods and approved them.

---

2 Administrative Regulation 807 KAR 5:056, Section 1(7) provides:

> At the time the fuel clause is initially filed, the utility shall submit copies of each fossil fuel purchase contract not otherwise on file with the commission and all other agreements, options or similar such documents, and all amendments and modifications thereof related to the procurement of fuel supply and purchases power. Incorporation by reference is permissible. **Any changes in the documents, including price escalations, or any new agreements entered into after the initial submission, shall be submitted at the time they are entered into.** Where fuel is purchased from utility-owned or controlled sources, or the contract contains a price escalation clause, those facts shall be noted and the utility shall explain and justify them in writing. Fuel charges which are unreasonable shall be disallowed and may result in the suspension of the fuel adjustment clause. The commission on its own motion may investigate any aspect of fuel purchasing activities covered by this regulation [emphasis added].

3 Case No. 10436, An Examination By the Public Service Commission of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation From November 1, 1986 To October 31, 1988 (March 31, 1989).

4 Case No. 90-360, An Examination By the Public Service Commission of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation From November 1, 1988 To October 31, 1990 (April 3, 1991).

On July 7, 1992, the Commission initiated Case No. 90-360-C[5] to review the operation of Big Rivers' FAC for the six-month period ending April 30, 1992. While this case was pending, the Commission learned of a federal government investigation into possible criminal violations involving coal sales to Big Rivers. Big Rivers disclosed to the Commission possible conflicts of interest between its former General Manager William Thorpe and a coal supplier.

Based upon these developments and the level of Big Rivers' fuel costs, the Commission determined that a thorough investigation of Big Rivers' fuel procurement practices was necessary. It retained an independent auditing firm, Overland Consulting, Inc. ("Overland"), to identify opportunities for improvements in the management and operation of Big Rivers' fuel procurement function and to determine whether Big Rivers' fuel procurement strategies and practices were appropriate and resulted in reasonable fuel costs for the period since November 1, 1990.[6]

On May 22, 1993, Overland issued a 353-page report on its findings. As to Amendment No. 1, it concluded:

> Amendment No. 1 to Green River Coal Contract No. 527 changed the method for calculating price escalations under the contract. While Green River Coal had made a claim that the existing escalation procedure was unfair and should be modified, Green River Coal's claim had little merit. Big Rivers was not under any legal obligation to agree to Amendment No. 1 to the Green River Coal Contract No. 527. **That amendment resulted in Big Rivers incurring an immediate price increase of $2.10 per ton and $11.2 million in increased costs over the period January 1988 through December**

---

5 Case No. 90-360-C, An Examination By the Public Service Commission of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 1991 to April 30, 1992.

6 Case No. 90-360, Order of November 4, 1992 at 1-2; Overland Report at 1-5.

> **1992.** Amendment No. 1 to Contract No. 527 caused an increase in fuel costs of $5.2 million during the FAC audit period beginning on November 1, 1990 and ending on December 31, 1992. **The increased costs resulting from Amendment No. 1 to Contract No. 527 are unreasonable costs.**

Overland Report at 1-12 (emphasis added). Overland subsequently revised its calculation of unreasonable costs to approximately $5.85 million to reflect the period from November 1, 1990 through April 30, 1993.[7]

In its Order of July 20, 1994 in Case No. 90-360-C, the Commission concurred with Overland's conclusion and ordered, inter alia, that Big Rivers refund $5.85 million in increased fuel costs associated with Amendment No. 1 for the period from November 1, 1990 to April 30, 1993. The Commission did not address the question of unreasonable fuel costs related to Amendment No. 1 which Big Rivers may have incurred prior to November 1, 1990.

KIUC is a Kentucky corporation which is composed of large industrial users of electricity and other utility services. NSA, Inc., Alcan Aluminum Company, and Commonwealth Aluminum Corporation are members of KIUC. They represented approximately 55.07 percent of Big Rivers's annual sales for the 1995 calendar year.

During Case No. 90-360-C, the Complainants sought to raise the issue of the unreasonable Amendment No. 1 costs incurred prior to November 1, 1990. Through the written testimony of its witnesses, they sought recovery of those fuel costs. Granting Big Rivers' motion to strike references to these costs in that testimony, the Commission

---

[7] Letter to Gerald Wuetcher (PSC Counsel) from Ridley M. Sandidge (Big Rivers Counsel) of 11/23/93 (submission of revised Overland estimates).

stated: "From the outset the Commission has consistently held that these proceedings are necessarily confined to the operation of Big Rivers' fuel adjustment clause ("FAC") from November 1, 1990 to April 30, 1993."[8] Leaving open the question of whether these costs might be addressed in a future proceeding, the Commission stated in a footnote:

> Questions of HOW, WHY, WHEN, et al., concerning Commission review of Big Rivers' fuel expenses for periods, prior to November 1, 1990 will, no doubt, be addressed at a later date.

Id. at 1 n.1.

Construing this footnote as an invitation for further Commission proceedings,[9] the Complainants on January 11, 1995 filed a complaint with the Commission in which they sought the refund of $5,992,736 plus interest for unreasonable fuel costs which Big Rivers incurred **prior to November 1, 1990** as a result of Amendment No. 1. Big Rivers moved to dismiss the complaint.[10] All parties have been afforded the opportunity to submit memoranda on the motion.

---

8 Case No. 90-360-C, Big Rivers Electric Corp. (Oct. 1, 1993) at 1.

9 The significance which the Complainants have given to this footnote is misplaced. It was made at an early phase in the proceeding before the filing of all testimony and briefs. The Commission's subseqent actions, moreover, should have dispelled any impression that this matter was still ripe for further proceedings. In its opening statement to the parties at the hearing in Case No. 90-360 on October 27, 1993, the Commission through its Chairman stated that the Commission would not "conduct postmortems" on prior Commission proceedings. PSC Case No. 90-360-C, Transcript, Vol. I at 7. The lack of discussion on this issue in the Commission's Order of July 21, 1994 further suggested that additional proceedings were no longer considered appropriate.

10 The Attorney General of Kentucky is also a party to this proceeding. On March 1, 1995, the Commission granted his motion for leave to intervene.

DISCUSSION

In its motion to dismiss, Big Rivers argues that the relief which the Complainants seek is barred by the prohibition against retroactive rate-making. Having previously examined and approved the fuel charges in question in Cases No. 10436 and No. 90-360, it contends that the Commission may not re-examine those costs now.

Opposing this position, the Complainants argue that, in special circumstances and in the interests of justice, the Commission may set future rates to remedy past rate-making errors. Moreover, they argue, the general prohibition against retroactive rate-making does not apply to fuel adjustment clause proceedings. They further note that nothing within Administrative Regulation 807 KAR 5:056 prohibits the re-examination of previously approved fuel charges in unusual circumstances. At the time of Cases No. 10436 and 90-360, Complainants further state, the Commission did not know that Contract No. 527 and Amendment No. 1 were procured through fraud.

The rule against retroactive rate-making is a "generally accepted principle of public utility law which recognizes the prospective nature of utility rate making and prohibits regulatory commissions from rolling back rates which have already been approved and become final." MGTC, Inc. v. Pub. Serv. Comm'n, 735 P.2d 103, 107 (Wyoming 1987). It further prohibits regulatory commissions, when setting utility rates, from adjusting for past losses or gains to either the utility, consumers, or particular classes of consumers. The rule "rewards the utility's efficiency and protects the consumer from surprise surcharges allocable to the utility's losses in prior years . . . [and] ensures fairness, stability and certainty by preventing a regulatory agency from reversing prior approved rates." Wisconsin Power and Light Co. v. Pub. Serv. Comm'n, 511 N.W.2d 291, 297 (Wis. 1994)

(Abrahamson, J., dissenting). The rule is limited to traditional or general rate-making proceedings. MGTC, Inc. v. Pub. Serv. Comm'n, 735 P.2d at 107; Southern California Edison Co. v. Pub. Util. Comm'n, 576 P.2d 945.

The use of FACs, however, is not rate-making in the traditional or classical sense of that term. Business and Professional People For The Public Interest v. Illinois Commerce Comm'n, 525 N.E.2d 1053, 1058 (Ill. App. Ct. 1988). FACs are designed to pass identifiable costs directly to ratepayers. While they are thus integral to computing the amount the consumer ultimately pays, they are not used to calculate "commission-established" rates. Rather, they are used to incorporate changes in identifiable costs into "commission-established" rates. Because the pass-through of costs calculated under an FAC goes into effect without advance approval, a utility cannot validly expect that charges thus collected will be insulated from later review and modification if unreasonable. Courts have therefore concluded that a regulatory agency's use of a fuel adjustment clause is not an act of rate-making subject to the rule against retroactive rate-making.[11]

Administrative Regulation 807 KAR 5:056 perfectly illustrates this point. Pursuant to this regulation, a base fuel cost is established. Each month an electric utility makes an adjustment per kilowatt hour of sales to reflect the difference between its base cost of fuel and its actual cost of fuel. The adjustment appears on customer bills as a separate line

---

11 See, e.g., MGTC, Inc. v. Pub. Serv. Comm'n, 735 P.2d 103, 107 (Wyoming 1987); Maine Pub. Advocate v. Pub. Util. Comm'n, 476 A.2d 178 (Me. 1984); Southern California Edison Co. v. Public Util. Comm'n, 576 P.2d 945, 954-55 (Cal. 1978); Equitable Gas Co. v. Pennsylvania Pub. Util. Comm'n, 526 A.2d 823, 830-31 (Pa.Commw. 1987); Metropolitan Edison Co. v. Pennsylvania Pub. Util. Comm'n, 437 A.2d 76, 79-80 (Pa.Commw. 1981); Consumer Protection Bd. v. Pub. Serv. Comm'n, 449 N.Y.S. 65, 67 (N.Y. App.Div. 1982).

item and is added to charges resulting from "Commission-established" rates. The monthly adjustment occurs automatically and does not require immediate Commission approval. Because these adjustments are automatic, the Commission performs periodic reviews of each FAC in which it may disallow unreasonable fuel charges due to improper fuel procurement practices. 807 KAR 5:056, § 1(11) and (12).

The Commission finds no legal authority for the Complainants' contention that FAC charges are never final and are always subject to Commission review and revision. Neither Administrative Regulation 807 KAR 5:056 nor KRS Chapter 278 supports such a broad proposition. Some degree of finality and stability must be maintained. "Even a public utility," the Kentucky Court of Appeals has noted, "has some rights, one of which is the right to a final determination of its claim within a reasonable time and in accordance with due process." Kentucky Power Co. v. Energy Regulatory Comm'n, Ky.App, 623 S.W.2d 904, 908 (1981). Once the Commission has completed its biennial review of a utility's fuel costs and approved the fuel charges rendered in the biennial period, therefore, these charges achieve the status of commission-established rates. At that point, the rule against retroactive rate-making prevents the Commission from re-examining them.[12]

---

[12] In another forum Big Rivers has argued that Commission approval of costs associated with a fuel procurement contract in a FAC biennial review proceeding precludes Commission review of that fuel procurement contract or its costs in future FAC review proceedings. (For example, Commission approval of Big Rivers' fuel charges for the two year period ending October 31, 1988, which included costs associated with Amendment No. 1, precludes the Commission from questioning the reasonableness of costs associated with Amendment No. 1 that Big Rivers incurred in the two year period ending October 31, 1996.) The Commission's decision this day should not be interpreted as acceptance of that argument. To the contrary, the Commission has opposed that argument in judicial proceedings and continues to maintain that Administrative Regulation 807 KAR 5:056 requires it to review the reasonableness of fuel procurement contracts and fuel cost on a constant basis. Determinations in prior FAC biennial reviews are not binding upon the Commission in subsequent FAC reviews.

In Wisconsin Power & Light Co. v. Pub. Serv. Comm'n, 511 N.W.2d 291 (Wis. 1994), the Wisconsin Power and Light Company ("WPL") appealed an order of the Wisconsin Public Service Commission which required the refund of $9 million of fuel costs which WPL incurred over a 15-year period (1974 to 1989) from its imprudent administration of a coal supply contract. The Wisconsin Public Service Commission's action came despite ten previous annual fuel adjustment reviews in which the fuel charges were approved.[13]

On appeal, the Wisconsin Supreme Court upheld a lower court's reversal of the Wisconsin Public Service Commission's Order as retroactive rate-making. It specifically rejected the argument that fuel charges collected through a fuel adjustment clause are always subject to refund. Noting that the Wisconsin Public Service Commission had specifically approved such charges in annual reviews conducted between 1974 and 1984, the Court stated:

> The record is unclear as to how carefully the commission actually did review each rate order prior to 1984. This, however, is irrelevant because, as noted above, the PSC had the power to review WPL's records. In 14 previous rate orders--some while FACs were in place and others subject to standard administrative review--the PSC never questioned the price WPL paid for coal. Former commissions that issued these orders did their jobs and discharged their statutory duty to set just and reasonable rates for the future. At no time did consumers pay more than the rate approved by the PSC. Thus, WPL did not violate the filed rate doctrine.
>
> The PSC not only had the power and responsibility to audit WPL's fuel costs and rates in general, but also represented that it regularly did perform such audits. When

---

[13] Between 1974 and 1984, WPL had a fuel adjustment clause which permitted an automatic passthrough of fuel costs subject to the Wisconsin Public Service Commission's annual review. In October 1984, the Wisconsin Legislature prohibited electric utilities from setting rates based upon automatic fuel adjustment clauses. See Wis. Stat. 196.20(4).

> the commission had concerns about a utility's use of a FAC, it would approve the utility's rates on an interim basis, with the explicit condition that the utility would refund fuel costs to the consumers if those costs were later found to be unreasonable. This court approved that practice in Friends of the Earth, 78 Wis.2d at 412-13, 254 N.W.2d 299. However, in that case, this court made it clear that the PSC could not order the refund of revenue collected under unconditional rates. The rate orders in question here were unconditional. Hence, the commission is now attempting to do precisely what we found to be illegal in Friends of the Earth.
>
> This commission appears to be frustrated by the bounds of its authority. It is precluded by statute from correcting what it now considers to be errors made by the commission between 1974 and 1989. The current PSC believes that 14 previous rate orders, allowing WPL to recover the cost of coal under the WECO contract, were wrong. However, during that entire period, the PSC had at its disposal the mechanisms and authority to review WPL's coal costs. The commission did review WPL's costs and did audit the utility's practices and performance from 1974 to 1989 and regularly approved WPL's rates as just and reasonable.
>
> In this case, WPL indisputably collected no more from consumers for its coal costs than it paid to vendors. This is exactly what the PSC approved when it issued each of the rate orders in question. The commission has now ordered WPL to refund part of these fuel costs because it believes WPL acted imprudently in managing its coal contract with WECO. **Having approved WPL's rates, including the utility's expected coal costs, 14 times, the PSC cannot now claim that WPL must return this money.** We hold that the PSC's order constitutes impermissible retroactive rate-making. Therefore, we affirm the decision of the court of appeals.

Id. at 296 - 297 (emphasis added).

The present case is very similar to Wisconsin Power & Light. As in that case, the Commission reviewed fuel charges which Big Rivers incurred under Amendment No. 1

in five different reviews. Two of these proceedings were biennial reviews. In each instance, the Commission approved Big Rivers' fuel charges. No exception or challenge against Amendment No. 1 was taken. Having approved those charges, the Commission is barred from re-examining them.[14]

Recognizing that the prohibition against retroactive rate-making precludes its requested relief, Complainants argue that an exception exists "when the utility itself causes the failure of the utility [regulatory commission] to exercise its proper regulatory oversight in setting rates." Complainants' Memorandum at 18. Several courts have recognized the existence of such an exception.[15]

Complainants further argue that, as Big Rivers misled the Commission during prior FAC proceedings, the exception is applicable to this case. In support of their contention of improper and misleading conduct, Complainants point to the failure of then Big Rivers Vice-General Manager of Fuels Joe Craig to note the execution of Amendment No. 1 when cross-examined about renegotiated coal contracts during a hearing in Case No.

---

14 Citing Mike Little Gas Co. v. Pub. Serv. Comm'n, Ky.App., 574 S.W.2d 926 (1978), and Kentucky Power Co. v. Energy Regulatory Comm'n, Ky.App, 623 S.W.2d 904 (1981), the Complainants assert that the Commission has the authority "to set future rates to remedy past ratemaking errors in special circumstances and in the interests of justice." Complaint at 11. Neither case, however, is applicable. The decision in Mike Little Gas Co. dealt with an "obvious clerical error" in a Commission order. Any errors in the Commission's Orders in prior FAC review cases were neither clerical nor obvious. The issue in Kentucky Power Co. was the scope of judicial review of Commission decisions, not retroactive rate-making.

15 Southwest Gas Corp. v. Pub. Serv. Comm'n, 474 P.2d 379 (Nev. 1970); Richter v. Florida Power Corp., 366 So.2d 798 (Fla. App. 1979); Matter of Minnesota Pub. Util. Comm'n, 417 N.W.2d 274 (Minn. App. 1987); Salt Lake Citizens v. Mountain States Telephone & Telegraph Co., 846 P.2d 1245 (Utah 1992).

10436-C. Their allegations are similar to those which they made in Case No. 90-360-C. Citing the same evidence, Complainants' witnesses alleged that Craig falsified his testimony to conceal the existence of Amendment No. 1.[16]

Assuming arguendo that a fraud exception to the prohibition against retroactive rate-making exists, Complainants fail to cite any instance of fraud or deception upon Big Rivers' part. Contrary to Complainants' claims that Big Rivers sought to evade Commission review of Amendment No. 1, Big Rivers filed a copy of the contract with the Commission shortly after its execution.[17] In response to an Order in Case No. 90-360, it specifically identified Amendment No. 1 as a fuel contract amendment executed during the biennial review period.[18] The Complainants have identified no instance where Big Rivers' witnesses failed to disclose material information to the Commission.[19] When the Commission previously considered Complainants' charges of fraud and misconduct, moreover, it refused to accept them.[20]

---

16 See, e.g., Case No. 90-360, Testimony of Keith Cardwell at 79 - 80 (filed Sep. 3, 1993).

17 Case No. 90-360-C, Rebuttal Testimony of Joe L. Craig at 78 (filed Oct. 20, 1993).

18 Case No. 10436, Big Rivers' Response to the Commission's Order of December 5, 1988, Item 16 at 2.

19 William Thorpe's conviction for conspiracy and fraud fails to advance KIUC's position. Thorpe has never been accused of providing false or misleading information to the Commission. He never testified on Amendment No. 1 or related fuel procurement issues in any Commission FAC proceeding.

20 Case No. 90-360-C, Big Rivers Electric Corp. (July 21, 1994) at 27 - 28.

In summary, re-examination of Big Rivers' prior fuel charges clearly violates the prohibition against retroactive rate-making. Were the Commission to deny Big Rivers' motion to dismiss, the scope of this proceeding would be limited to investigating the allegations of Big Rivers' misconduct. The Commission has already dealt extensively with these allegations and failed to find sufficient supporting evidence.[21] Complainants have not offered any new evidence to support their allegations. To the contrary, the existing evidence shows that Big Rivers never concealed the existence of Amendment No. 1, that it promptly filed a copy of Amendment No. 1 with the Commission, and that it noted Amendment No. 1's existence in the first FAC biennial review following its execution.

The prohibition against retroactive rate-making is a double-edged sword. On the one hand, this legal doctrine limits a utility's ability to recover extraordinary expenses (and losses) and forces the utility to bear the risks associated with management's decisions. On the other hand, it prevents regulators from retroactively correcting or altering past rate-making decisions that in hindsight were poorly or incorrectly decided. Ratepayers cannot enjoy the doctrine's protections without also accepting the limitations which it imposes.

Having considered the motion and responses thereto and being otherwise sufficiently advised, the Commission finds that:

---

[21] Case No. 90-360-C, in which these allegations were examined, lasted two years, involved seven days of hearings and the testimony of 25 witnesses, and produced a record exceeding 18,000 pages.

1. A hearing in this matter is not necessary in the public interest or for the protection of substantial rights.

2. The prohibition against retroactive ratemaking bars the Complainants' requested relief.

3. Big Rivers' Motion to Dismiss the Complaint should be granted.

IT IS THEREFORE ORDERED that:

1. The record of Case No. 90-360-C is incorporated by reference into the record of this proceeding.

2. Big Rivers' Motion to Dismiss the Complaint is granted.

3. The Complaint is dismissed with prejudice.

Done at Frankfort, Kentucky, this 1st day of April, 1997.

By the Commission

DISSENTING OPINION OF COMMISSIONER B. J. HELTON

The evidence before the Commission clearly demonstrates that, between February 16, 1988 and October 31, 1990, Big Rivers incurred unreasonable fuel costs of $5,992,736 as a result of Amendment No. 1 and that these unreasonable costs were assessed to ratepayers through Big Rivers' FAC. Overland reached this conclusion after its exhaustive study of Big Rivers' fuel procurement practices in early 1993. The Commission's own investigation, which involved 7 days of hearings, testimony from 25 witnesses and a record exceeding 18,000 pages, confirmed these conclusions. Big Rivers in other forums has admitted that Amendment No. 1 has produced unreasonable fuel costs.[1]

In its decision today, the majority ignores the unreasonableness of the fuel costs in question and instead focuses upon the issue of retroactive ratemaking. In doing so, it loses sight of the very reason for this Commission's existence - the protection of the consuming public. To permit Big Rivers' retention of $5,992,736 of unreasonable fuel charges which were solely the result of management incompetence and imprudence is clearly contrary to that purpose.

Moreover, I do not accept the majority's conclusion that the requested relief is barred by the rule against retroactive ratemaking. I concur with the reasoning of Justice Abrahamson's dissent in Wisconsin Power & Light Co. v. Pub. Serv. Comm'n, 511 N.W.2d 291, 297-300 (Wis. 1994) on this point. Clearly the Commission's "authority to investigate fuel cost adjustments implies the power to order corrective measures and refunds as a result of its [reviews] . . . [I]f the PSC is to be effective, its ongoing authority to investigate fuel costs must include the power to take corrective measures and order refunds for charges not properly incurred." Id. at 299. By holding that the rule against retroactive ratemaking bars the Complaint, the majority not only encourages inefficient utility management but removes from the Commission's arsenal one of its most effective weapons against such management.

For these reasons, I respectfully dissent.

B. J. Helton

B. J. Helton

ATTEST:

Don Mills

Executive Director

---

1 See, e.g., Big Rivers Electric Corp. v. William H. Thorpe et al., No. 93-0110-0 (CS) (W.D. Ky. filed Aug. 30, 1993).

RECEIVED

APR 1 4 2000

PUBLIC SERVICE COMMISSION

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
KENERGY CORP. FOR APPROVAL OF RATE) CASE NO. 99-162
REDUCTION)

<u>REBUTTAL TESTIMONY OF JACK D. GAINES</u>
<u>SOUTHERN ENGINEERING</u>

1. Q. DO YOU AGREE WITH MR. KLEPPER'S TESTIMONY THAT KENERGY'S PROPOSAL TO REDUCE ONLY THE NON-DIRECT SERVED CUSTOMERS BY 4.0% IS "INHERENTLY UNREASONABLE AND DISCRIMINATORY"?

A. No, I do not. First, each of Kenergy's existing adders has been established by order of the Commission in past proceedings. In each case, the approved adders were deemed to be fair, just and reasonable. In reaching its past decisions, the Commission has recognized Kenergy's assertions that there are unquantified, administrative costs associated with service to the direct served loads. Such costs may vary depending upon contractual requirements and regulatory activity and include legal and consulting fees as well as costs associated with staff and management time. These costs, the existence of which the Commission recognized by virtue of its past decisions in approving the direct served adders, are justifiably incorporated into the Kenergy adders. Furthermore, there is no evidence to indicate that such costs are directly impacted by the consolidation. Hence, the Commission can reasonably find that the current adders continue to be fair, just and reasonable by applying the same rationale used in previous cases. Second, as stated in my direct testimony, the Henderson Union direct served customers have recently experienced a substantial adder reduction as part of Case No. 97-220. The result in that case was that $488,000(or approximately 4% of revenue) was shifted to the non-direct served classes. Kenergy is opposed to further shifting at this time.

2. Q. DO YOU AGREE WITH MR. KLEPPER'S RESPONSE TO ITEM 4 OF KENERGY'S REQUEST FOR INFORMATION WHEREIN HE STATED THAT IN ANY GENERAL RATE CASE THE THEN EXISTING RATES SHOULD NOT BE CONSIDERED IN ANY WAY?

A. No, I do not. In fact, it is a fundamental precept of rate making that existing rates must be considered as they establish the basis for measuring the customer impact of any proposed change in rates.

3. Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY AT THIS TIME?

A. Yes, it does.

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF) **KENERGY CORP. FOR APPROVAL OF RATE)** **REDUCTION)**	**CASE NO. 99-162**

STATE OF GEORGIA}
COUNTY OF FULTON}

The undersigned Jack D. Gaines hereby verifies that the foregoing rebuttal testimony is true and correct to the best of his knowledge, information and belief.

Jack D. Gaines
Vice President
Southern Engineering Company

Subscribed and sworn to before me this 12th day of April, 2000.

Notary Public, Cobb County, Georgia
My Commission Expires June 17, 2002

RECEIVED
APR 14 2000
PUBLIC SERVICE COMMISSION

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
KENERGY CORP. FOR APPROVAL OF RATE) CASE NO. 99-162
REDUCTION)

REBUTTAL TESTIMONY OF DEAN STANLEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF KENERGY CORP.

Q1. Please state your name.

ANSWER: Dean Stanley.

Q2. Have you provided direct testimony in this case?

ANSWER: Yes.

Q3. In KIUC's response to Item 8 of Kenergy's request for information, Mr. Klepper states that "GREC specifically sought to assure that any change in the (smelter) distribution fee could become effective immediately after December 31, 2000, upon an earlier application to and order of the Commission." Do you agree with that statement?

ANSWER: No, I do not. The smelters initially sought to have a mechanism under which the Commission could later consider a reduction in their distribution adder. Kenergy (through its consolidation predecessors) then insisted that this mechanism also allow the Commission to consider an increase in the adder, mainly because of the probable added expense in providing TIER 3 power to the smelters beginning January 1, 2001. The parties then agreed that an application for this change could not be made until after December 31, 2000, and this was written into the service agreements.

KIUC and Mr. Klepper acknowledge that Kenergy will incur additional expense in an unspecified amount in order to provide TIER 3 power "but the amount of that additional expense cannot be determined at this time, or even estimated with any degree of accuracy." See KIUC's response to Kenergy's Item 12(b).

It will only be after December 31, 2000, that Kenergy's added responsibility and expense can be assessed. This is the main reason the parties agreed to preclude an application from being filed until after December 31, 2000.

Q4. In KIUC's response to Item 7 of the Commission's request for information, Mr. Klepper contends that a "cost of service study" used by Green River Electric for the allocation of capital credits can provide a basis for the Commission to determine cost based rates in this proceeding. Did Green River Electric perform a cost of service study in connection with allocating capital credits? Do you agree with Mr. Klepper's contention?

ANSWER: No, Green River Electric never performed a cost of service study in connection with an allocation of capital credits. Green River Electric simply charged large industrial customers with a percent of A & G expenses in the proportion that the customer's net excess revenues compared to total net excess revenues. I have thought all along that a greater amount of A & G expenses should be charged to large industrial customers in connection with he allocation of capital credits. Henderson Union used a different approach and Kenergy has not decided what methodology it will use in the future.

Q5. In KIUC's response to Item 9 of the Commission's request for information, Mr. Klepper states "Kenergy's clear objective in this matter is to provide reparations to the non-direct serve customers in consideration of the prior rate increases that Kenergy unilaterally believes were unfairly levied upon those customers." Is this an accurate assessment of Kenergy's objection in this case?

ANSWER: Absolutely not. Kenergy must show loyalty to all member-customers, direct serve and non-direct serve alike. In the past Kenergy has fought for all customers in an effort to obtain fair and reasonable rates. Kenergy believes that the Commission can order the rate reduction being sought in this case and, in doing so, Kenergy will continue to have rates that are fair, just and reasonable, and nondiscriminatory.

Q6. Does this conclude your rebuttal testimony?

ANSWER: Yes.

VERIFICATION

The undersigned, DEAN STANLEY, being first duly sworn states that he is the President and Chief Executive Officer of Kenergy 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.

Dean Stanley

Dean Stanley

STATE OF KENTUCKY

COUNTY OF HENDERSON

Subscribed, sworn to and acknowledged before me by DEAN STANLEY this 12th day of April, 2000.

My commission expires September 29, 2001

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

RECEIVED
APR 14 2000
PUBLIC SERVICE COMMISSION

April 13, 2000

FEDERAL EXPRESS

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

Re: Case No. 99-162

Dear Mr. Huelsmann:

Enclosed for filing on behalf of the applicant please find the original and 10 copies of rebuttal testimony of Dean Stanley and Jack D. Gaines.

I hereby certify that true and correct copies have been served on intevenor Kentucky Industrial Utility Customers, Inc. by mailing same to its counsel, Michael L. Kurtz, on this date.

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/w/encls.: Mr. Michael L. Kurtz
Mr. Dean Stanley

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

April 10, 2000

RECEIVED
APR 13 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. 99-162

Dear Mr. Huelsmann:

We enclose for filing published notices of the hearing in the above case along with proof of publication affidavits.

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. Dean Stanley

HERALD LEDGER

P.O. Box 577 • 214 Commerce St. • 502-388-2269 • Eddyville, Kentucky 42038

COUNTY OF LYON
STATE OF KENTUCKY

AFFIDAVIT OF PUBLICATION

Linda Brazell, being first duly sworn that he/she is Classified Manager of the Herald Ledger, that the attached notice was published in said newspaper on 4-5-06

Linda Brazell
(Signed)

Subscribed and sworn to me this 6 day of April ~~19~~ 2006

Belinda Jane Slover
(NOTARY PUBLIC)

My commission expires on the 3 day of Feb ~~19~~ 2002

r,
d
8
e.

E.O.E.

NOTICE OF PUBLIC HEARING
CASE NO. 99-162

A public hearing will be held at 9 a.m. Eastern Daylight Time on April 18, 2000 in the Kentucky Public Service Commission's offices at 211 Sower Boulevard, Frankfort, KY, for the purpose of examining the joint application of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. (Case No. 99-162) for approval of a rate decrease for Kenergy Corp and for the cross examination of witnesses.

Pick up your yard sale kit today. Signs, marking pens, inventory sheets are all included in the package. Stop in at the Herald Ledger and get yours today. Only $6.00 a kit

AD COST

Classified ads are $4 for the first 20 words. Each additional word is five cents. Add a box to your classified for $1.

month. $450 deposit, and one year lease. Call 388-0002 weekends or 270-525-6562 week nights.

REAL ESTATE FOR SALE

9

LOT FOR SALE
Located in The Springs Subdivision in Kuttawa. Corner 1.015 acre lot. Approximately 1.5 miles from Kuttawa Harbor Marina.
Call
(270) 388-0392
for details.

FOR SALE: 1 acre lot in Kuttawa. 2 miles off I-24, Exit 40. Call 270-388-0368 after 5:00 pm. $5,000.

20

BOAT FOR SALE
1997 Caravelle 212 Interceptor, 21 foot, 350 Mercruiser Motor, 250 HP, Open Bow, Low Hours. Excellent Condition.
Call
(270) 388-0392

LOST AND FOUND

25

FOUND: 3-year old brown/white boxer. Stocky built and wearing a blue collar. Found the Indian Hills and Algonquin area. Call 388-4119.

ADD A BOX...
...for only $1.00 per week extra! Call today.
Lyon County
Herald Ledger
502-388-2269

AFFIDAVIT OF PUBLICATION

I, Becky Yates, hereby certify that I am
(Name of Officer)

Classified Sales Rep of THE GLEANER, a newspaper
(Title or Position)

printed, published and having a general circulation in the city of Henderson, County of Henderson, Kentucky; and that advertisement has been published in said newspaper on the following dates:

Henergy
(Advertiser)

4/2/00 Case No. 99-162
(Dates Published)

Becky Yates
(Signature of Officer)

Subscribed & sworn to before me this 4 day of April, ~~19~~ 2000. My Commission expires: May 26, 2000

Karen B. Bryant
Notary Public
Henderson County, Kentucky

ayments.
ıone, call
ısk for J.J.

;ARY SALE,
elected lot
:layton Homes
oro. Open
70-683-4519.

;0 Repo!
łwo BA home,
ılivered all for
down & take
ents. Grab the
683-5169 ask

-OWNED
wo BA double
ered & set up
$299/month.
69 ask for

attached garage. Must see! Call 825-8417.

459 commercial buildings

FOR LEASE, commercial building, corner East Center & Daves St. Madisonville. Has been in continuous operation 28 years as Pizza House East 1,950 sq. ft. extremely nice, ample parking, immediately available, call 270-821-6286.

WANTED
OME HEALTH AIDE

ıding Home Health Agency is
ıg Certified Nurses Assistants.
ant must have current certification in
ate of Kentucky. Home Health
ience preferred but not required.
flexibility, mileage reimbursement
ompetitive pay. Please call, submit
ıe or come to our office to fill out
ation for consideration to Jim Duke,
h Manager.

) 825-9300
Care Home Health
N: Jim Duke, Branch Manager
North Main Street

NOTICE OF PUBLIC HEARING

CASE NO. 99-162

A public hearing will be held at 9 a.m. Eastern Daylight Time on April 18, 2000 in the Kentucky Public Service Commission's offices at 211 Sower Boulevard, Frankfort, KY, for the purpose of examining the joint application of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. (Case No. 99-162) for approval of a rate decrease for Kenergy Corp and for the cross examination of witnesses.

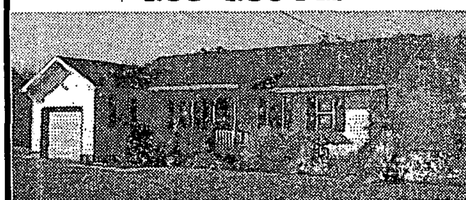
Host: Ken Gibson - AD#5044

Century 21 **821-2251**

Home Team
257 N. Main
Madisonville, Kentucky 42431

©The Messenger 2000

OPEN HOUSE
SUNDAY APRIL 2
1:00-4:00 PM



Spring Is In The Air

2017 STAGECOACH ROAD

3 Bedroom Ranch - 2 full baths. A must own with all plusses for the right price. 1282 s.f. that feels like more. On a 100% usable acre with beautiful landscaping in place, paved drive, large deck, cable, and more.

KEY ASSOCIATES
New Horizons Realty, Inc.

671 East Arch Street
Madisonville, Kentucky 42431
821-7672

© The Messenger 2000

AUCTION

SATURDAY, APRIL 15th • 10:00 A.M.

LOCATION: From Madisonville, KY take Hwy. 85 east 7.5 miles to Hwy. 862; turn northwest and go .6 mile to the farm. Watch for signs!

To devote more time and resources to my drug rehabilitation project in Lyon County, I have authorized *Kurtz Auction & Realty Co.* to sell

(270) 8

The Gleaner

http://www.thegleaner.com Hours: Monday – Fri
(270) 827-2000 ✧ Fax (270) 827-2765 ✧

99 LEGAL NOTICE 99 LEGAL NOTICE 99 LEGAL NOTICE 99 LEGAL NOTICE 99

NOTICE OF PUBLIC HEARING CASE NO. 99-162

A public hearing will be held at 9 a.m. Eastern Daylight Time on April 18, 2000 in the Kentucky Public Service Commission's offices at 211 Sower Boulevard, Frankfort, KY, for the purpose examining the joint application of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. (Case No. 99-162) for approval of a rate decrease for Kenergy Corp and for the cross examination of witnesses.

PUBLIC NOTICE

The Henderson County Board of Zoning Adjustment will hold a public hearing and regular meeting on Monday, April 17, 2000 at 6:30 p.m. in the County Courtroom, County Courthouse. At this time the following will be heard and acted upon:

APPEAL #583 - Submitted by Gary F. Grossman and Andy Fruit, Jr. for the property located on Hughes-Sights Road, and being Lot 3 of the G. & A. Grossman Subdivision.. Applicant is requesting a conditional use permit in order to place a manufactured home in an Agricultural zone. Tabled at the March 20, 2000 meeting.

APPEAL #586 - Submitted by Mark Bowling for Cross International, LLC for the property located adjacent to 3003 Sunset Lane. Applicant is requesting a conditional use permit in order to maintain and operate a bulk product loading, unloading, and transportation facility for bulk products including sand, aggregate, construction materials, and agricultural products at the facility. Property is in the process of being rezoned to Heavy Industrial.

APPEAL #587 - Submitted by Roger Biggers for the property located at 14525 Hwy. 41 South, and being Lot 4 of the Richard & Dennis Branson Minor Subdivision #2. Applicant is requesting a conditional use permit in order to place a manufactured home in an Agricultural zone.

APPEAL #588 - Submitted by Forrest D. Teer and Anna & Lois Emery for the property located on Busby Station Road. (Also known as Lot #2 Livery Stables Lot, fronting on Railroad Street). Applicants are requesting a conditional use permit in order to place a manufactured home in a Residential-2 zone.

APPEAL #589 - Submitted by Gwendola Ford for the property located at 4580 State Route #1557, and being Lot 3 of the Gwendola Ford Minor Subdivision & Consolidation. Applicant is requesting a conditional use permit in order to place a manufactured home in an Agricultural zone.

Terry Maish,
County Codes Administrator
HENDERSON COUNTY BOARD OF ZONING ADJUSTMENT

The combined Federal Campaign of Henderson-Daviess County, Kentucky is accepting applications from agencies to participate in the Fall 2000 campaign. Applicant agencies must: (1) have current non-profit, tax-exempt 501 (c)3 status; (2) provide Health and Welfare Human Services; (3) demonstrate local community pres-

ence. Fi
5:00 p.m
A public
held 8:(
2000 to
eligibilit
may be
and ret
bined Fe
P.O. Bc
boro, KY

ANNO

NOTICI
Investiga
ing a
advan
inform
regard
of fi
oppor
home
Glean
to con
ter bu
Morga
Evans
phone

D
Mail tha
b
"Thi
don'

For
Call your
VISA

Messenger

P.O. Box 529
Madisonville, KY 42431
(502) 824-3300

AFFIDAVIT OF PUBLICATION

I, Melanie Reynolds

of the Messenger Newspaper, published at Madisonville, Kentucky and having the largest general circulation of any newspaper in Hopkins County, Kentucky, do hereby certify that from my own knowledge and a check of files of this newspaper that the advertisement of Notice of Public Hearing for Kenergy was inserted in the Messenger on the following dates:

DATE: 4/2 AD DIMENSION 1x4

DATE: AD DIMENSION

DATE: AD DIMENSION

DATE: AD DIMENSION

SIGNATURE Melanie Reynolds

Subscribed and Sworn to before me by Melanie Reynolds

this 3 day of April 19 2010

Notary Public [signature] 8/3/10

The Crittenden Press
Established 1876

NOTARIZATION PROOF OF PUBLICATON

State of Kentucky
County of Crittenden

I, a Notary Public, in and for said County and State,

this 6th Day of April, 2000,

do hereby certify that The Crittenden Press newspaper on the publication of dates of

April 6, 2000, carried the advertising of

Kenergy.

CHRISTOPHER T. EVANS
Notary Public

My Commission Expires: February 7, 2004

P.O. Box 191, 125 East Bellville Street, Marion, Kentucky 42064-0191
Phone (270) 965-3191 • Fax (270) 965-2516 • thepress@apex.net

AFFIDAVIT OF PUBLICATION

Laurie White of Owensboro, Kentucky being first duly sworn, says that she is Credit Coordinator of the Owensboro Messenger-Inquirer, Inc. a newspaper printed and published in the State of Kentucky, County of Daviess, and that the advertisement is a true copy which has been published in the Messenger Inquirer on the following dates, viz: April 2nd, 2000.

Laurie White

Laurie White

Subscribed and sworn to before me, a Notary Public within and for the State and County aforesaid, by Laurie White to me personally known, this 6th day of April, 2000. My commission expires the 27th day of January, 2001.

Carol Sue Trautwein

Carol Sue Trautwein

County of Daviess
Notary Public State of Kentucky

010 LEGAL NOTICES

010 LEGAL NOTICES

The Combined Federal Campaign of Henderson-Daviess County, Kentucky is accepting applications from agencies to participate in the Fall 2000 Campaign. Applicant agencies must: (1) have current non-profit, tax-exempt 501 (c)3 status; (2) provide Health and Welfare Human Services; (3) demonstrate local community presence. Filing deadline is 5:00 p.m. April 28, 2000. A public meeting will be held 8:00 a.m. May 3, 2000 to determine local eligibility. Applications may be obtained from and returned to: Combined Federal Campaign, PO Box 705, Owensboro, Ky 42302.

INVITATION TO BID

The Owensboro Board of Education will receive sealed bids at the office of the Assistant Superintendent, 1335 West 11th Street, Owensboro, KY. 42301 at the times listed thereafter:

Carpet, tile and installation - Bid No. 011-00

ALL BIDS MUST BE RECEIVED BY 10:00 AM ON APRIL 12, 2000

Federal Funds (Title I, Title II, Title IV, IDEA-B, and others) may be used in part to purchase from this bid.

Further information may be obtained by calling the Business Office at (270) 686-1000.

Matthew A. Clarke
Assistant Superintendent
Finance & Business Operations
OWENSBORO BOARD OF EDUCATION
Equal Education and Employment Opportunities M/F/D.

TOPSOIL AND BACKFILL SOIL
BID #2268

Sealed Bids will be received by the City of Owensboro for the supply and delivery of topsoil and backfill soil. Specifications for the above will be on file and may be obtained from Judith K. Wood, Purchasing Manager, City Hall, 101 E. 4th Street, Room 214, Owensboro, KY. 42303. Telephone (270) 687-8431. Bids must be delivered to the Purchasing Manager on or before 10:00 AM prevailing local time on Tuesday, April 18, 2000. The City of Owensboro reserves the right to reject any and all Bids and to waive any irregularities in said Bids.

Judith K. Wood, CPPB
Purchasing Manager

INVITATION TO BID

The Owensboro Board of Education will receive sealed bids at the office of the Assistant Superintendent, 1335 West 11th Street, Owensboro, KY. 42301 at the times listed thereafter:

Asbestos VCT Floor Tile Removal
Bid No.010-00

ALL BIDS MUST BE RECEIVED BY 10:00 AM ON APRIL 12, 2000

Federal Funds (Title I, Title II, Title IV, IDEA-B, and others) may be used in part to purchase from this bid.

Further information may be obtained by calling the Business Office at (270) 686-1000.

Matthew A. Clarke
Assistant Superintendent
Finance & Business Operations
OWENSBORO BOARD OF EDUCATION
Equal Education and Employment Opportunities M/F/D.

NOTICE OF PUBLIC HEARING
CASE NO. 99-162

A public hearing will be held at 9 a.m. Eastern Daylight Time on April 18, 2000 in the Kentucky Public Service Commission's offices at 211 Sower Boulevard, Frankfort, KY. for the purpose of examining the joint application of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. (Case No. 99-162) for approval of a rate decrease for Kenergy Corp and for the cross examination of witnesses.

NOTICE OF PUBLIC HEARING
RE: City of Owensboro

Federal Transit Administration (FTA), FY 2000-2001 Operating, Capital and Planning Assistance Grant Application.

1. Notice is hereby given that the City of Owensboro will submit a FTA Section 5307 (formerly Section 9) Operating, Capital and Planning Assistance Grant Application for the Owensboro Transit System (OTS). The purpose of this notice is to afford all interested parties the opportunity to request that a public hearing be held on the proposed project. Any person who desires that a public hearing be held must submit a written request within fifteen (15) days of the date of this notice. If a public hearing is requested within a fifteen (15) day period, a public hearing will be held by the City of Owensboro at 1:30 p.m., April 17, 2000, at the OTS office, 430 Allen Street, Owensboro, Kentucky, 42303.

2. **Section 5307 Operating Assistance**
The City of Owensboro is requesting FTA Section 5307 Operating Assistance in the amount not to exceed $436,159. The estimated net project cost is $992,319, of which the Federal share will be 44 percent and the local share will be 56 percent. The Program of Projects includes funding the operating deficit of OTS fixed-route service and the paratransit service for the elderly and disabled.

3. **Section 5307 Capital Assistance**
The City of Owensboro is requesting Section 5307 Capital Assistance in the amount not to exceed $281,629. The proposed Program of Projects includes the funding for the purchase of two (2) new transit vehicles. The estimated net project cost for the Section 5307 Capital grant is $352,036 of which the Federal share will be 80 percent and the local shall be 20 percent.

4. **Section 5307 Planning Assistance**
The City of Owensboro is requesting FTA Section 5307 Planning Assistance in the amount not to exceed $14,400. The total project cost is $18,000 of which the Federal share shall be 80 percent and the local share will be 20 percent.

5. **Relocation**
No persons, families or businesses will be displaced by this project.

6. **Environment**
This project will not have a significant environmental impact upon the urban service area.

7. **Elderly and Disabled**
This project will take into consideration the special needs of the elderly and disabled. Elderly and disabled persons are eligible for reduced fares on the Owensboro Transit System.

At the hearing, the City of Owensboro will afford an opportunity for interested persons or agencies heard with respect to the social, environmental and economic aspects of the projects. Interested persons shall submit orally or in writing, recommendations concerning the above-mentioned projects. Any questions or comments should be directed to Bonnie Rhoads, Manager, Owensboro Transit System, 430 Allen Street, Owensboro, Kentucky, 42303, phone number 270-687-8570.

THE NOTICE OF PUBLIC HEARING SERVES AS A FINAL PUBLISHED PROGRAM OF PROJECTS SHOULD THERE BE NO CHANGES MADE TO THE PROGRAM OF PROJECTS DURING THE PUBLIC COMMENT PROCESS.

ial meeting of the Crittenden County Fiscal Court to be held Tuesday, April 18, 2000 the following road is to be added to the county road systems.

1. Dawn Drive, new subdivision road .15 mile in length off of A.H. Clement Rd., located .1 mile from U.S. 641.

If you have any questions regarding this road, please contact Victor P. Hardin, Judge Executive, Courthouse, Marion, Ky., 42064, 965-5251. (2t-39-c)

LEGAL NOTICE

The Crittenden County Fiscal Court is accepting sealed bids for single or double bituminous surface treatments (chip and seal) on various roads in Crittenden County. Also, we are accepting bids on equipment.

Bids should be priced for square yard on a county-wide basis. This is for application only, county will purchase all materials. This bid shall include final rolling. Any or all preparation will be the expense of Crittenden County.

All bids should be submitted on or before April 18, 2000 at 9 a.m., to the Crittenden County Fiscal Court, Courthouse, Marion, Kentucky, 42064. Bids will be opened April 18, 2000 after 9 a.m., at the Crittenden County Fiscal Court Meeting.

Should you have any questions regarding the bid notice please contact Pippi Hardin, Judge Executive, phone, 965-5251. The county reserves the right to reject any or all bids. (2t-39-c)

Notice is hereby given that on Feb. 10, 2000, Betty Sue Wring of Marion, Ky., was appointed executrix with Will annexed of Clc ... Westfall, deceased, whose address was Marion, Ky., 42064.

Hon. Zachary Greenwell, attorney

All persons having claims against said estate are hereby notified to present the same properly proven as required by law to the executrix with Will annexed on or before the 16th day of August, 2000 and all claims not so proven and presented by that date shall be forever barred.

All persons indebted to the estate of the above-named decedent, will please call and settle said debts immediately.

Madeline Henderson, Clerk
Crittenden District Court
(1t-39-c)

LEGAL NOTICE

I, Madeline Henderson, Clerk of Crittenden County District Court, Marion, Ky., do certify that the following has filed notice of final settlement: Rhonda G. Steward of 132 Lewis St., Marion, Ky., 42064 was appointed administrator of Jerry L. Myers, deceased, whose address was Marion, Crittenden County, Kentucky.

www.the-press.com

the above-named decedent will please call and settle said debts immediately.

Madeline Henderson, Clerk
Crittenden District Court
(1t-39-c)

Notices

PELL GRANT MONEY is now available for people who qualify for Cosmetology Apprentice Instructor, and Nail Technicians. Call 667-5596 for an appointment at Head's Beauty College Providence while federal funds are available. (49-tfc)

NOTICE IS HEREBY given that anyone trespassing for any reason on the property owned by Lance Kaufman, known as Salt Peter Cave Farm will be prosecuted to the full extent of the law. (5t-40-p)

NOTICE OF PUBLIC HEARING

The Public Service Commission of Kentucky will hold a public hearing on April 19, 2000, at 9:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examining witnesses of PowerGen, LG&E, KU and Intervenors in Case No. 2000-095, Application of PowerGen plc, LG&E Energy Corp., Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of a Merger and receiving public comment on the same.

KENTUCKY UTILITIES COMPANY
220 West Main Street
Louisville, Kentucky

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

April 12, 2000

Honorable Frank N. King
Attorney for Kenergy Corp.
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

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

RE: Case No. 1999-162

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

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

<u>O R D E R</u>

Kentucky Industrial Utility Customers, Inc. ("KIUC") has moved for an extension of time until Monday, April 3, 2000 to file its response to information requests. The motion states that counsel for the Kenergy Corporation has no objection to KIUC's motion. The Commission, having considered the motion, HEREBY ORDERS that it be granted.

Done at Frankfort, Kentucky, this 12th day of April, 2000.

By the Commission

ATTEST:

Wm H Bowker

Deputy Executive Director

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 Telefax Transmission and
Overnight Mail

April 3, 2000

Mr. Martin J. Huelsmann, Jr.
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: **In The Matter Of: Notice of Intent of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation to File Joint application for Rate Reduction, Case No. 99-162.**

Dear Mr. Huelsmann:

Please find enclosed the original and eight (8) copies each of the Motion for Extension of Time and the Response to the Commission's and Kenergy's Interrogatory Requests on behalf 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 9th day of March, 2000.

Honorable Frank N. King
Dorsey, King, Gray & Norment
318 Second Street
Henderson, KY. 42420
(VIA TELEFAX TRANSMISSION AND
OVERNIGHT MAIL)

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

Michael L. Kurtz, Esq.

RECEIVED
APR - 4 2000
PUBLIC SERVICE COMMISSION

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 Rate Decrease for Kenergy Corp., Consolidation Successor	:	Case No. 99-162

MOTION OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
FOR EXTENSION OF TIME

Kentucky Industrial Utility Customers, Inc. ("KIUC") respectfully requests an extension of time to file its responses to data requests in the above-referenced case until Monday, April 3, 2000. Counsel for the Kenergy Corporation has no objection to KIUC's motion.

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.

April 3, 2000

RECEIVED
APR - 4 2000
PUBLIC SERVICE COMMISSION

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 Rate Decrease for Kenergy Corp., Consolidation Successor : Case No. 99-162

RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO KENERGY'S REQUEST FOR INFORMATION

Item 1) Refer to page 5, lines 19 through 24 of the direct testimony of Russell L. Klepper where it is stated that in the first merger initiative the rates of HUEC's members "would have increased notwithstanding the economic benefits of the merger." Please state fully the basis for this statement and provide copies of any supporting documentation ("documentation" or "document" herein means any correspondence, memorandum, report, record, worksheet or other written material of any nature).

Response) The subject statement in my direct testimony was based on my recollection that the rates of Kenergy, for some HUEC members if not for all HUEC members, would have increased (or failed to decrease) upon the anticipated rate actions of the merging parties as set forth in the first merger initiative.

At the time of the first merger initiative, the By-Laws of HUEC provided that votes of the membership must be cast in person, rather than by mail. The process of voting by mail, as occurred in the second merger initiative, was allowed by a change in HUEC's By-Laws effected after the first merger initiative was defeated. It is my further recollection that the first merger initiative was defeated by a vote of the HUEC membership, and that less than 500 votes were cast in person, barely more than 1% of HUEC's voting membership out of more than 40,000 members.

Suffice to say, the substance of my statement was to focus upon the fact that the majority of the HUEC members who cared enough about the first merger initiative to show up and cast a vote in person obviously did not believe that the benefits to be derived from the proposed merger justified a vote in favor of the merger.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO KENERGY'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 2) Refer to page 6, lines 10 through 12 of Mr. Klepper's testimony were it is stated "it is not an appropriate use of the Commission's discretion to use its rate making authority to correct or amend any real or perceived deficiency in a prior rate making decision of the Commission." Is there any recognized authority for this statement? If so, please identify the authority and explain fully how it applies in the present case.

Response) The use of the Commission's ratemaking authority to correct or amend any real or perceived deficiency in a prior ratemaking decision of the Commission would constitute retroactive ratemaking. This would violate the Kentucky statutory prohibition against retroactive ratemaking.

The concept of retroactive ratemaking is rarely considered in terms of application to customers, but rather is usually viewed in light of the Commission's use of its ratemaking authority to establish appropriates returns on capital for regulated utilities. Suppose a regulated utility were earning 12% on invested capital when its Commission approved return on capital was 9%. In that circumstance, the Commission may opt to adjust the utility's rates to decrease its return on capital in future periods to appropriate levels. However, under the law, the Commission may not reduce that utility's rates to decrease its return on capital for future periods to non-compensatory levels in consideration of prior periods when the actual return on capital was above the compensatory level.

This same principle prohibiting retroactive ratemaking applies equally to the Commission's use of its ratemaking authority to allocate the regulated utility's revenue burden among customers or customer classes in a manner that considers prior perceived inequitable treatment of any customer or class of customers. Furthermore, under the filed rate doctrine, the rates on file and in effect are the only lawful rates and must be presumed to be fair, just and reasonable notwithstanding how any individual may feel about them.

Please also see Item 8 of KIUC's Response to the Commission's Request for Information.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO KENERGY'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 3) Refer to page 6, beginning at line 13 of Mr. Klepper's testimony where it is stated "The management of Kenergy clearly believes that the Commission erred in one or more prior rate decisions..." Please state fully the basis for this statement.

Response) Kenergy's Application in this proceeding seeks to justify the exclusion of direct serve customers from the proposed rate decrease on the basis that greater percentage rate increases were accorded to non-direct serve customers than to direct serve customers pursuant to Commission decisions in prior cases. Item 1 of Kenergy's Response to the Commission's Supplemental Request for Information states that "the fair approach was to offer the 4% rate reduction to the customers who had carried the financial brunt of rate increases in the past."

Any reasonable person would infer from the documentation in this proceeding that the management of Kenergy believes that the allocation among customer classes of the revenue burden pursuant to prior Commission decisions was unfair. A prior Commission decision establishing "unfair" rates would not satisfy the regulatory standard of fair, just and reasonable, and thus would be in error. If Kenergy's management believed the prior Commission decisions to be fair, it is highly unlikely that they would refer to "the customers who had carried the financial brunt of rate increases in the past". If Kenergy's management believed the prior Commission decisions to be fair, it is highly unlikely that they would state that "a fair approach" in this case should be to consider the unfairness of prior circumstances. If Kenergy's management believed the prior Commission decisions to be fair, it is highly unlikely that they would propose to allocate the entire revenue reduction at issue in this proceeding to a customer class comprising only 12% of total energy sales.

Witness) Russell L. Klepper

Item 4) Refer to page 7, line 4 of Mr. Klepper's testimony where it is stated "This case involves distribution costs."

(a) If this case involved an increase in distribution costs, rather than a decrease, would it be KIUC's position, and Mr. Klepper's, that the distribution adder in special contracts should increase proportionately with any ordered rate increase? If the answer is in the negative, please explain fully.

Response) No. It is my firm position that in any general rate case, such as the instant proceeding, rates should be neither increased nor decreased proportionately, nor should the then existing rates be considered in any way. In any general rate case, retail rates for all customers and customer classes, including special contract customers to the extent allowed by such special contracts, should be re-established in a manner that most accurately reflects the cost of serving each such customer or customer class.

With respect to this Item 3, it is important to note that my understanding and use in this response of the term "special contracts" is the same as that used by the Commission in its Order denying Kenergy the right to exclude automatically direct serve customers from an intended rate decrease. A direct serve customer may be served under contract, but it is not a special contract if the contract provides that the customer's rates may be changed by action of the Commission. Even when a special contract exists, such as in the case of Alcan and Southwire, the customer should not be precluded from rate increases or decreases when that special contract specifically provides for a change in a specific rate or rate component upon an Order of the Commission.

(b) Assume a scenario in which Kenergy has rates that are indisputably regarded to be fair, just and reasonable, and nondiscriminatory, for both nondirect served customers and direct served customers. If distribution costs increased which necessitated an increase in rates, is it KIUC's position, and Mr. Klepper's, that the distribution adder in special contracts should increase proportionately with any ordered rate increase? If the answer is in the negative, please explain fully.

Response) No. As stated in my answer to Item 3(a) above, it is my firm position that rates should reflect the costs of serving each customer or class of customer. Even under the scenario posited in the question (a circumstance that clearly does not exist in this case), rates should not be increased proportionately unless it can be shown that the increase in distribution costs is both prudently incurred and exactly proportionate.

By way of illustration, assume a prudently incurred 4% increase in total distribution costs, but further assume that the distribution costs properly attributable to Class A have decreased by 5% while the distribution costs properly attributable to Class B have increased by 10%. In this circumstance, a proportionate 4% increase to both Classes A and B would not be appropriate. Instead, the rates of Class A should be decreased by 5% while the rates of Class B should be increased by 10%. This would allow the 4% cost increase to be recovered by the utility, while placing the revenue burden upon the customer classes in a manner related to cost causation.

It is further my position that the distribution adder in any special contract should be increased or decreased, to the extent provided within the terms of that special contract, in a manner such that the modified distribution adder reflects the costs properly attributable to providing distribution related services to the special contract customer.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO KENERGY'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 5) Refer to page 8, lines 1 through 21 of Mr. Klepper's testimony in which it is contended that "Southwire was the one and only customer of GREC that experienced an increase in its distribution fee."

(a) What is the basis for the statement that Southwire paid a distribution fee of 0.3 mills per kWh for energy consumed by the Rod Mill? Please provide copies of all supporting documentation.

(b) Kenergy believes that the actual distribution fee for the Rod Mill was $.25 per kW and 2.5 mills per kWh. (See attached "Exhibit A" which is a copy of the applicable tariff. Rod Mill was charged $10.40 per kW and Big Rivers' wholesale rate was $10.15; Rod Mill was charged 2.03206 cents per kWh and Big Rivers' wholesale rate was 1.78206 cents). If this distribution fee is correct, how does this change Mr. Klepper's testimony?

Response) It is clear that my testimony with respect to the distribution fee formerly charged to Southwire's Rod Mill was incorrect, and that the Exhibit A attached to Kenergy's Request for Information properly reflects the Rod Mill's prior distribution adder of $0.025 per kW per month and $0.0025 per kWh.

Based on the distribution fee in effect for Southwire's Rod Mill prior to September 1997, the annual distribution fee solely with respect to the Rod Mill would have been approximately $105,000 per year, based on 3,000,000 kWh per month and 5,000 kW of demand per month. Based on this correction, Kenergy has properly represented that Southwire received a slight decrease in its total annual payments of distribution fees. However, as is seen from my testimony on page 14 at lines 20 through 23, Southwire's total distribution fees for 1998 (the year after this change in fees was implemented) were $313,032, while total related expenses were only $120,128.

Attachment 9, page 7 of 11 of Kenergy's Response to KIUC's first set of data requests shows that for the first eight months of 1997, distribution fee revenue from the Rod Mill to GREC was almost $61,000 while related costs of service were about $13,000. The very slight decrease in Southwire's total distribution fees was therefore well justified on the basis of cost causation.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO KENERGY'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 6) Refer to page 9, lines 1 through 12 of Mr. Klepper's testimony where the points are made that Kenergy incurs substantial distribution expense for non-direct served customers, whereas Kenergy's distribution expenses for direct served customers are extremely nominal. Assuming this to be true, please explain fully the basis for the contention that merger saving should be passed on in the same percentages to both classes of customers. Also, please define the term "extremely nominal" when used in this context.

Response) Kenergy incurs and collects through retail electric service rates four basic types of expenses, as discussed below.

1. Wholesale costs of purchased power – these costs are unbundled in the rates to direct serve customers based on the rate charged by the wholesale supplier for serving the delivery point of each direct serve customer. For non-direct serve customers, these costs are bundled and included within the structure of retail rates.

2. Distribution operations and maintenance costs – these are the costs of the owning, operating and maintaining distribution substations, distribution poles and lines, transformers, meters, and other related equipment. As direct serve customers receive electric service from transmission lines, and as the entire cost of such service is included in wholesale power costs, Kenergy incurs no cost whatsoever for distribution operations and maintenance that are allocable to direct serve customers. (It is acknowledged that in some instances, Kenergy's distribution crews assist Big Rivers' transmission crews in transmission system maintenance and repairs. When this occurs, Kenergy's costs of assisting Big Rivers should be reimbursed by Big Rivers rather than charged to Kenergy's direct serve or non direct serve customers.)

3. Customer Accounting costs – these are the costs of reading meters, preparing and rendering monthly bills, collecting payments from customers, properly accounting for all charges and payments, providing customer services such as new connections, disconnections, and reconnections, and working with customers with payment problems. For direct serve customers, the reading of meters and preparing and rendering of bills is performed by Big Rivers, and the cost of such services is included in wholesale power costs. The only customer accounting functions performed by Kenergy for direct serve customers is to process their monthly payments.

4. Administrative and General (A&G) costs – these are the overhead costs of operating Kenergy, and the preponderance of such costs are attributable to supporting the distribution operations and maintenance and the customer accounting functions. A portion of such A&G costs are involved in administering the relationships between Kenergy and direct serve customers.

In this general rate proceeding, despite its burden of proof, Kenergy has submitted no evidence whatsoever as to the expected allocation of merger savings among its functionalized costs of distribution operations, customer accounting or A&G. Absent such evidence, it must be assumed that each cost function will be decreased proportionately. To the extent that rates to all customers and customer classes appropriately reflect the costs of serving such customers, and to the further extent that those costs of service are expected to decrease proportionately, the distribution component of rates to each customer or customer class should be correspondingly decreased on a proportionate basis.

The term "extremely nominal" as used in my testimony, is defined to mean very small as a percentage of the whole. For example, the documentation submitted in this proceeding shows that in 1998 (the last full year before the merger), the total cost of electric service incurred by GREC (excluding wholesale power costs) was $12,276,267, but the costs incurred by GREC in serving direct serve customers was $233,225. Thus, in 1998, less than 1.9% of GREC's total costs of electric service was expended in providing service to its direct serve industrial customers.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO KENERGY'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 7) Refer to page 11, lines 1 through 12 of Mr. Klepper's testimony where it is stated, in effect, that Kenergy is a provider of "only distribution services."

(a) Does KIUC admit that under applicable Kentucky law Kenergy is responsible for providing generation, transmission and distribution services? If not, please identify the authority for KIUC's position.

(b) Does KIUC admit that Kenergy does, in fact, provide generation, transmission and distribution services to its customers? If not, please state all reasons for KIUC's position.

(c) Does KIUC admit that Kenergy assumes financial risk inherent in providing generation and transmission services to its customers? If not, please fully explain KIUC's position and cite or identify applicable authority.

Response) First, Kenergy's preface to this Item 7 is misleading and requires clarification. The subject section of my testimony discussed the fact the merger cost reductions in this proceeding are unlike those from the merger of Louisville Gas and Electric Company and Kentucky Utilities Company. In the LG&E/KU merger, it was expected that the merger would produce integrated economic benefits in generation, transmission, and distribution. In this case, GREC and HUEC purchase generating and transmission services from common wholesale power suppliers, but only produce and have direct control over the costs of distribution-related services. Unlike the LG&E/KU merger, there is no material reduction in costs for generating and transmission services that is expected to arise from the merger that formed Kenergy.

With respect to part (a) above, Kentucky law will speak for itself with regard to Kenergy's responsibilities and the limitations on Kenergy's obligations to fulfill such responsibilities.

With respect to part (b) above, I agree that Kenergy provides retail electric service to the customers within its franchised service territory. It does so by purchasing electric generating and transmission services from wholesale suppliers, and by reselling such services to retail customers, and by also producing and selling distribution services to its retail customers.

With respect to part (c) above, the financial risk assumed by Kenergy in providing generating and transmission services for its customers is extremely limited, if any exists at all, as discussed below. The discussion below will briefly touch upon two different kinds of risks.

The first risk relates to the possible variations in Kenergy's costs of acquiring generating and transmission services from its suppliers. Kenergy bears virtually no risk in this area. First, all wholesale power supplies that Kenergy acquires for its customers, other than the aluminum smelters owned and operated by Alcan and Southwire, are acquired from Big Rivers. To the extent that Big Rivers' experiences changes in its costs of providing generating and transmission services to Kenergy, that risk is borne by Big Rivers because Big Rivers' rates for sales to Kenergy are fixed and may be modified only by this Commission. When Big Rivers' proposes a change in its wholesale power rates to Kenergy, it is expected that Kenergy will seek a corresponding change in its rates to its retail customers.

Second, assume that LG&E Energy Marketing Inc. ("LEM") were to fail to provide to Kenergy adequate power supplies for resale to Alcan and Southwire. In that circumstance, the Agreements for Electric Service between Kenergy and each of Alcan and Southwire (as approved by this Commission) provide for Kenergy to collect from Alcan and Southwire its full cost of acquiring replacement wholesale power to the Alcan and Southwire points of delivery.

The second and different risk of Kenergy's role as a retail electric service provider is the risk that Kenergy will fail to collect from some of its retail customers the wholesale power costs incurred by Kenergy in acquiring generating and transmission services for resale to its customers. This is a cost that is usually controlled through means such as customer deposits or corporate guarantees, so Kenergy has little exposure in this area. When Kenergy does incur bad debt expense, that expense is presumably built into the bundled rates for each class of customer, again negating the exposure to Kenergy.

In the cases of Alcan and Southwire, LEM has agreed under contract to accept the risk that Alcan and Southwire will pay for wholesale power provided by LEM. In the event that either Alcan or Southwire were to fail to pay for power, LEM has agreed not to seek to collect from Kenergy the cost of the wholesale power provided to Alcan and Southwire.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO KENERGY'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 8) Refer to page 11, lines 12 through 26 of Mr. Klepper's testimony where a portion of Section e of the General Provisions of each Smelter Tariff is stated.

(a) Does KIUC agree that Kenergy and the smelters intended that the distribution fee could be changed only upon application filed with the Commission after December 31, 2000? If KIUC does not so agree, please state fully KIUC's position and the basis for same, and provide copies of any supporting documents.

Response) No. The smelters do not agree that an application to change the distribution fee could be filed only after December 31, 2000.

The language of the General Provisions of the Smelter Tariff, as approved by this Commission, is perfectly clear. The provision states that the rate is subject to change after December 31, 2000. The subject provision further states that the means by which the rate is subject to change is by an order of this Commission upon an application of either or both parties. However, the provision does not set forth any limitation on the date on which an application could be filed by either party, and similarly does not set forth any limitation on the date on which the Commission could issue an order effecting such change.

At all times, it has been the intention of the Smelters to conduct an investigation into the costs of Kenergy underlying the distribution fees. Upon such investigation, if warranted, the Smelters intended to seek to initiate a rate proceeding of this Commission such that a lower distribution fee could become effective on January 1, 2001.

A primary reason that I am so absolutely certain concerning this specific issue is that the negotiation of this issue arose during our negotiating sessions in Washington, D.C. subsequent to the Commission's Order of April 30, 1998 in Case No. 97-204. In that Order, in addressing Tier 3 energy, the Commission denied the right of the Smelters to assume the responsibilities of identifying the third party supplier, setting the terms of the transaction, calculating the amount of losses involved, and securing the transmission path. Instead, the Commission directed at page 21 of that Order that "Green River and Henderson Union will be responsible for securing additional quantities of [Tier 3] power for the Smelters after 2000."

In light of the Commission Order cited above, negotiations for GREC stated that it might be required to expend considerable resources to arrange Tier 3 energy supplies for Southwire. Such costs would relate to Tier 3 energy acquired for periods after December 31, 2000, the date on which the obligation of LEM to automatically provide all Tier 3 power on favorable terms expires. Thus, during the negotiations, GREC specifically sought to assure that any change in the distribution fee could become effective immediately after December 31, 2000, upon an earlier application to and order of the Commission. Under such terms, GREC would have the immediate means to recover costs expended on behalf of Southwire in obtaining Tier 3 power supplies.

(b) If the Commission were to reduce the smelters' distribution fee in this proceeding, does KIUC agree that this would be an example of "prospective rate making"? If not please explain why.

(c) Does KIUC agree that the Commission cannot engage in prospective rate making? If not, please explain why.

Response) I am not familiar with the phrase "prospective rate making" as a common regulatory term, compared to the commonly used and understood term "retroactive ratemaking". With specific exceptions provided by statute (such as rate changes to reflect fuel cost recovery), ratemaking is a process by which rates are established with the intention that such rates will remain in effect for the foreseeable future.

A Commission order rendered prior to January 1, 2001, approving a change in the smelters' distribution fee to become effective on January 1, 2001, would be a perfectly appropriate exercise of the Commission's ratemaking authority. Changing the smelters' distribution fee in the manner described in the prior sentence would be no different than the Commission's prior actions in approving the Smelter Tariffs, which have terms and conditions that change over time, and Tier 2 prices that change in every year during the effective term of the Smelter Tariffs.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO KENERGY'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 9) Refer to page 13, lines 5 through 12 of Mr. Klepper's testimony where it is stated "It was the practice of GREC to perform a detailed analysis of distribution related costs applicable to each direct serve customer..." Please state the entire basis for KIUC's position that a "detailed analysis" was performed and provide copies of any supporting documentation.

Response) The patronage capital allocations for 1998 and 1997 that were obtained from GREC as Attachment 9 to the First Set of Data Requests of KIUC were originally prepared for and submitted to Dean Stanley by John Warren. I believe that Mr. Warren was at that time the Chief Financial Officer of GREC.

In prior engagements with Southwire, I have examined patronage capital issues related to Big Rivers and GREC in some detail, and I had previously obtained and reviewed studies performed by GREC such as those submitted as Attachment 9. My prior familiarity with such studies was the basis for my statement that the preparation of such studies was a practice of GREC. As can be seen from Attachment 9, the submittal letter for 1998 reads in relevant part:

"Attached summary schedules contain capital credit allocation details for 1998. After your review and approval, we will make the detailed allocation to the regular tariff customers."

In preparing my testimony on this issue, I inferred that "capital credit allocation details" and the "detailed allocation to the regular tariff customers" as referenced above meant that the patronage capital allocation study was appropriately stringent to satisfy the requirements of GREC's By Laws. The study was performed by, or under the direction, of GREC's CFO. It was submitted for review and approval to GREC's CEO, and presumably, the proposed allocation would not have been effected absent the CEO's approval.

I further assumed that GREC's CEO and CFO had acted in good faith to assure that the annual allocation to GREC's customers of millions in dollars in excess revenues was performed in a manner that was fair and reasonable to all customers and customer classes. GREC's management is certainly well aware that the allocation of excess revenues is necessitated by the "not for profit" status of the cooperative business form, and is a precursor to the ultimate refund to customers of monies recorded for the benefit of each such customer. The allocation of patronage capital to each customer should reflect, to the greatest extent possible, the revenues paid by that customer in excess of the costs attributable to providing electric service to that customer. I assumed that the responsibility of GREC to perform this study with all due diligence would not be taken lightly.

The study itself appears to be quite detailed, and is obviously supported by workpapers that were not provided by GREC. For instance, the allocation of the PSC Assessment is based on a rate containing six places to the right of the decimal point. The allocation of A&G expense (see Attachment 9, page 4 of 11) reflects a customer by customer determination of the amount of A&G cost properly attributable to each direct serve customer. If these allocations had not been individually determined, the "percent to total" would have been the same for each direct serve customer.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO KENERGY'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 10) Refer to page 15, lines 23 through 25 and page 16, lines 1 through 13 of Mr. Klepper's testimony where it is contended that Kimberly Clark is treated in a discriminatory fashion regarding its distribution fee.

(a) Does KIUC admit that Kimberly Clark's distribution fee is an agreed upon amount which is set forth in a special contract filed with and duly accepted by the Commission? If not, please explain KIUC's position with respect to its answer.

Response) Kimberly Clark is served by Kenergy under an Agreement for Electric Service between Green River Electric Corporation (as predecessor to Kenergy) and Scott Paper Company (as predecessor to Kimberly Clark) dated March 12, 1993. KIUC avers that this contract is not a special contract, as claimed by Kenergy, because Kimberly Clark's rates are subject to adjustment in the ordinary course of Commission ratemaking. Section 4.01 of the agreement reads in relevant part as follows:

"...Customer shall pay Seller for service hereunder at the rates set forth in Exhibit C, attached hereto and made a part hereof, subject to such changes as may become effective from time to time by operation of law or by order of the Public Service Commission of Kentucky (the "Commission"), provided that in the case of any filing with the Commission which changes or affects the terms, conditions, or rates under this Agreement Seller gives Customer notice in accordance with Article 9 of this Agreement (entitled "NOTICES") and in accordance with law and the Commission's regulations and orders so that Customer has the opportunity to participate in an proceeding at the Commission affecting the terms, conditions, or rates hereunder.

Any such changes in rates, terms or conditions shall automatically be incorporated into this Agreement."

From a review of the agreement between Kenergy and Kimberly Clark, it is seen that both parties signed the agreement, and that an Exhibit C was attached that reflects a demand charge per kW and an energy charge per kWh. There is no evidence implying that the representatives of Scott Paper knew (1) that the demand charge and energy charge to which they agreed included amounts in excess of the charges of Big Rivers, (2) that any such excess amounts constituted a separate distribution fee to be retained by GREC, (3) whether the excess amounts to be paid by Scott Paper corresponded to the excess amounts that GREC received as distribution fees from other customers of similar size, or (4) whether such distribution fees were reasonable in light of GREC's costs of providing electric service.

The total rate to be paid by Scott Paper to GREC was approved by the Commission, and there is no contention now or in my testimony that the rates established at that time did not satisfy the requirements of fair, just and reasonable. However, the agreement clearly provided for Kimberly

Clark's rates to be changed from time to time as ordered by the Commission, and for such changes in rate to become automatically incorporated into the agreement.

By its intervention through KIUC, Kimberly Clark is now participating in this proceeding as specifically provided in its contract for electric service. Kimberly Clark seeks reconsideration of the distribution component of its electric service rate in light of the unreasonable relationship between the distribution fees and the costs incurred by Kenergy in providing electric service to Kimberly Clark. In requesting such reconsideration, Kimberly Clark cites unfavorable comparisons with similarly situated customers who pay much lower distribution fees, even though such lower fees are still well in excess of distribution related costs.

(b) Does KIUC contend that Kenergy should not be permitted to negotiate distribution fees with Kimberly Clark and other special contract customers, regardless of the underlying circumstances? If the answer is in the affirmative, please explain fully.

Response) For so long as Kenergy holds an exclusive territorial franchise, I believe that Kenergy should not be permitted to negotiate distribution fees with direct serve customers. Kenergy's ability to negotiate distribution fees for direct serve industrial customers constitutes an unfair advantage arising from monopoly abuse of its franchise rights. In dealing with service such as that provided to Kimberly Clark, Kenergy serves as a "gatekeeper" to price regulated electric service offered by Big Rivers, and Kenergy should not be empowered to levy a toll on prospective buyers of Big Rivers' services. The evidence of Kenergy's unfair bargaining position is well evidenced by the fact that Kenergy's cost of providing electric service to direct serve customers is well below its revenues derived from every direct serve customer.

Witness) Russell L. Klepper

respect to any of the wholesale power service that either smelter now receives, and there is no reason to believe that Kenergy will accept any such risk in the future.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO KENERGY'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 11) Refer to page 17, line 13 of Mr. Klepper's testimony where it is stated that "only the KPSC assessment varies as a function of electric consumption." Does KIUC admit that bad debt expense, or exposure to bad debt expense, may also vary as a function of electric consumption? If not, please explain the answer fully.

Response) My testimony states that in the study performed by GREC, the only component of GREC's cost that could be seen to be directly allocable to direct serve customers was the KPSC assessment. The reason for this energy related allocation of the KPSC assessment is probably because the calculation of the KPSC assessment is actually based on the energy sales of the regulated utility.

Kenergy's aggregate bad debt expense may vary as a function of its energy sales, but it also may vary as a function of electric service revenue. Probably it varies the most as a function of the strength of the economy within the territory that the utility serves. As energy consumption increase, aggregate bad debt expense may increase, but aggregate net revenues might also increase, so the overall impact on existing customers might be beneficial rather than detrimental.

I don't understand the reference to exposure to bad debt expense, because I don't understand whether it is Kenergy or the customer that you think suffers the exposure. I also don't know whether that exposure is mitigated through other means, such as customer deposits, offsets to patronage capital, or corporate assurances.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO KENERGY'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 12) Refer to page 17, lines 10 through 24 and page 18, lines 1 through 10 of Mr. Klepper's testimony where the structure of Kenergy's distribution fee is discussed.

(a) Please define "distribution related expenses" as set forth on page 17, line 20.

Response) As used on page 17, line 20 and elsewhere in my direct testimony, as well as in the responses to the requests for information submitted by both the Commission and Kenergy, distribution related expenses means Kenergy's aggregate electric service expenses, other than the costs of purchased power. In essence, this means Kenergy's expenses for distribution operations and maintenance, for all customer accounting functions, and for A&G functions.

(b) Does KIUC agree that for Tier 3 service for the smelters after December 31, 2000, Kenergy will incur additional expense and have added financial exposure and risk? If the answer is in the negative, please explain fully.

Response) Kenergy will incur additional expense in an unspecified amount in order to provide Tier 3 service to the smelters after December 31, 2000, but the amount of that additional expense cannot be determined at this time, or even estimated with any degree of accuracy.

There is also no way to determine when such expense will occur or whether the additional expenses will be recurring. For example, Kenergy and LEM have already entered and the Commission has already approved two Tier 3 contracts for service to Southwire. Kenergy should not incur any additional expense with respect to these existing contracts, but may incur additional expense in contracting for additional Tier 3 energy for Southwire.

The extent to which Kenergy will incur additional Tier 3 expense related to electric service to Alcan will depend in great part upon when, if ever, Alcan will restart its idle third pot line.

In addition, it should be recalled that Kenergy's agreements with LEM for electric service to the smelters provide for certain Tier 3 energy that can be acquired automatically from LEM. In those cases where a smelter acquires Tier 3 service from LEM under these existing provisions, Kenergy will incur no additional cost.

Although Kenergy may incur some additional expenses, it is highly unlikely that Kenergy will incur any added financial exposure and risk in providing Tier 3 service to the smelters. Such financial exposure and risk would only occur if Kenergy accepted the risk for paying for Tier 3 service which Kenergy purchases for resale to a smelter. Kenergy has not taken such risks with respect to any of the wholesale power service that either smelter now receives, and there is no reason to believe that Kenergy will accept any such risk in the future.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO KENERGY'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 13) Does KIUC agree that after the Commission factors the merger savings into Kenergy's rates, the rates ordered by the Commission could vary from those proposed by Mr. Klepper and still be fair, just and reasonable, and non-discriminatory?

Response) My testimony does not propose any specific rates. It proposes appropriate considerations of cost in establishing rates that are cost-based. The Commission could establish rates in a manner that is not entirely consistent with my proposals and the resulting rates could still be found to be fair, just and reasonable, and non-discriminatory.

Perhaps a better statement of position would be to say that rates ordered by the Commission would not be fair, just and reasonable, and non-discriminatory if the Commission were to approve the rates proposed by Kenergy in this proceeding.

Witness) Russell L. Klepper

RECEIVED
APR - 4 2000
PUBLIC SERVICE COMMISSION

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 Rate Decrease for Kenergy Corp., Consolidation Successor	: : : :	Case No. 99-162

RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO COMMISSION'S REQUEST FOR INFORMATION

Item 1) At page 6 of his direct testimony, Mr. Russell L. Klepper states: "Under the organizational structures of GREC and HUEC, voting rights were exercised equally by all members rather than on the basis of economic participation (the voting structure existing in almost all other business entities)."

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

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

Response) In preparing my testimony, I was aware that KRS Chapter 279 provided for a voting structure of one vote per customer. (Without research, I could not have cited the exact section of the statute that required this voting structure.) The direct serve industrial customers were allowed to vote on this issue, and in fact, the four industrial customers participating in the intervention in this case through the Kentucky Industrial Utility Customers, Inc. ("KIUC") did not oppose either the prior unsuccessful merger effort or the more recent successful merger effort.

In my view, it is not the statute that resulted in a disenfranchisement of the direct serve industrial customers. Rather, it was the misuse of the statutory voting structure by the management and board of directors of both Green River and Henderson Union that resulted in such disenfranchisement by excluding the direct serve industrial customers from any proposed rate decrease. Absent any analytical support whatsoever for their position, the management and directors of Green River and Henderson Union presented the merger effort to the voting membership as an action that would result in a 4% rate decrease.

The same Kentucky statutes that provide for a voting structure of one vote per customer also provide that Commission, rather than the management, board of directors, or members of a rural electric cooperative, exercises rate-setting authority. The statutory rate-setting authority vested in the Commission is intended to prevent the allocation of the cost burden on a popular basis rather than based on appropriate ratemaking principles.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO COMMISSION'S REQUEST FOR INFORMATION
CASE NO. 99-162

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

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

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

Response) The rates that Kenergy charges to non-direct serve customers are bundled (rather than unbundled).

This proceeding involves distribution costs because while the rates for most customers are bundled, the costs that Kenergy incurs in serving these customers are unbundled. These unbundled costs underlie the bundled rates; when a component of the unbundled costs is changed, the bundled rate should be changed appropriately to reflect the change in costs.

Kenergy purchases generating and transmission services from wholesale suppliers at costs that are specifically identifiable based on the customer or group of customers served from the wholesale delivery point. Kenergy incurs distribution costs that should be properly allocated through cost of service techniques to each customer or customer class, and then the total cost of serving each customer or customer class can be used to reconstitute bundled rates to non-direct serve industrial customers.

The KIUC Members support rate reductions to non-direct serve customers that can be justified based on the costs of serving those customers, including reductions in generating and transmission costs attributable to a single class. As an example, Kenergy expects to realize an annual benefit arising from the diversity between the peak loads of Green River and Henderson Union. That annual benefit is clearly attributable to service to non-direct serve customers. Within the context of a general rate proceeding such as this, this benefit should be reflected in the determination of the costs of serving such customers.

Witness) Russell L. Klepper

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

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

Response) The word "industrial" in line 7 should be deleted. I meant to refer to all non-direct serve customers. In Part b of this Item 3, the quotation is correctly restated deleting the word "industrial".

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

Response) As shown on Attachment 1(c) of Kenergy's Response to the Commission's Initial Data Request, the range of rate decrease percentages for direct serve customers other than the two smelters was from 19.97% to 3.99%. The three largest direct serve customers other than the smelters (Willamette, Commonwealth, and Kimberly Clark) received rate decreases of about 12%. Because the three largest non-smelter direct serve customers purchase more power than all other non-smelter direct serve customers combined, and because the rate decrease percentages for the other direct serve customers seemed to center around 12%, absent any stringent analysis, I judged the average total rate decrease to non-smelter direct serve customers to be about 12%.

As shown on Attachment 2 of Kenergy's Response to the Commission's Initial Data Request, the range of rate decrease percentages for non-direct serve customers was from 0.05% to 16.01%. By inspection, rather than analysis, the two large customer classes served by Green River appear to have received average rate reductions of about 11%. Similarly, the customer classes served by Henderson Union appear to have received average rate reductions in the range of 10% to 11%.

As the average rate decrease to the smelters was about 21.6% and to non-smelter direct serve customers was about 12%, I concluded that the direct serve customers had received larger percentage decreases than the non-direct serve customers, whose total reductions were more in the range of 10% to 11%.

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

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

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

Response) Yes, I would agree that this is exactly what Kenergy's responses show. I would suggest that a more appropriate characterization of the range for non-direct serve customers would be from 6.10% to 16.01%. This would exclude the 0.05% decrease to the Grain Bin class, which appears to consist of a single customer.

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

Response) As explained below in my response to Item 3(e) of this data request item, Kenergy's responses to KIUC's Supplemental Request for Information were constructed in a manner that was not responsive to the intention of the data request items, as it was impossible to determine the percentage decreases in wholesale power costs to each customer or customer class. (The responses were structured only so that the aggregate decrease in power costs could be disaggregated into its components based on total revenues from each customer class, but not so that the wholesale power decrease attributable to each customer or customer class could be determined.)

Notwithstanding this deficiency, and based on my involvement and knowledge of the Commission's Orders in Case No. 97-204 and Case No. 98-267, it was appropriate to conclude that the percentage decreases in wholesale power costs to non-smelter direct serve customers, and to distribution end points that are used to serve non-direct serve customers, were approximately equal and were in the range of 13%.

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

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

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

Response) Yes, I would agree that this is what the response show, but I would not agree that the responses are mathematically accurate or representative of what actually occurred. A single example will illustrate this problem, which I didn't deem was necessary to raise in my testimony.

First, look at Attachment 2 to Kenergy's Response to the Commission's Data Request. Line 1 shows that for residential and single phase service provided by Green River, the dollar decrease was $2,947,750, for a percentage decrease of 10.53%. This implies that the aggregate revenue received by Green River from residential and single phase service before the decrease was $27,993,827.

This revenue of $27,993,827 covered both wholesale power costs and distribution related costs. Absent any evidence of the division of these costs, assume for the sake of discussion that this revenue was 80% attributable to wholesale power costs ($22,395,062) and 20% attributable to distribution related costs ($5,598,765).

Now, look at Attachment 3 to Kenergy's Response to KIUC's Supplemental Data Request. At line 1, this shows that all of the rate decrease to Green River's residential and single phase customers was attributable to a decrease in wholesale power costs. However, the components of the decrease are a 13.16% decrease in wholesale power costs ($2,947,750 in decreased costs divided by $22,395,062) and a 0% decrease in distribution related costs, for a weighted average decrease in total power costs of 105.53%. The same mathematical deficiency exists in Attachment 2 to Kenergy's Response to KIUC's Supplemental Data Request.

Thus, absent knowledge of the component costs for wholesale power and distribution related costs underlying the prior rates, Kenergy's Responses to these supplemental data request items are not as useful as was intended.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO COMMISSION'S REQUEST FOR INFORMATION
CASE NO. 99-162

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

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

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

Response) My testimony at page 14 presents the results of a cost of service study performed by Green River for purposes of allocating Green River's total excess revenues among customers based on the amount of excess revenues derived through rates from each customer or customer class. (The intellectual literature, as well as judicial decisions, have held that the allocation of patronage capital is a cost-based rate refund.) In performing its study for purposes of allocating patronage capital, it was Green River's assumption (not mine) that direct serve customers are only responsible for an appropriate share of administrative and general (A&G) expenses and a directly ascertainable portion of the KPSC assessment.

In my view, the assumptions of Green River in performing this cost of service study were certainly reasonable. The rates of the direct serve customers separately recover the costs of generating and transmission service charged to Green River by the wholesale supplier. The direct serve customers use no distribution facilities, and thus no portion of Green River's distribution operations or maintenance expenses is properly allocable to a direct serve customer.

A de minimis portion of customer accounting expense may be allocable to direct serve customers, but the absolute dollar amount is so small that the accounting determination of the allocable amount would be more costly than the amount of customer accounting expense that would be properly allocable. The most costly functions of customer accounting are meter reading and preparing and rendering the bill. The wholesale power suppliers perform these functions for direct serve customers on behalf of Green River and the costs of such service are included in the wholesale power costs. The only customer accounting functions that Green River (or Kenergy) performs for direct serve customers is accounting for receivables and processing payments.

Thus, it is both reasonable and appropriate that only A&G expenses be allocated to direct serve customers. Moreover, in performing the allocation of A&G expenses, it would be improper to allocate to direct serve customers those elements of A&G expenses that provide direct support for distribution operations or customer accounting functions or personnel.

The cost-of-service study methodology that most closely reflects Green River's approach for allocating patronage capital credits is the cost based methodology whereby costs are allocated to each customer or customer class based on economic (rather than accounting based) cost causation.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO COMMISSION'S REQUEST FOR INFORMATION
CASE NO. 99-162

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

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

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

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

Response) First, let's compare Alcan and Southwire, both of which operate aluminum smelters that were opened in the early 1970s. The size of these two smelters, prior to the recent expansion at the Southwire smelter, is very similar (345 MW for Alcan vs. 365 MW for Southwire). The energy consumption patterns and load factors are virtually identical. The historical contract terms reveal only nominal differences.

Prior to the merger than created Kenergy, Alcan was served by Henderson Union, and Southwire was served by Green River. Until September 1997, the adder to Alcan was $0.0001 per kWh, versus $0.00008 per kWh for Southwire. The fee revenues that Henderson Union received from serving Alcan were about $290,000 per year, while the corresponding fee revenues that Green River received from serving Southwire were about $250,000. There is no reason why Henderson Union's costs in serving Alcan should have been materially different that Green River's costs in serving Southwire.

Under these circumstances, it would be expected that Alcan would have accumulated more patronage capital than Southwire. Instead, Alcan has accumulated patronage capital of only 19% of the amount accumulated for Southwire. The reason for this difference in accumulated patronage capital is directly attributable to the fact that the methodology historically used by Henderson Union in allocating patronage capital has failed to reflect any cost analysis whatsoever.

Commonwealth operates an aluminum rolling mill with a historical peak load of about 40 MW and a load factor of about 75%, thus consuming about 265,000,000 kWh per year. The adder paid by Commonwealth to Green River has been $0.0003 per kWh, for total annual fees to Green River of about $80,000. Despite the fact that Alcan pays annual distribution fees that are more than 3.5 times greater than those paid by Commonwealth, Alcan has only accumulated about 70% of the patronage capital that has been accumulated over the same time period by Alcan.

Again, this difference is directly attributable to the simplistic methodology historically used by Henderson Union to allocate patronage capital. Assuming that in the future, Kenergy uses the same methodology formerly used by Green River to allocate patronage capital to each of Alcan, Southwire, and Commonwealth, the ongoing discrimination that has been suffered by Alcan with respect to the allocation of patronage capital will be terminated.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO COMMISSION'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 6)

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

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

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

Response) I did not perform a traditional cost of service study on Kenergy's operations in developing my recommendations in this proceeding. I did not do so for numerous reasons, as discussed below.

First, development of a full-blown cost of service study would have been extremely time intensive and costly to my clients. This would have unfairly cast the significant cost burden of a cost of service study on an intervenor instead of the Applicant, which bears an obligation under Commission Regulations to provide a cost of service study.

Second, I felt certain that authoritative cost information could be obtained from Kenergy through the discovery process that would amply illustrate the fact that the KIUC Members pay distribution fees to Kenergy that are far in excess of the direct and indirect costs that Kenergy incurs in serving the KIUC Members. This information, in the form of a detailed cost of service study performed by Green River for purposes of allocating patronage capital, proved to be available through discovery and is discussed at length in my direct testimony.

Third, a traditional cost of service study would reveal not only that the KIUC Members are paying rates that are far in excess of related costs, but it would also reveal which customers or classes of customers are paying rates that are below related costs of service. KIUC does not view its role as a participant in the determination of rates or rate structures for other customers or customer classes.

Information necessary for the preparation of a traditional cost of service study could have been obtained through the discovery process in this proceeding. By far the easiest way to have obtained such information would have been by a Commission Order denying Kenergy's request for a waiver of the requirement to file this information.

With all due respect, I suggest that it seems unfair for the Commission to ask whether a specific intervenor in a general rate proceeding has prepared a traditional cost of service study, or could have prepared a traditional cost of service study, under circumstances wherein: (a) a Commission requirement exists for the Applicant to prepare and submit a cost of service study, (b) the Commission has granted to the Applicant a waiver of the regulatory requirement to prepare and submit a cost of service study, and (c) in granting such waiver, the Commission has admonished the Applicant that it continues to bear the burden of proof notwithstanding relief from the requirement to submit a cost of service study.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO COMMISSION'S REQUEST FOR INFORMATION
CASE NO. 99-162

Item 7)

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

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

Response) I did not propose specific new Kenergy adder rates because KIUC did not have access to detailed account specific cost information for Henderson Union that would allow for a specific proposal of adder rates that would properly apply to both Alcan and Southwire.

Moreover, as KIUC does not represent the interest of any parties other than the KIUC Members, it seemed inappropriate to propose new Kenergy adder rates that might be deemed to extend to direct serve customers other than the KIUC Members. Instead, it seemed more appropriate to propose a concept that the Commission could adopt in establishing cost based rates for direct serve customers. If the Commission accepts the concept proposed in my testimony for establishing cost based distribution fees to direct serve customers, then the specific rates could be established in a compliance filing by Kenergy as ordered by the Commission.

I contend that a cost of service study adequate for the evaluation and development of cost based rates to the KIUC Members does exist in the form of the annual studies prepared and used by Green River for the allocation of patronage capital arising from excess revenues. In any event, this is a general rate proceeding. In this type of proceeding, the KIUC Members are entitled to have distribution related adder rates established at levels that are fair, just and reasonable, and non-discriminatory based on the evidence submitted in the proceeding. The rights of the KIUC Members cannot be abridged in this matter because of Kenergy's unwillingness to file a cost of service study in accordance with the Commission regulations.

Further, in response to the Commission's question, I would ask how any rate proposal of Kenergy set forth in the context of a general rate proceeding can be adequately evaluated by the Commission in the absence of a cost of service study that allocates all reasonably incurred cost components among customers and classes of customers.

Witness) Russell L. Klepper

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

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

Response) To my knowledge, neither Alcan, Southwire, nor KIUC ever opposed the variable aluminum smelter rate in any rate or other proceeding before this Commission that was initiated subsequent to the establishment of the variable aluminum smelter rate by Commission Order dated August 10, 1987. Thus, none of the parties encouraged the Commission to engage in an inappropriate use of its ratemaking authority.

By way of clarification and expansion, Alcan and Southwire did actively oppose both the Order establishing the variable aluminum smelter rate and the related Order disclaiming jurisdiction over Big Rivers' 1986 Debt Workout Plan and federal debt restructuring. That opposition took the form of appeals of the Commission Orders to the Franklin Circuit Court and the Kentucky Court of Appeals. Within the context of the appeals process (but not in a subsequent rate proceeding), Alcan and Southwire contended that the Commission had erred and sought the remedy of corrections to those Orders from the time that the Orders were implemented.

As stated in my direct testimony at page 6, lines 15-17, "If the predecessors to Kenergy believed that ratemaking errors were manifest in prior Commission decisions, the appropriate remedy would have been to seek judicial review of those decisions." As can be seen from the discussion above, the action of Alcan and Southwire was to seek the appropriate remedy of judicial review, but in no subsequent proceeding did Alcan or Southwire seek to have the Commission correct a perceived deficiency in a prior Commission decision.

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

Response) My proposed changes to Kenergy's adders are an attempt to convince the Commission to use its rate-making authority to establish and implement rates that will satisfy the ratemaking standards of just, fair and reasonable, and non-discriminatory on a prospective basis. In the main, I contend that the distribution component of the rates of the KIUC Members should bear the same relationship to distribution costs incurred in serving the KIUC Members as the distribution component of the rates of non-direct serve customers bears to the distribution costs incurred in serving the non-direct serve customers.

As a matter of definition, every general rate case proceeding is an examination of current costs and related circumstances in order to ascertain whether rates implemented in a prior period continue to meet the regulatory standards in light of changes that have occurred since the time when rates were last established. There is no assertion in my testimony that the existing rates, when established, did not satisfy the ratemaking standards. However, the evidence that is presented within my testimony reveals that the existing rates no longer fulfill the appropriate ratemaking standards and thus are ripe for adjustment.

Witness) Russell L. Klepper

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
RESPONSE TO COMMISSION'S REQUEST FOR INFORMATION
CASE NO. 99-162

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

Response) Kenergy's proposed rate reduction constitutes an attempt to effect a retroactive remedy to prior Commission decisions because Kenergy's proposal seeks to take monies that should be used to reduce the revenue burden to direct serve industrial customers, and to divert those monies to further reduce the revenue burden to non-direct serve customers.

Kenergy provides no cost based justification for its proposed action. Instead, Kenergy baldly asserts that focusing the entire benefit on the merger savings on non-direct serve customers is an appropriate action because at some prior time, Kenergy believes that rates to non-direct serve customers were improperly increased relative to the rates of direct serve customers. Kenergy's clear objective in this matter is to provide reparations to the non-direct serve customers in consideration of the prior rate increases that Kenergy unilaterally believes were unfairly levied upon those customers.

Witness) Russell L. Klepper

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

March 23, 2000

RECEIVED
MAR 24 2000
PUBLIC SERVICE
COMMISSION

FEDERAL EXPRESS

Mr. Martin J. Huelsmann, Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40601

Re: Case No. 99-162

Dear Mr. Huelsmann:

We enclose herewith for filing Kenergy Corp.'s Requests for Information to Kentucky Industrial Utility Customers, Inc.

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 L. Kurtz

RECEIVED
MAR 24 2000
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 RATE DECREASE FOR KENERGY CORP., CONSOLIDATION SUCCESSOR	)	CASE NO. 99-162

KENERGY CORP.'S REQUESTS FOR INFORMATION TO KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

1. Refer to page 5, lines 19 through 24 of the direct testimony of Russell L. Klepper where it is stated that in the first merger initiative the rates of HUEC's members "would have increased notwithstanding the economic benefits of the merger." Please state fully the basis for this statement and provide copies of any supporting documentation ("documentation" or "document" herein means any correspondence, memorandum, report, record, worksheet or other written material of any nature).

2. Refer to page 6, lines 10 through 12 of Mr. Klepper's testimony where it is stated "it is not an appropriate use of the Commission's discretion to use its rate making authority to correct or amend any real or perceived deficiency in a prior rate making decision of the Commission." Is there any recognized authority for this statement? If so, please identify the authority and explain fully how it applies in the present case.

3. Refer to page 6, beginning at line 13 of Mr. Klepper's testimony where it is stated "The management of Kenergy clearly believes that the Commission erred in one or more prior rate decisions . . ." Please state fully the basis for this statement.

4. Refer to page 7, line 4 of Mr. Klepper's testimony where it is stated "This case involves distribution costs."

(a) If this case involved an increase in distribution costs, rather than a decrease, would it be KIUC's position, and Mr. Klepper's, that the distribution adder in special contracts should increase proportionately with any ordered rate increase? If the answer is in the negative, please explain fully.

(b) Assume a scenario in which Kenergy has rates that are indisputably regarded to be fair, just and reasonable, and nondiscriminatory, for both nondirect served customers and direct served customers. If distribution costs increased which necessitated an increase in rates, is it KIUC's position, and Mr. Klepper's, that the distribution adder in special contracts should increase proportionately with any ordered rate increase? If the answer is in the negative, please explain fully.

5. Refer to page 8, lines 1 through 21 of Mr. Klepper's testimony in which it is contended that "Southwire was

the one and only customer of GREC that experienced an <u>increase</u> in its distribution fee."

(a) What is the basis for the statement that Southwire paid a distribution fee of 0.3 mills per kWh for energy consumed by the Rod Mill? Please provide copies of all supporting documentation.

(b) Kenergy believes that the actual distribution fee for the Rod Mill was $.25 per kW and 2.5 mills per kWh. (See attached "Exhibit A" which is a copy of the applicable tariff. Rod Mill was charged $10.40 per kW and Big Rivers' wholesale rate was $10.15; Rod Mill was charged 2.03206¢ per kWh and Big Rivers' wholesale rate was 1.78206¢). If this distribution fee is correct, how does this change Mr. Klepper's testimony?

6. Refer to page 9, lines 1 through 12 of Mr. Klepper's testimony where the points are made that Kenergy incurs substantial distribution expense for nondirect served customers, whereas Kenergy's distribution expenses for direct served customers are extremely nominal. Assuming this to be true, please explain fully the basis for the contention that merger savings should be passed on in the same percentages to both classes of customers. Also, please define the term "extremely nominal" when used in this context.

7. Refer to page 11, lines 1 through 12 of Mr. Klepper's testimony where it is stated, in effect, that Kenergy is a provider of "only distribution services."

(a) Does KIUC admit that under applicable Kentucky law Kenergy is responsible for providing generation, transmission and distribution services? If not, please identify the authority for KIUC's position.

(b) Does KIUC admit that Kenergy does, in fact, provide generation, transmission and distribution services to its customers? If not, please state all reasons for KIUC's position.

(c) Does KIUC admit that Kenergy assumes financial risk inherent in providing generation and transmission services for its customers? If not, please fully explain KIUC's position and cite or identify applicable authority.

8. Refer to page 11, lines 22 through 26 of Mr. Klepper's testimony where a portion of Section e of the General Provisions of each Smelter Tariff is stated.

(a) Does KIUC agree that Kenergy and the smelters intended that the distribution fee could be changed only upon application filed with the Commission after December 31, 2000? If KIUC does not so agree, please state fully KIUC's position and the basis for same, and provide copies of any supporting documentation.

(b) If the Commission were to reduce the smelters' distribution fee in this proceeding, does KIUC agree that this would be an example of "prospective rate making"? If not, please explain why.

(c) Does KIUC agree that the Commission cannot engage in prospective rate making? If not, please explain why.

9. Refer to page 13, lines 5 through 12 of Mr. Klepper's testimony where it is stated "It was the practice of GREC to perform a detailed analysis of distribution related costs applicable to each direct serve customer . . ." Please state the entire basis for KIUC's position that a "detailed analysis" was performed and provide copies of any supporting documentation.

10. Refer to page 15, lines 23 through 25 and page 16, lines 1 through 13 of Mr. Klepper's testimony where it is contended that Kimberly Clark is treated in a discriminatory fashion regarding its distribution fee.

(a) Does KIUC admit that Kimberly Clark's distribution fee is an agreed upon amount which is set forth in a special contract filed with and duly accepted by the Commission? If not, please explain KIUC's position with respect to its answer.

(b) Does KIUC contend that Kenergy should not be permitted to negotiate distribution fees with Kimberly Clark and other special contract customers, regardless of the underlying circumstances? If the answer is in the affirmative, please explain fully.

11. Refer to page 17, line 13 of Mr. Klepper's testimony where it is stated that "only the KPSC assessment varies as a function of electric consumption." Does KIUC admit that bad debt expense, or exposure to bad debt expense, may also vary as a

function of electric consumption? If not, please explain the answer fully.

12. Refer to page 17, lines 10 through 24 and page 18, lines 1 through 10 of Mr. Klepper's testimony where the structure of Kenergy's distribution fee is discussed.

(a) Please define "distribution related expenses" as set forth on page 17, line 20.

(b) Does KIUC agree that for Tier 3 service for the smelters after December 31, 2000, Kenergy will incur additional expense and have added financial exposure and risk? If the answer is in the negative, please explain fully.

13. Does KIUC agree that after the Commission factors the merger savings into Kenergy's rates, the rates ordered by the Commission could vary from those proposed by Mr. Klepper and still be fair, just and reasonable, and nondiscriminatory?

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

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

I hereby certify that these requests have 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 23rd day of March, 2000.

Frank N. King, Jr.

FOR ALL TERRITORY SERVED
Community, Town or City

PSC NO. 6

GREEN RIVER ELECTRIC CORPORATION
OWENSBORO, KENTUCKY

THIRTEENTH REVISED SHEET NO. 36

CANCELLING PSC NO. 6

TWELFTH REVISED SHEET NO. 36

CLASSIFICATION OF SERVICE

Industrial Consumers Served Under Special Contracts	RATE PER UNIT
The Rates to Commonwealth Aluminum, Inc., and Willamette Industries, Inc., (Western Kraft Paper Group/Kentucky Mills Division), shall be as follows:	
Demand Charge of:	
per KW of billing demand*	$10.15
Plus Energy Charge of:	
(R) per KWH consumed	1.81206¢
The Rates to Southwire Co. and WorldSource shall be as follows:	
Demand Charge of:	
per KW of billing demand*	$10.40
Plus Energy Charge of	
(R) per KWH consumed	2.03206¢
The Rates to Scott Paper Co. shall be as follows:	
Demand Charge of:	
per KW of billing demand*	$10.20
Plus Energy Charge of	
(R) per KWH consumed	1.83206¢
(T) The Rates to Alcoa-Hawesville Works shall be as follows:	
Demand Charge of:	
(N) per KW of billing demand*	$10.40
Plus Energy Charge of	
(N) per KWH consumed	3.472¢

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

APR 01 1996

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)
BY: Phyllis Fannin
DIRECTOR, RATES & RESEARCH DIV

*Billing demand for purposes of this tariff shall be the contractual billing demand in the current billing month or the highest contractual billing demand in any of the previous eleven (11) billing months, whichever is greater.

National-Southwire Aluminum:
The rates to National-Southwire Aluminum Company shall be the NSA Smelter Rate contained in the tariff of Big Rivers Electric Corporation, attached herein, plus $.00008 per kilowatt hour per month.

DATE OF ISSUE April 5, 1996 DATE EFFECTIVE April 1, 1996

ISSUED BY Dean Stanley TITLE President and General Manager

ISSUED BY AUTHORITY OF AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 94-472 DATED

EXHIBIT
A

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

March 24, 2000

Honorable Frank N. King,
Attorney for Kenergy Corp.
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

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

RE: Case No. 1999-162

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/sh
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 RATE DECREASE FOR KENERGY CORP., CONSOLIDATION SUCCESSOR	)))))	CASE NO. 99-162

O R D E R

IT IS ORDERED that Kentucky Industrial Utility Customers, Inc. ("KIUC") shall file the original and 8 copies of the following information with the Commission no later than March 31, 2000, with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this Order.

1. At page 6 of his direct testimony, Mr. Russell L. Klepper states: "Under the organizational structures of GREC and HUEC, voting rights were exercised equally by all members rather than on the basis of economic participation (the voting structure existing in almost all other business entities)."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

By the Commission

ATTEST:

Executive Director

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

February 24, 2000

RECEIVED
FEB 25 2000
PUBLIC SERVICE COMMISSION

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

Re: Case No. 99-162

Dear Mr. Huelsmann:

We enclose herewith for filing the original and eight (8) copies of each of the following:

Kenergy Corp.'s Responses to Public Service Commission's Supplemental Request for Information

Kenergy Corp.'s Responses to Second Set of Data Requests of Kentucky Industrial Utility Customers, Inc.

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/w/encls.: Mr. Dean Stanley
Mr. Michael L. Kurtz

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

RECEIVED
FEB 25 2000
PUBLIC SERVICE COMMISSION

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

KENERGY CORP.'S RESPONSES TO SECOND SET OF DATA REQUESTS OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

KENERGY CORP. hereby submits the following responses to the second set of data requests of Kentucky Industrial Utility Customers, Inc.

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

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

I hereby certify that these responses have 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 24th day of February, 2000.

Frank N. King
Frank N. King, Jr.

KENERGY CORPORATION
RESPONSE TO KIUC SECOND SET OF DATA REQUESTS
PSC CASE NO. 99-162

Item 1a) Please identify by name and job title each and every current Kenergy employee who was employed by Big Rivers Electric Corporation (Big Rivers) as of December 31, 1997.

Response)	Russell Pogue	Commercial & Industrial Services Advisor
	Sonya Dixon	Communications Coordinator

Witness) Dean Stanley

Item 1b) Please identify each and every administrative or operational function that is now performed by Kenergy that was performed by Big Rivers for, or on behalf of, Kenergy's predecessors as of December 31, 1997.

Response) On January 3, 2000, marketing staff at Big Rivers was reassigned to Kenergy. The Big Rivers member cooperatives; Kenergy, Jackson Purchase, and Meade County (hereafter referred to as "cooperatives"), desire to centralize marketing efforts in order to deliver a high quality of service economically to the customers. This will be accomplished by realizing greater economies of scale, higher employee utilization and specialization, and reduction of redundant costs made possible by combining certain marketing requirements of the cooperatives into one centralized marketing department.

The cooperatives have agreed that this new marketing department will be located at Kenergy because it already has a high level of specialization in the marketing area recently enhanced by the realignment of staff following the Green River Electric/Henderson Union Electric consolidation into the Kenergy cooperative.

Until the integration of administrative and operational functions are developed and agreed upon by all parties (co-ops), the staff from Big Rivers will continue to perform functions previously provided to distribution cooperatives. These functions include the following:

- Commercial and industrial newsletter
- Commercial and industrial database maintenance
- Customer energy assistance
- Power quality assessment
- Power quality evaluations and solutions
- Preparation of Big Rivers Annual Report
- Touchstone Energy Coordination
- TV, radio and newspaper ad development and placement
- Assistance at co-op annual meetings
- Big Rivers employee newsletter
- Big Rivers Intranet maintenance

- Design promotional materials (bill stuffers, brochures, ads, etc.)
- Develop in-house forms and printing
- Routine Web site maintenance
- Energy use assessments
- Training
- Logo design

Witness) Dean Stanley

Item 1c) Please identify each and every element of expense, and the annual amount of such expense, that was intended to be incurred by Big Rivers as of December 31, 1997 but for which the burden of incurring that expense has not been shifted, in whole or substantial part, to Kenergy. (As an example, if Big Rivers' annual cost of economic development was $250,000, but that function has been terminated at Big Rivers and Kenergy is now performing economic development at an annual cost of $175,000, that shift in expense should be disclosed in Kenergy's response.)

Response) In July 1998, the Economic Development professional at Big Rivers left for another position; after which, management at the cooperatives (Green River, Henderson-Union, Jackson Purchase, Meade County) decided that future economic development efforts would be performed by the individual distribution cooperatives. Each cooperative was to establish its own economic development program and level of involvement and cover its' expenses.

Kenergy (formerly Green River and Henderson Union) established individual economic development programs, which operated independently until the consolidation in July 1999. We estimate that Kenergy's labor and overhead costs for economic development activities have increased by $51,000 because of the shift in economic development functions.

Witness) Dean Stanley

Item 2) Please see Attachment 1c of Kenergy's Response to the Commission's Initial Request for Information. For each directly served customer listed in column (a), please disaggregate the dollar amount shown in column (b) to reflect the dollar amount of the decrease that is attributable to reductions in power costs and separately to reflect the dollar amount of the decrease (or increase) that is attributable to reductions (or increases) in the Kenergy adder. Please further reflect the amount of the percentage changes in the power costs and the Kenergy adder.

Response) See Attachment 2.

Witness) Jack Gaines – Henderson Union customers
Steve Thompson – Green River customers

Item 3) Please see Attachment 2 of Kenergy's Response to the Commission's Initial Request for Information. For each customer class shown on Attachment 2, please disaggregate the dollar amount to reflect the dollar amount of the decrease that is attributable to reductions in power costs and separately to reflect the dollar amount of the decrease that is attributable to changes in costs other than power costs. Please further reflect the amount of the percentage changes in the power costs and the costs other than power costs.

Response) See Attachment 3.

Witness) Jack Gaines - Henderson Union customers
Steve Thompson – Green River customers

Item 4) Please see Attachment 3b(1) of Kenergy's Response to the Commission's Initial Request for Information.

Item 4a) Please prepare a calculation reflecting whether a 1% rate reduction to all Kenergy retail customers would accomplish the same revenue reduction objectives as a 4% rate reduction to Kenergy's non-direct serve customers. If so, please explain why this would not better satisfy the regulatory objective of fair, just and reasonable rates?

Response) A 1% reduction to all Kenergy customers would result in a revenue reduction nearly equal to the proposed 4% reduction to non-direct served customers. ($2,293,000 vs. $2,299,000). Kenergy's position, for the reasons including but not limited to those enumerated in the prefiled testimony of Jack Gaines (pages 2 – 4), is that the proposed 4% reduction to non-direct served customers is fair, just, and reasonable.

Witness) Jack Gaines

Item 4b) Please prepare a calculation reflecting whether a rate reduction to all Kenergy retail customers in the amount of 10% of Kenergy's costs other than power costs would accomplish the same revenue reduction objectives as a 4% rate reduction to Kenergy's non-direct serve customers. If so, please explain why this would not better satisfy the regulatory objective of fair, just, and reasonable rates?

Response) A reduction based on 10% of Kenergy's costs other than power cost would result in a $2,127,000 revenue decrease vs. $2,299,000 decrease as proposed. Kenergy's position, for the reasons including but not limited to those enumerated in the prefiled testimony of Jack Gaines (pages 2 – 4), is that the proposed 4% reduction to non-direct served customers is fair, just, and reasonable.

Witness) Jack Gaines

Item 5) For Kenergy and its predecessors, please provide a table for the years 1997, 1998, and 1999, showing in both dollars and percentages the amount of Kenergy's annual revenues in excess of related expenses (margins). Please provide information reflecting how the level of Kenergy's margins for these years compare with the margins of other electric distribution cooperatives within both Kentucky and the United States.

Response)

		Median Values	
1997	Kenergy	U.S.	State
Margins	$3,829,602		
Times interest earned ratio	2.23	2.36	1.79
Patronage capital retired	$2,490,536		
Patronage capital retired/ prior year margins	69.69%	24.83%	9.31%
1998			
Margins	($35,073,324)		
Times interest earned ratio	(-10.42)	2.36	1.87
Patronage capital retired	$2,616,293		
Patronage capital retired/ prior year margins	91.35%	26.60%	20.73%
1999			
Margins	$1,888,126		

Median values not available until third quarter 2000

Witness) Steve Thompson

Item 6) Please see Item 16 and Item 17 of Kenergy's Responses to KIUC's First Set of Data Requests. Please provide:

Item 6a) A description and calculation for 1997, 1998, and 1998 of the PSC assessment, including the amount of the PSC assessment for service to each of Alcan and Southwire.

Response) See Attachment 6a, Pages 1 – 3.

Witness) Steve Thompson

Item 6b) With respect to Alcan and Southwire, a description of the "investment costs associated with plant expansion and operations costs associated with plant utilization".

Response) With respect to Southwire and Alcan, plant expansion and operations costs would refer to general plant related costs and administration and general expenses.

Witness) Jack Gaines

Item 6c) An in-depth description of the "liability and risk", including the cost of the liability and risk, incurred by Kenergy in providing electric service to each of Alcan and Southwire.

Response) Kenergy has liability and risk in serving Alcan and Southwire due to its obligations and responsibilities under its contracts to provide electric service to each. Kenergy cannot quantify the annual costs associated with its liabilities and risks. However, Kenergy has incurred substantial costs due to litigation and negotiations as result of its contractual relationships with Alcan and Southwire.

Witness) Jack Gaines

Item 7) Please see Item 15 of Kenergy's Responses to KIUC's First Set of Data Requests. Please provide:

Item 7a) As of December 31, 1999, a description and summary of the dollar amounts of all net investment by Kenergy in all categories of plant and equipment that fall under the umbrella of "general plant".

Response)

Land and Land Rights	469,363
Structure and Improvements	6,073,692
Office Furniture & Equipment	1,732,487
Transportation Equipment	5,283,624
Stores, Tools, Shop, Garage & Laboratory Equipment	1,490,935
Power - Operated Equipment	889,296
Communication Equipment	1,076,495
Miscellaneous Equipment	493,661
Other Tangible Property	0

Witness) Steve Thompson

Item 7b) For the years 1997, 1998, and 1999, a schedule showing the amount of annual expense incurred on maintenance of general plant, depreciation expense of general plant, property tax on general plant, and interest expense on general plant.

Response)	1997	1998	1999
Maintenance - General Plant	245,596	277,762	384,868
Depreciation Expense - General Plant	383,267	389,536	407,483

Property tax and interest expense on general plant are not required to be separated by the Uniform System of Accounts and are, therefore, not included in the above numbers.

Witness) Steve Thompson

Item 8) Please provide a list of all benefits to Alcan, Commonwealth, Kimberly Clark, and Southwire of the merger that created Kenergy.

Response) See pages 87 and 88 of the NRECA Consolidation Study.

Witness) Dean Stanley

Item 9) Please see Attachment 6, Page 2 of 2, line 31 of Kenergy's Responses to KIUC's First Set of Data Requests. Please provide a schedule showing the amount of patronage capital recorded for the benefit of each of Kenergy's twenty direct serve industrial customers and for all rural customers as a group.

Response) The information is being provided in the same format utilized for Item 8 of the response to KIUC Request #1.

Alcan	$ 696,572
Commonwealth	$ 1,073,333
Kimberly Clark	$ 336,180
Southwire Co.	$ 3,746,898
All Other Direct-Served Industrials – GREC	$ 3,633,220
All Other Direct-Served Industrials – HUEC*	$ 1,075,230
All Rural Customers Served from Distribution	
Delivery End Points – GREC	$20,123,006
HUEC	$20,603,033
July 1, 1999 – December 31, 1999 Unallocated	$ 552,055
Total	**$52,073,675**

*Active at 6/30/99

Witness) Steve Thompson

KENERGY CORP.
CASE NO. 99-162
ITEM 2
KIUC REQUEST NO. 2

		DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Line No.	Customer	Dollars Total	Dollars Power Cost	Dollars Kenergy Adder	% Total Decrease	% Power Cost	% Kenergy Adder
1	Southwire Co.	$21,588,776	$21,557,727	31,049	21.67	21.62	.05
2	Willamette Industries	1,872,166	1,872,166	-0-	12.46	12.46	---
3	Kimberly Clark	1,009,969	1,009,969	-0-	11.82	11.82	---
4	Commonwealth Aluminum	1,077,124	1,077,124	-0-	11.95	11.95	---
5	Alcoa-Hawesville Works	8,723	8,723	-0-	7.67	7.67	---
6	Arvin Roll Coaters	130,917	130,917	-0-	11.27	11.27	---
7	A-CMI	37,759	37,759	-0-	10.09	10.09	---
8	Alcan Aluminum	13,992,895	13,992,895	-0-	21.63	21.63	---
9	Black Diamond Resources	34,294	19,723	14,571	12.52	7.20	5.32
[illegible]	Peabody Coal Co. (Breck.)	339,185	217,154	122,031	14.45	9.25	5.20
11	Cardinal River Resources Inc.	69,822	41,052	28,770	13.00	6.64	6.36
12	C&R Mining, Inc.	3,403	3,460	(57)	3.99	4.06	(.07)
13	KB Alloys, Inc.	71,520	55,541	15,979	15.23	11.82	3.41
14	Lodestar Energy, Inc.	330,748	209,469	121,279	17.55	11.11	6.44
15	Patriot Coal Company	98,882	72,906	25,976	16.75	12.35	4.40
16	Pittsburg & Midway Coal	88,004	65,132	22,872	14.93	11.05	3.88
17	New Hope LLC (Victory Pro.)	66,183	54,869	11,314	16.76	13.90	2.86
18	Webster County Coal Co.	34,294	19,723	14,571	12.52	7.20	5.32
19	Tyson Foods, Inc.	128,172	162,578	(34,406)	7.24	9.18	(1.94)
20	Accuride Corporation	303,861	229,853	74,008	19.62	14.84	4.78
21	Smith Coal	207,557	155,182	52,375	19.97	14.93	5.04

KENERGY CORP.
CASE NO. 99-162
ITEM 3
KIUC REQUEST NO. 2

Line No.	CLASS	$ Total Decrease (Increase)	$ Power Cost Decrease (Increase)	$ Other Cost Decrease (Increase)	%Total Decrease (Increase)	% Power Cost Decrease (Increase)	% Other Cost Decrease (Increase)
	GREEN RIVER ELECTRIC CORP.						
1	Residential & Single Phase Service	$2,947,750	2,947,750	-0-	10.53%	10.53%	-0-
2	Three-Phase Under 1000 KW	992,248	992,248	-0-	11.77%	11.77%	-0-
3	Three-Phase Over 1000 KW	See Footnote*	N/A	-0-	See Footnote*	N/A	-0-
4	Lighting	78,845	78,845	-0-	13.00%	13.00%	-0-
5							
6	Footnote* No customers in this class during period.						
7							
8	HENDERSON UNION						
9	CLASS						
10							
11	Residential Single Phase Service	935,432	1,648,547	(713,115)	6.10%	10.76%	-4.64%
12	Farm Government or Commercial (50 KVA or Less)	142,375	142,324	51	9.63%	9.63%	-0-
13	Farm or Commercial (51-500 KVA)	487,737	300,258	187,479	16.01%	9.86%	6.15%
14	Grain Bin (51 - 500 KVA)	36	6,747	(6,711)	0.05%	9.33%	-9.28%
15	Large Power (501 - 2000 KW)	213,229	201,599	11,630	12.85%	12.15%	0.70%
16	Street Light Service	72,485	40,277	32,208	12.81%	7.11%	5.70%

PSC CASE NO. 99-162
ITEM 6
KIUC'S 2ND REQUEST FOR INFORMATION

		ALCAN	SOUTHWIRE
		REVENUES LESS 1/2 POWER COST	
Line No.	(a)	(b)	(c)
1	1996	28,907,577	41,232,008
2	1997	26,023,426	39,519,471
3	1998	25,627,835	38,850,109
		PSC ASSESSMENT RATE	
4	1997	0.00147	
5	1998	0.00183	
6	1999	0.00167	
		PSC ASSESSMENT DOLLARS	
7	1997	42,552	60,694
8	1998	47,545	72,202
9	1999	42,722	64,763

NOTE: See Pages 2 and 3 of Attachment 6a for documentation showing the 1999 assessment information for Green River Electric.

COMMONWEALTH OF KENTUCKY
REVENUE CABINET
FRANKFORT, KY 40619

EXPLANATION OF NOTICE

NOTICE DATE	PERIOD	CASE	TAX
06/23/1999	07/01/1999-06/30/2000	000001900033	PUBLIC SERVICE COMMISSION ASSESSMENT
NOTICE #	RETURN DUE	**TAXPAYER-ID**	TAXPAYER NAME
101295445	07/31/1999	000001900	GREEN RIVER ELECTRIC CORP

ANNUAL PUBLIC SERVICE COMMISSION ASSESSMENT FOR THE ABOVE PERIOD.

MESSAGES: KRS 278.130 PROVIDES FOR THE ANNUAL ASSESSMENT OF PUBLIC SERVICE COMPANIES.

QUESTIONS CONCERNING THIS ASSESSMENT MAY BE DIRECTED TO THE PUBLIC SERVICE COMMISSION, 730 SCHENKEL LANE, FRANKFORT, KENTUCKY 40601.

GROSS INTRASTATE RECEIPTS		80,800,751.53
TAX LIABILITY		TAX LIABILITY 134,694.85
TOTAL LIABILITY		TOTAL LIABILITY 134,694.85
TOTAL DUE AS OF: 07/07/1999	TOTAL AMOUNT OF TAX 134,694.85 TOT	BALANCE DUE 134,694.85

<<<< EXPLANATION OF NOTICE CONTINUED ON NEXT PAGE >>>>

165.200 - 54,696.85
242.500 - 79,998.00

6/28/99

VOUCHERED

$134,694.85
80,800,752 = .001667

VOUCHERED

Attachment 6a

PUBLIC SERVICE COMMISSION OF KENTUCKY
REPORT OF INTRA-KENTUCKY GROSS OPERATING REVENUES AND WHOLESALE POWER COSTS FOR THE YEAR ENDING DECEMBER 31, 19 98

Green River Electric Corporation (Utility Reporting) P. O. Box 1389, Owensboro, KY 42302-1389 (Address)

(DO NOT INCLUDE TAXES COLLECTED)

To Be Completed by Retail Electric Suppliers, Subject to the Jurisdiction of the Public Service Commission for Rates.

Intrastate Gross Revenues of Retail Electric Supplier $ 146,666,916.31

Less One-Half of the Applicable Wholesale Power Costs (provided the utility from which such wholesale power purchases were made pays assessment on the full wholesale value of its gross Intra-Kentucky revenues)

Wholesale Power Costs $\frac{131,732,329.55}{2}$ = $ 65,866,164.78

** Assessable Revenues $ 80,800,751.53

OATH

State of.... Kentucky..............)
) ss.
County of... Daviess...............)

Dean Stanley (Officer) being duly sworn, states that he/she is President and CEO (Official Title) of the Green River Electric Corporation (Utility Reporting)

that the above report of gross revenues is in exact accordance with the books of accounts of:

Green River Electric Corporation (Utility Reporting), and that such books accurately show the gross revenues of:

Green River Electric Corporation (Utility Reporting), derived from Intra-Kentucky business for the year ending December 31, 19 98

Dean Stanley (Officer) President & CEO (Title)

This the 30th day of March, 1999

John B. Warren I (Notary Public) State @ Large (County)

My Commission expires April 1, 2000

NOTE: ANY DIFFERENCE BETWEEN THE AMOUNT OF THE GROSS REVENUES SHOWN IN THE ANNUAL REPORT AND THE AMOUNT APPEARING ON THIS STATEMENT MUST BE RECONCILED ON THE REVERSE SIDE OF THIS REPORT

RECEIVED
FEB 25 2000
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 RATE DECREASE FOR KENERGY CORP., CONSOLIDATION SUCCESSOR	)	**CASE NO. 99-162**

<u>KENERGY CORP.'S RESPONSES TO PUBLIC SERVICE COMMISSION'S SUPPLEMENTAL REQUEST FOR INFORMATION</u>

KENERGY CORP. hereby submits the following responses to the Public Service Commission's supplemental request for information.

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

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

I hereby certify that these responses have 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 24th day of February, 2000.

Frank N. King
Frank N. King, Jr.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

RESPONSE TO COMMISSION'S SECOND REQUEST FOR INFORMATION

Item 1) Refer to Kenergy's Response to the Commission's Order of January 10, 2000, Item 1(b) and Attachment 1(b).

Item 1a) What consideration, if any, did Kenergy give to providing its direct-served customers a 4 percent reduction to its adder?

Response) Kenergy (through its predecessors) did not "consider" providing a rate reduction to only the adder to its direct-served customers. Kenergy reasoned that the fair approach was to offer the 4% rate reduction to the customers who had carried the financial brunt of rate increases in the past.

Witness) Dean Stanley

Item 1b) If Kenergy considered a 4 percent reduction to the adder assessed to its direct-served customers, state its reasons for ultimately rejecting this option.

Response) See response to 1a.

Witness) Dean Stanley

Item 1c) Based on the financial information contained in Attachment 1(b), provide the annual amount of a reduction that would reflect a 4 percent reduction in Kenergy's adder to direct-served customers.

Response) $2,395,652
(514,277) Excluding Smelters – Adder Fixed By Contract
(145,800) Facilities Charge – Tyson Foods
$1,881,375
x4%
$ 75,255

Witness) Steve Thompson

Item 2) Refer to Kenergy's Response to the Commission's Order of January 10, 2000, Item 3(a)(1). This response is not responsive to the Commission's request as it fails to explain how Kenergy determined the level of the reduction should be 4 percent. Explain how Kenergy (or its predecessors) determined that 4 percent was the appropriate level to use for its proposed rate reduction. Include with your response all analyses and studies used or considered by Kenergy (or its predecessors) to determine that a 4 percent reduction was appropriate.

Response) Kenergy feels the previous response and the amended application should adequately explain how the 4% reduction was determined. Management selected a range of $1,750,000 - $2,500,000 as the projected annual savings when all efficiencies were realized. The 1998 non-dedicated revenue was $57,469,511. Applying a 3, 4 and 5 percent reduction to the $57,469,511 results in the following amounts: 3% = $1,724,085; 4% = $2,298,780; 5% = $2,873,475.

The 4% reduction fell within the range of $1,750,000 - $2,500,000. Three ten-year financial forecast scenarios were developed, utilizing the 4% reduction, with an immediate, 5-year and 10-year phase-in of the cost savings. Management and the Board of Directors, along with NRECA consultants, reviewed these scenarios and made the decision to include the 4% reduction as part of the consolidation agreement. See Attachment 2, Pages 1 – 15 for a copy of the first four pages from these financial forecast scenarios.

Witness) Dean Stanley and Steve Thompson

Item 3) Refer to Kenergy's Response to the Commission's Order of January 10, 2000, Attachment 3(b)(1). In his letter to Mr. Toler, Mr. Stanley stated that KRS 278.455 permitted the exclusion of special contract customers from a rate reduction under certain conditions and that KRS 278.455 authorized the proposed actions of Kenergy (and its predecessors).

Item 3a) How did this interpretation of KRS 278.455 influence the decision of Kenergy (and its predecessors) to exclude its direct-served customers from the proposed rate reduction?

Response) This interpretation had no influence on the decision of Kenergy's predecessors. However, it was thought that KRS 278.455 provided as expedient path to achieve the rate reduction.

Witness) Dean Stanley

Item 3b) If Kenergy and its predecessors had known that its proposed reduction would not meet the requirements of KRS 278.455, what changes, if any, would they have made in Section 15 of the Consolidation Agreement? Explain.

Response) None. Kenergy was prepared to request approval from the PSC for the 4% rate reduction under whatever statute was required.

Witness) Dean Stanley

4% RATE REDUCTION
<u>IMMEDIATE PHASE-IN</u>

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 - AIEC VER. 6.0

FINANCIAL FORECAST RUS FORM 325A- RATIOS

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	118,780,524	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)		2.52	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	1,630,667	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	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	

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	
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	$32,737,948
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	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	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	

4% RATE REDUCTION
<u>5 YEAR PHASE-IN</u>

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	69.58	69.73	71.78	73.96	76.32	77.64	79.02	80.33	81.70	83.14
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	

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	
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	$32,737,948
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	
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	

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 ** 1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
					.... FUTURE YEARS						
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	21.57	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
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
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

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

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
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
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
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	
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	$32,737,948
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	
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	

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

February 23, 2000

Honorable Frank N. King,
Attorney for Kenergy Corp.
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

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

RE: Case No. 1999-162

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

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

<u>O R D E R</u>

Kentucky Industrial Utility Customers ("KIUC") has moved to amend the procedural schedule in this matter. Kenergy Corp. ("Kenergy") has agreed to the proposed revisions in the procedural schedule. Having considered the motion and being otherwise sufficiently advised, the Commission finds that KIUC's motion should be granted.

IT IS THEREFORE ORDERED that:

1. KIUC's Motion to Amend Procedural Schedule is granted.

2. The parties shall follow the procedural schedule set forth in Appendix A of this Order.

3. All provisions of the Commission's Order of December 14, 1999 that do not conflict with this Order remain in effect.

Done at Frankfort, Kentucky, this 23rd day of February, 2000.

By the Commission

ATTEST:

Wm H Bowker

Deputy Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 99-162 DATED 2/23/2000

Intervenor testimony, if any, shall be filed with the Commission and served upon all parties of record in verified prepared form no later than 03/10/2000

All requests for information to Intervenors shall be served no later than 03/24/2000

Intervenors shall file with the Commission and serve upon all parties of record its responses to requests for information no later than 03/31/2000

Kenergy shall file with the Commission and serve upon all parties of record any rebuttal testimony in verified prepared form no later than 04/14/2000

Public Hearing is to begin at 9:00 a.m., Eastern Daylight Time, in the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses 04/18/2000

Parties may file with the Commission and shall serve upon all parties of record written briefs no later than 05/19/2000

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

February 21, 2000

Mr. Martin J. Huelsmann, Jr.
Executive Director
Kentucky Public Service Commission
211 Sower Building
Frankfort, Kentucky 40601

Re: In The Matter Of: Notice of Intent of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation to File Joint application for Rate Reduction, Case No. 99-162.

Dear Mr. Huelsmann:

Please find enclosed the original and ten copies each of the Motion to Amend Procedural Schedule 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
Gerald Wuetcher, Esq. (Via Telefax Transmission)

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 21st day of February, 2000.

Honorable Frank N. King
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

FEB 2 2 2000

PUBLIC SERVICE COMMISSION

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 Rate Decrease for Kenergy Corp., Consolidation Successor	:	Case No. 99-162

MOTION TO AMEND PROCEDURAL SCHEDULE OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

By Order entered December 14, 1999 in the above-captioned proceeding, the Kentucky Public Service Commission ("Commission") set the procedural schedule to be followed in this case. Counsel for Kentucky Industrial Utility Customers, Inc. ("KIUC") and counsel for Kenergy Corp. ("Kenergy"), in consultation with counsel for the Commission have mutually agreed upon a new hearing schedule. The new hearing schedule would change the hearing date from April 25 to April 18; change the April 21 date for Kenergy to file rebuttal testimony to April 14; and change the April 7 date for intervenors to serve data responses to March 31.

WHEREFORE, KIUC respectfully requests that this Honorable Commission issue an order which:

1. Changes the Hearing date from April 25 to April 18;
2. Changes the Kenergy rebuttal testimony date from April 21 to April 14;
3. Changes Intervenors service of data responses from April 7 to March 31.

Respectfully submitted,

Michael L. Kurtz

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.

February 21, 2000

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

February 11, 2000

Mr. Martin J. Huelsmann, Jr.
Executive Director
Kentucky Public Service Commission
211 Sower Building
Frankfort, Kentucky 40602

Re: In The Matter Of: Notice of Intent of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation to File Joint application for Rate Reduction, Case No. 99-162.

Dear Mr. Huelsmann:

Please find enclosed the original and ten copies each of the Second Set of Data Requests 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 11th day of Februry, 2000.

Honorable Frank N. King
Attorney at Law
Dorsey, King, Gray & Norment
318 Second Street
Henderson, KY. 42420
(Via Telefax Transmission and Overnight Mail)

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.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
FEB 14 2000
PUBLIC SERVICE
COMMISSION

In The Matter Of: Notice of Intent of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation to File Joint Application for Rate Reduction	: : :	Case No. 99-162

SECOND SET OF DATA REQUESTS OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Dated: **February 11, 2000**

DEFINITIONS

1. "Document" means the original and all copies (regardless of origin and whether or not including additional writing thereon or attached thereto) of memoranda, reports, books, manuals, instructions, directives, records, forms, notes, letters, notices, confirmations, telegrams, pamphlets, notations of any sort concerning conversations, telephone calls, meetings or other communications, bulletins, transcripts, diaries, analyses, summaries, correspondence investigations, questionnaires, surveys, worksheets, and all drafts, preliminary versions, alterations, modifications, revisions, changes, amendments and written comments concerning the foregoing, in whatever form, stored or contained in or on whatever medium, including computerized memory or magnetic media.

2. "Study" means any written, recorded, transcribed, taped, filmed, or graphic matter, however produced or reproduced, either formally or informally, a particular issue or situation, in whatever detail, whether or not the consideration of the issue or situation is in a preliminary stage, and whether or not the consideration was discontinued prior to completion.

3. "Person" means any natural person, corporation, professional corporation, partnership, association, joint venture, proprietorship, firm, or the other business enterprise or legal entity.

4. A request to identify a natural person means to state his or her full name and residence address, his or her present last known position and business affiliation at the time in question.

5. A request to identify a document means to state the date or dates, author or originator, subject matter, all addressees and recipients, type of document (e.g., letter, memorandum, telegram, chart, etc.), number of code number thereof or other means of identifying it, and its present location and custodian. If any such document was, but is no longer in the Company's possession or subject to its control, state what disposition was made of it.

6. A request to identify a person other than a natural person means to state its full name, the address of its principal office, and the type of entity.

7. "And" and "or" should be considered to be both conjunctive and disjunctive, unless specifically stated otherwise.

8. "Each" and "any" should be considered to be both singular and plural, unless specifically stated otherwise.

9. Words in the past tense should be considered to include the present, and words in the present tense include the past, unless specifically stated otherwise.

10. "You" or "your" means the person whose filed testimony is the subject of these interrogatories and, to the extent relevant and necessary to provide full and complete answers to any request, "you" or "your" may be deemed to include any person with information relevant to any interrogatory who is or was employed by or otherwise associated with the witness or who assisted, in any way, in the preparation of the witness' testimony.

11. “Kenergy” means Kenergy Corp and/or any of their officers, directors, employees, or agents who may have knowledge of the particular matter addressed.

12. “BREC” means Big Rivers Electric Corporation and/or any of their officers, directors, employees, or agents who may have knowledge of the particular matter addressed.

13. GREC means Green River Electric Corporation and/or any of their officers, directors, employees, or agents who may have knowledge of the particular matter addressed.

14. HUEC means Henderson Union Electric Cooperative Corporation and/or any of their officers, directors, employees, or agents who may have knowledge of the particular matter addressed.

INSTRUCTIONS

1. If any matter is evidenced by, referenced to, reflected by, represented by, or recorded in any document, please identify and produce for discovery and inspection each such document.

2. These interrogatories are continuing in nature, and information which the responding party later becomes aware of, or has access to, and which is responsive to any request is to be made available to Kentucky Industrial Utility Customers. Any studies, documents, or other subject matter not yet completed that will be relied upon during the course of this case should be so identified and provided as soon as they are completed. The Respondent is obliged to change, supplement and correct all answers to interrogatories to conform to available information, including such information as it first becomes available to the Respondent after the answers hereto are served.

3. Unless otherwise expressly provided, each interrogatory should be construed independently and not with reference to any other interrogatory herein for purpose of limitation.

4. The answers provided should first restate the question asked and also identify the person(s) supplying the information.

5. Please answer each designated part of each information request separately. If you do not have complete information with respect to any interrogatory, so state and give as much information as you do have with respect to the matter inquired about, and identify each person whom you believe may have additional information with respect thereto.

6. In the case of multiple witnesses, each interrogatory should be considered to apply to each witness who will testify to the information requested. Where copies of testimony, transcripts or depositions are requested, each witness should respond individually to the information request.

7. The interrogatories are to be answered under oath by the witness(es) responsible for the answer.

8. Responses to requests for revenue, expense and rate base data should provide data on the basis of Total company as well as Intrastate data, unless otherwise requested.

KIUC FIRST SET OF DATA REQUESTS TO KENERGY
PSC CASE NO 99-162

1. a. Please identify by name and job title each and every current Kenergy employee who was employed by Big Rivers Electric Corporation (Big Rivers) as of December 31, 1997.

   b. Please identify each and every administrative or operational function that is now performed by Kenergy that was performed by Big Rivers for, or on behalf of, Kenergy's predecessors as of December 31, 1997.

   c. Please identify each and every element of expense, and the annual amount of such expense, that was intended to be incurred by Big Rivers as of December 31,1997 but for which the burden of incurring that expense has now been shifted, in whole or substantial part, to Kenergy. (As an example, if Big Rivers' annual cost of economic development was $250,000, but that function has been terminated at Big Rivers and Kenergy is now performing economic development at an annual cost of $175,000, that shift in expense should be disclosed in Kenergy's response.)

2. Please see Attachment 1c of Kenergy's Response to the Commission's Initial Request for Information. For each directly served customer listed in column (a), please disaggregate the dollar amount shown in column (b) to reflect the dollar amount of the decrease that is attributable to reductions in power costs and separately to reflect the dollar amount of the decrease (or increase) that is attributable to reductions (or increases) in the Kenergy adder. Please further reflect the amount of the percentage changes in the power costs and the Kenergy adder.

3. Please see Attachment 2 of Kenergy's Response to the Commission's Initial Request for Information. For each customer class shown on Attachment 2, please disaggregate the dollar amount to reflect the dollar amount of the decrease that is attributable to reductions in power costs and separately to reflect the dollar amount of the decrease that is attributable to changes in costs other than power costs. Please further reflect the amount of the percentage changes in the power costs and the costs other than power costs.

4. Please see Attachment 3b(1) of Kenergy's Response to the Commission's Initial Request for Information.

   a. Please prepare a calculation reflecting whether a 1% rate reduction to all Kenergy retail customers would accomplish the same revenue reduction objectives as a 4% rate reduction to Kenergy's non-direct serve customers. If so, please explain why this would not better satisfy the regulatory objective of fair, just and reasonable rates?

   b. Please prepare a calculation reflecting whether a rate reduction to all Kenergy retail customers in the amount of 10% of Kenergy's costs other than power costs would accomplish the same revenue reduction objectives as a 4% rate reduction to Kenergy's non-direct serve customers. If so, please explain why this would not better satisfy the regulatory objective of fair, just, and reasonable rates?

5. For Kenergy and its predecessors, please provide a table for the years 1997, 1998, and 1999, showing in both dollars and percentages the amount of Kenergy's annual revenues in excess of related expenses (margins). Please provide information reflecting how the level of Kenergy's margins for these years compare with the margins of other electric distribution cooperatives within both Kentucky and the United States.

6. Please see Item 16 and Item 17 of Kenergy's Responses to KIUC's First Set of Data Requests. Please provide:

   a. A description and calculation for 1997, 1998, and 1998 of the PSC assessment, including the amount of the PSC assessment for service to each of Alcan and Southwire.

   b. With respect to Alcan and Southwire, a description of the "investment costs associated with plant expansion and operations costs associated with plant utilization".

   c. An in-depth description of the "liability and risk", including the cost of the liability and risk, incurred by Kenergy in providing electric service to each of Alcan and Southwire.

7. Please see Item 15 of Kenergy's Responses to KIUC's First Set of Data Requests. Please provide:

   a. As of December 31, 1999, a description and summary of the dollar amounts of all net investment by Kenergy in all categories of plant and equipment that fall under the umbrella of "general plant"

   b. For the years 1997, 1998, and 1999, a schedule showing the amount of annual expense incurred on maintenance of general plant, depreciation expense of general plant, property tax on general plant, and interest expense on general plant

8. Please provide a list of all benefits to Alcan, Commonwealth, Kimberly Clark, and Southwire of the merger that created Kenergy.

9. Please see Attachment 6, Page 2 of 2, line 31 of Kenergy's Responses to KIUC's First Set of Data Requests. Please provide a schedule showing the amount of patronage capital recorded for the benefit of each of Kenergy's twenty direct serve industrial customers and for all rural customers as a group.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

February 11, 2000

To: All parties of record

RE: Case No. 1999-162

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

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

ORDER

IT IS ORDERED that Kenergy Corp. ("Kenergy") shall file the original and 8 copies of the following information with the Commission no later than February 25, 2000, with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this Order.

1. Refer to Kenergy's Response to the Commission's Order of January 10, 2000, Item 1(b) and Attachment 1(b).

a. What consideration, if any, did Kenergy give to providing its direct-served customers a 4 percent reduction to its adder?

b. If Kenergy considered a 4percent reduction to the adder assessed to its direct-served customers, state its reasons for ultimately rejecting this option.

c. Based on the financial information contained in Attachment 1(b), provide the annual amount of a reduction that would reflect a 4percent reduction in Kenergy's adder to direct-served customers.

2. Refer to Kenergy's Response to the Commission's Order of January 10, 2000, Item 3(a)(1). This response is not responsive to the Commission's request as it fails to explain how Kenergy determined the level of the reduction should be 4 percent. Explain how Kenergy (or its predecessors) determined that 4 percent was the appropriate level to use for its proposed rate reduction. Include with your response all analyses and studies used or considered by Kenergy (or its predecessors) to determine that a 4 percent reduction was appropriate.

3. Refer to Kenergy's Response to the Commission's Order of January 10, 2000, Attachment 3(b)(1). In his letter to Mr. Toler, Mr. Stanley stated that KRS 278.455 permitted the exclusion of special contract customers from a rate reduction under certain conditions and that KRS 278.455 authorized the proposed actions of Kenergy (and its predecessors).

a. How did this interpretation of KRS 278.455 influence the decision of Kenergy (and its predecessors) to exclude its direct-served customers from the proposed rate reduction?

b. If Kenergy and its predecessors had known that its proposed reduction would not meet the requirements of KRS 278.455, what changes, if any, would they have made in Section 15 of the Consolidation Agreement? Explain.

Done at Frankfort, Kentucky, this 11th day of February, 2000.

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

January 31, 2000

RECEIVED
FEB 01 2000
PUBLIC SERVICE COMMISSION

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

Re: Case No. 99-162

Dear Mr. Huelsmann:

We enclose herewith for filing the original and eight (8) copies of each of the following:

Kenergy Corp.'s Responses to Public Service Commission's Initial Request for Information

Kenergy Corp.'s Responses to First Set of Data Requests of Kentucky Industrial Utility Customers, Inc.

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/w/encls.: Mr. Dean Stanley
Mr. Michael L. Kurtz

RECEIVED

FEB 01 2000

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

KENERGY CORP.'S RESPONSES TO PUBLIC SERVICE COMMISSION'S INITIAL REQUEST FOR INFORMATION

KENERGY CORP. hereby submits the following responses to the Public Service Commission's initial request for information.

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

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

I hereby certify that these responses have 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 31st day of January, 2000.

Frank N. King
Frank N. King, Jr.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

RESPONSE TO COMMISSION'S INITIAL REQUEST FOR INFORMATION

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

Response) See attachment 1a, page 1 of 1.

Witness) Steve Thompson

Item 1b) State the total revenue that Kenergy received from each customer listed in part (a) for the 12 months ending December 31, 1998. If applicable, segregate the total revenue between the pass through of purchased power costs from Big Rivers Electric Corporation ("Big Rivers") and the adder that Kenergy or its predecessors applied to the customers' bills.

Response) See attachment 1b, page 1 of 1.

Witness) Steve Thompson

Item 1c) For each customer listed in part (a), state the annual effect of the rate revisions, in dollars and percentage change, resulting from the Commission's Orders in Case Nos. 97-204 and 98-267. The comparison shall be made against the rates in effect for the 12 months immediately prior to the effective date of the changes authorized in Case Nos. 97-204 and 98-267.

Response) See Attachment 1c, page 1 of 1.

Witness) Jack Gaines – Henderson Union customers

Steve Thompson – Green River customers

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

Response) See Attachment 2, page 1 of 1.

Witness) Jack Gaines – Henderson Union customers

Steve Thompson – Green River customers

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

Response) See Exhibit 6, pages 1 – 2 and Exhibit 7, page 3 of 3 of the amended application.

Witness) Dean Stanley and Steve Thompson

Item 3a (2) Provide all workpapers, analyses and studies used to reach this decision.

Response) See Exhibits 1 – 9 of the NRECA Consolidation Study filed in Case No. 99-136 incorporated into Case No. 99-162 by reference. See Paragraph (q) of amended application.

Witness) Dean Stanley and Steve Thompson

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

Response) See Attachment 3a (3), pages 1 – 10.

Witness) Dean Stanley and Steve Thompson

Item 3b (1) Why should the proposed rate reduction be restricted to non-direct serve customers?

Response) See Attachment 3b (1), pages 1 – 2. This is one of twenty-one (21) identical letters sent to Large Industrial Customers in March, 1999. Also see Exhibit 8 of the amended application, questions 8 – 13 of Jack Gaines testimony.

Witness) Dean Stanley and Jack Gaines

Item 3b (2) Provide all workpapers, analyses and studies used to reach this decision. Provide all internal memorandum, correspondence, and related documents in which the eligibility for the proposed reduction in Kenergy's rates after the consolidation of Henderson Union and Green River is discussed.

Response) See attachment 3b (1), pages 1 – 2.

Witness) Dean Stanley

Item 4a) Refer to Kenergy's Amended Application, Exhibit 1. During the test year, Kenergy's predecessors, Green River and Henderson Union, wrote off generating and transmission capital credits ("GTCC") they had previously received from Big Rivers. This write off is shown on Exhibit 1 as an extraordinary item. State the portion of the combined write off amount of $39,689,199 that is attributable to: (1) Green River and (2) Henderson Union.

Response)

Green River	-	$23,346,133
Henderson Union	-	16,343,063
		$39,689,196

Witness) Steve Thompson

Item 4b) Indicate the vintage years of GTCC's reflected by the write off.

Response) See Attachment 4b, pages 1 – 2.

Witness) Steve Thompson

Item 4c) Identify the last year each cooperative received a GTCC assignment from Big Rivers.

Response) Green River - 1985

Henderson Union - 1985

Witness) Steve Thompson

Item 4d) For each cooperative, provide all accounting entries made to reflect the write off and include a description for each recorded entry.

Response)

	Green River	Debit	Credit
#1			
123	Investment in associated companies		$23,346,133
435	Extraordinary deductions	$23,346,133	
	Remove investment in Big Rivers		
#2			
435	Extraordinary deductions		$23,346,133
219.2	Non-operating margins	$23,346,133	
	To close 1998 extraordinary deductions to non-operating margins		
#3			
219.2	Non-operating margins		$23,346,133
201.2	Patronage capital assignable	$23,234,133	
	To close non-operating margins to assignable patronage capital		
#4			
201.1	Patronage capital	$23,346,133	
201.2	Patronage capital assignable		$23,346,133
	To close assignable patronage capital to assigned patronage capital		

	Henderson Union	Debit	Credit
#1			
123	Investment in Associated Companies		$16,343,066
423	G & T Coop Capital Credits	$16,343,066	
	Remove investment in Big Rivers		
#2			
435	Extraordinary Deductions	$16,343,066	
423	G&T Co-op Capital Credits		$16,343,066
	Reclassify writeoff of Big Rivers investment		
#3			
435	Extraordinary Deductions		$16,343,066

219.2	Non-operating Margins	$16,343,066	

<u>#4</u>

201.1	Patronage Capital	$16,343,066	
219.2	Non-operating Margins		$16,343,066

To close non-operating margins to assigned patronage capital

Witness) Steve Thompson

Item 4e) Explain why Green River and Henderson Union classified the write off as an extraordinary item. This explanation shall include all applicable references to the uniform system of accounts.

Response) The criteria for classifying an item as extraordinary per the United States Department of Agriculture, Rural Utilities Service Bulletin 1767B-1 is as follows:

435 Extraordinary Deductions

This account shall be debited with nontypical, noncustomary, infrequently recurring losses which would significantly distort the current year's income computed before extraordinary items, if reported other than as extraordinary items. Income tax relating to the amounts recorded in this account shall be recorded in Account 409.3, Income Taxes, Extraordinary Items. (See § 1767.15 (f).)

This writeoff qualifies as an extraordinary deduction because the dollar amount involved, $39,689,196, would distort current year's income. The loss, caused by the Big Rivers Chapter 11 bankruptcy settlement, also meets the criteria of being nontypical, noncustomary, and infrequently recurring.

Witness) Steve Thompson

Item 4f (1) Did Green River or Henderson Union require the prior approval of the Rural Utilities Service ("RUS") to write off the Big Rivers' GTCCs?

Response) Yes.

Witness) Steve Thompson

Item 4f (2) If yes, provide all correspondence between the cooperatives and the RUS regarding the write off.

Response) See attachment 4f (2), pages 1 – 26.

Witness) Steve Thompson

Item 4g (1) What provisions, if any, of Green River's and Henderson Union's Articles of Incorporation and Bylaws address the write off of GTCCs?

Response) No provisions directly address this writeoff. However, see attachment 4g (1), pages 1 – 5.

Witness) Dean Stanley

Item 4g (2) Provide all provisions set forth in the response to part (g)(1).

Response) See response to 4g (1).

Witness) Dean Stanley

Item 4h (1) Was the approval of the Green River or Henderson Union membership required for this write off?

Response) Approval from the Board of Directors was required, not a separate vote of the membership. Southwire, Alcan and Commonwealth, which together represent 82% of the writeoff dollars, were participants and voted for the bankruptcy settlement.

Witness) Dean Stanley

Item 4h (2a) If yes, how did the cooperative(s) obtain this approval?

Response) See response to 4h (1).

Witness) Dean Stanley

Item 4h (2b) If a vote of the cooperatives' membership was taken, what was the result of this vote?

Response) See response to 4h (1).

Witness) Dean Stanley

Item 4i (1) Green River and Henderson Union recognized the write off on their respective RUS Form 7 monthly financial reports as an extraordinary item during 1998. However, a review of the 1998 Annual Reports filed with the Commission indicates that Henderson Union did not classify the write off as an extraordinary item in its 1998 Annual Report to the Commission and did not recognize the write off on its income statement. Explain Henderson Union's treatment of the write off in its 1998 Annual Report to the Commission.

Response) The writeoff of Big Rivers capital credit allocations was shown on page 12, line 25 of the PSC Annual Report and noted as a writeoff of power supplier patronage allocations due to the bankruptcy.

Witness) Steve Thompson

Item 4i (2) Explain why the approach that Henderson Union used in the RUS Form 7 monthly financial report apparently was not followed when the 1998 Annual Report was prepared.

Response) The Statement of Income page 13 had been prepared prior to resolution of the accounting treatment to be used for this writeoff, and it was inadvertently omitted from the Income Statement when the annual report was submitted.

Witness) Steve Thompson

Item 5a) Kenergy proposes a 4 percent rate reduction for a five-year period. The Consolidation Agreement between Green River and Henderson Union states that one objective of Kenergy is to provide rate parity for all customers within two years from the effective date of the consolidation. Is Kenergy still committed to achieving rate parity for all customers by July 2001?

Response) Kenergy still maintains as an objective to achieve rate parity for all non-direct serve customers by July 1, 2001 (i.e., one set of rates for former HUEC and GREC customers).

Witness) Dean Stanley

Item 5b) If yes, provide its current timetable for achieving this goal.

Response) After this case is brought to a conclusion a timetable will be developed. Presently Kenergy anticipates filing the rate parity case not later than January, 2001.

Witness) Dean Stanley

Item 5c) If no, state when Kenergy expects to achieve rate parity and explain why Kenergy revised its target date.

Response) See response to 5b.

Witness) Dean Stanley

Item 5d) Describe the effect, if any, of a 4 percent rate reduction to non-direct serve customers, effective until September 1, 2004, on Kenergy's efforts to achieve rate parity for all customers before 2004.

Response) Kenergy is of the opinion that the requested rate reduction will not impair its efforts to achieve rate parity for non-direct serve customers.

Witness) Dean Stanley

KENERGY
CASE NO. 99-162
DIRECTLY SERVED CUSTOMERS - 1998

RESPONSE - 1a

Line No.	Customer	General Nature of Business
1	Southwire Co.	Aluminum Smelter - Rod & Cable
2	Willlamette Industries	Paper Mill
3	Kimberly Clark Corp.	Paper Mill
4	Commonwealth Aluminum	Aluminum Fabrication
5	Alcoa - Hawesville Works	Aluminum Fabrication
6	Arvin Roll Coaters	Metal Coating
7	A-CMI	Aluminum Fabrication
8	Alcan Aluminum	Aluminum Smelter
9	Black Diamond Resources Inc.	Coal Mine
10	Peabody Coal Co. (Breckenridge)	Coal Mine
11	Cardinal River Resources, Inc.	Coal Mine
12	C & R Mining, Inc.	Coal Mine
13	KB Alloys, Inc.	Aluminum Fabrication
14	Lodestar Energy, Inc.	Coal Mine
15	Patriot Coal Company	Coal Mine
16	Pittsburg & Midway Coal	Coal Mine
17	New Hope LLC (Victory Processing)	Coal Mine
18	Webster County Coal Co.	Coal Mine
19	Tyson Foods, Inc.	Poultry Processing
20	Accuride Corporation	Aluminum Fabrication
21	Smith Coal	Coal Mine

KENERGY CORP.
CASE NO. 99-162
REVENUE – DIRECTLY SERVED CUSTOMERS
TWELVE MONTHS ENDING DECEMBER 31, 1998

RESPONSE 1b

Line No.	(a) Customer	(b) Power Cost	(c) Kenergy Adder	(d) Revenue
1	Southwire Co.	$77,074,155	$313,032	$77,387,186
2	Willamette Industries	16,444,593	170,595	16,615,188
3	Kimberly Clark	6,595,459	135,981	6,731,440
4	Commonwealth Aluminum	7,673,172	73,507	7,746,678
5	Alcoa-Hawesville Works	79,821	39,293	119,113
6	Arvin Roll Coaters	1,014,538	95,399	1,109,938
7	A-CMI	537,989	49,756	587,745
8	Alcan Aluminum	50,853,181	201,245	51,054,426
9	Black Diamond Resources	201,930	24,933	226,863
10	Peabody Coal Co. (Breck.)	1,883,455	209,097	2,092,552
11	Cardinal River Resources Inc.	378,408	46,203	424,611
12	C&R Mining, Inc.	151,926	22,812	174,739
13	KB Alloys, Inc.	361,019	45,028	406,047
14	Lodestar Energy, Inc.	1,512,921	188,350	1,701,271
15	Patriot Coal Company	467,530	56,032	523,562
16	Pittsburg & Midway Coal	382,338	47,623	429,961
17	New Hope LLC (Victory Pro.)	270,958	32,737	303,695
18	Webster County Coal Co.	117,933	15,880	133,813
19	Tyson Foods, Inc.	1,566,980	381,350 [1]	1,948,330
20	Accuride Corporation	1,201,233	166,270	1,367,503
21	Smith Coal	658,788	80,529	739,318
22	Total	$169,428,327	$2,395,652	$171,823,979
		98.6%	1.4%	100%

[1] Includes Facilities Charge

KENERGY CORP.
CASE NO. 99-162
ANNUAL EFFECT OF RATE REVISIONS
IN CASE NOS. 97-204 AND 98-267
DIRECTLY SERVED CUSTOMERS

RESPONSE 1c

Line No.	(a) Customer	(b) Decrease Dollars	(c) Decrease Percentage
1	Southwire Co.	$21,558,776	21.67
2	Willamette Industries	1,872,166	12.46
3	Kimberly Clark	1,009,969	11.82
4	Commonwealth Aluminum	1,077,124	11.95
5	Alcoa-Hawesville Works	8,723	7.67
6	Arvin Roll Coaters	130,917	11.27
7	A-CMI	37,759	10.09
8	Alcan Aluminum	13,992,895	21.63
9	Black Diamond Resources, Inc.	34,294	12.52
10	Peabody Coal Co. (Breckenridge)	339,185	14.45
11	Cardinal River Resources Inc.	69,822	13.00
12	C & R Mining, Inc.	3,403	3.99
13	KB Alloys, Inc.	71,520	15.23
14	Lodestar Energy, Inc.	330,748	17.55
15	Patriot Coal Company	98,882	16.75
16	Pittsburg & Midway Coal	88,004	14.93
17	New Hope LLC (Victory Processing)	66,183	16.76
18	Webster Co. Coal Co.	34,294	12.52
19	Tyson Foods, Inc.	128,172	7.24
20	Accuride Corporation	303,861	19.62
21	Smith Coal	207,557	19.97

NOTE: Decrease calculated using the Commission method described in the April 30, 1998 order in Case No. 97-204 on pages 22 and 23. This method compares customers' annual bills based on pro-forma billing units at the old base rates and the approved base rates.

KENERGY CORP.
CASE NO. 99-162
ANNUAL EFFECT OF RATE REVISIONS
IN CASE NOS. 97-204 AND 98-267
CUSTOMER CLASSES - NON-DIRECT SERVED CUSTOMERS

GREEN RIVER ELECTRIC CORP.

Line No.	CLASS	Decrease Dollars	Decrease Percentage
1	Residential & Single Phase Service	$2,947,750	10.53%
2	Three-Phase Under 1000 KW	992,248	11.77%
3	Three-Phase Over 1000 KW	See Footnote*	See Footnote*
4	Lighting	78,845	13.00%
5			
6	Footnote* No customers in this class during period.		
7			
8	HENDERSON UNION		
9	CLASS		
10			
11	Residential Single Phase Service	935,432	6.10%
12	Farm Government or Commercial (50 KVA or Less)	142,375	9.63%
13	Farm or Commercial (51-500 KVA)	487,737	16.01%
14	Grain Bin (51 - 500 KVA)	36	0.05%
15	Large Power (501 - 2000 KW)	213,229	12.85%
16	Street Light Service	72,485	12.81%

NOTE: Decrease calculated using the Commission method described in the April 30, 1998 order in Case No. 97-204 on pages 22 and 23. This method compares customers' annual bills based on pro-forma billing units at the old base rates and the approved base rates.

Green River
Electric Corporation — **MEMORANDUM**

November 6, 1998

TO: JOHN WEST/DEAN STANLEY

FROM: MARY PINKSTON/STEVE THOMPSON

RE: CONSOLIDATION – FINANCIAL INFORMATION UPDATE

Pursuant to your request, we offer the following suggested timetables for completing the update:

11/25/98	-	Prepare revised individual financial forecasts
12/07/98	-	Prepare consolidated financial forecast
12/15/98	-	Research possibility of rate reduction/credit
12/15/98	-	Rate comparison – current rates

Please advise.

Green River
Electric Corporation **MEMORANDUM**

December 15, 1998

TO: DEAN STANLEY AND JOHN WEST

FROM: MARY PINKSTON AND STEVE THOMPSON

RE: FINANCIAL UPDATE-CONSOLIDATION

Pursuant to your request, the following three items have been prepared for your review and approval:

1. An update of the six financial forecasts contained in the October 1996 Consolidation Study (Tabs 1-6).

2. A new financial forecast which includes a rate reduction for a five-year period.

3. An update of the retail electric rate comparison found on pages 55-59 of the October 1996 Consolidation Study.

Details pertinent to each of the above three items are found on the attached pages. We will be be available at tomorrow's 11:00 A.M. meeting to answer questions and walk through the various items as you deem necessary.

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 ~~7~~% 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%). ~~The number of full time employees is assumed to remain at current levels.~~	Applied an escalation of 3.5% to 199~~8~~9 ~~estimated~~ Budgeted amounts for variable expenses. Fixed expenses are projected at a constant ratio to plant. Ten-year compound growth rate is ~~4%~~ 4.2% for total expenses (historical at 4.1%). ~~The number of full time employees is assumed to remain at current levels.~~
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.

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 (%)	GR	34.52	33.05	31.95	30.45	30.05	29.46	28.75	28.91	28.97	29.57
	HU	39.75	37.84	37.05	35.25	34.14	33.89	34.13	34.17	34.24	34.34
	Comb	36.63	34.99	33.88	32.24	31.58	31.10	30.72	30.80	30.83	31.24
Equity/Capital Ratio (%)	GR	41.92	39.70	37.98	35.75	35.05	34.06	32.92	32.92	32.79	33.34
	HU	48.69	45.86	44.70	42.07	40.38	39.90	40.10	40.00	39.94	39.92
	Comb	44.65	42.18	40.51	38.11	37.04	36.22	35.53	35.44	35.29	35.62
TIER	GR	2.62	2.18	2.11	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	HU	2.04	2.08	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	Comb	2.41	2.14	2.01	2.00	2.00	2.00	2.00	2.00	2.00	2.00
DSC	GR	2.28	2.11	2.11	2.07	2.08	2.06	2.07	2.05	2.03	2.00
	HU	2.05	2.00	2.00	1.96	1.97	2.01	2.02	1.99	1.96	1.94
	Comb	2.19	2.07	2.03	2.02	2.04	2.03	2.02	2.04	2.02	1.99
TUP/kwh Sold Cents *	GR	13.32	14.12	14.54	15.15	15.49	16.01	16.70	16.96	17.32	17.35
	HU	16.93	17.03	17.46	18.07	18.73	19.01	19.29	19.57	19.85	20.00
	Comb	14.67	15.22	15.63	16.24	16.69	17.11	17.64	17.90	18.22	18.34
O&M Expense/ Consumer ($)	GR	133.55	140.89	142.54	144.23	146.22	148.24	150.32	152.43	154.58	157.07
	HU	193.31	196.90	200.55	204.29	208.34	212.45	216.67	220.96	225.33	230.06
	Comb	156.07	161.87	164.19	166.54	169.21	171.92	174.70	177.52	180.39	183.62
A&G Expense/ Consumer ($)	GR	70.09	71.42	72.26	73.12	74.13	75.15	76.21	77.27	78.37	79.63
	HU	66.25	67.48	68.73	70.01	71.40	72.81	74.26	75.73	77.23	78.85
	Comb	68.64	69.95	70.95	71.96	73.12	74.29	75.49	76.71	77.95	79.35
Rate Increase Required *	GR	0%	0%	0%	.16%	.91%	1.41%	2.32%	2.84%	3.08%	3.04%
	HU	0%	0%	1.06%	2.27%	3.99%	4.95%	5.49%	5.93%	6.47%	7.09%
	Comb	0%	0%	0%	1.03%	2.17%	2.86%	3.63%	4.11%	4.47%	4.68%
Rate Increase Required ($1,000)*	GR	0	0	0	58	332	533	909	1146	1282	1307
	HU	0	0	242	529	948	1200	1355	1490	1657	1846
	Comb	0	0	0	593	1279	1736	2265	2635	2944	3161
Total Revenue ($1,000,000) @present rates	GR	36	37	38	39	40	42	43	44	46	47
	HU	22	22	23	23	24	24	25	25	26	26
	Comb	58	59	61	62	64	66	68	69	72	73
Total Margins ($1,000)	GR	3529	2469	2760	2758	3010	3210	3483	3729	3922	4081
	HU	1280	1431	1493	1615	1788	1892	1942	1980	2032	2083
	Comb	4816	3916	4014	4381	4801	5107	5430	5712	5958	6170
Total Utility Plant ($1,000,000)	GR	77	83	89	96	101	107	115	121	127	131
	HU	58	61	64	68	71	74	76	79	81	84
	Comb	136	145	153	163	172	181	192	200	209	215
Capital Credits Retired (Millions)	GR	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
	HU	.8	1.4	1.5	1.5	1.5	1.4	1.4	1.5	1.5	1.5
	Comb	3.0	3.6	3.7	3.7	3.7	3.6	3.6	3.7	3.7	3.7

* Non-dedicated customers

IMMEDIATE PHASE-IN

Adjustments made to Base Case:

A. Assumes immediate impact of consolidation years 1 thru 10, utilizing average of 1997 ratios of 12 similar sized coops. (Full-time employees at 169 throughout ten-year period.) Total ten-year reduction in O&M, A&G and customer account expense of $19,765,000.

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.

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.

5 YEAR PHASE-IN

Adjustments made to Base Case:

A. Assumes five-year phase-in impact of consolidation years 1 thru 5, utilizing average of 1997 ratios of 12 similar sized coops. (Full-time employees at 169 years 5 – 10.) Total ten-year reduction in O&M, A&G and customer account expense of $16,484,000.

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.

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.

10 YEAR PHASE-IN

Adjustments made to Base Case:

A. Assumes ten-year phase-in impact of consolidation years 1 thru 10, utilizing average of 1997 ratios of 12 similar sized coops. Total ten-year reduction in O&M, A&G and customer account expense of $11,656,000.

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.

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.

4% RATE REDUCTION
5 YEAR PHASE-IN

Adjustments made to Base Case:

A. Assumes five-year phase-in impact of consolidation years 1 thru 5, utilizing average of 1997 ratios of 12 similar sized coops. (Full-time employees at 169 years 5 – 10.) Total ten-year reduction in O&M, A&G and customer account expense of $16,484,000.

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.

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

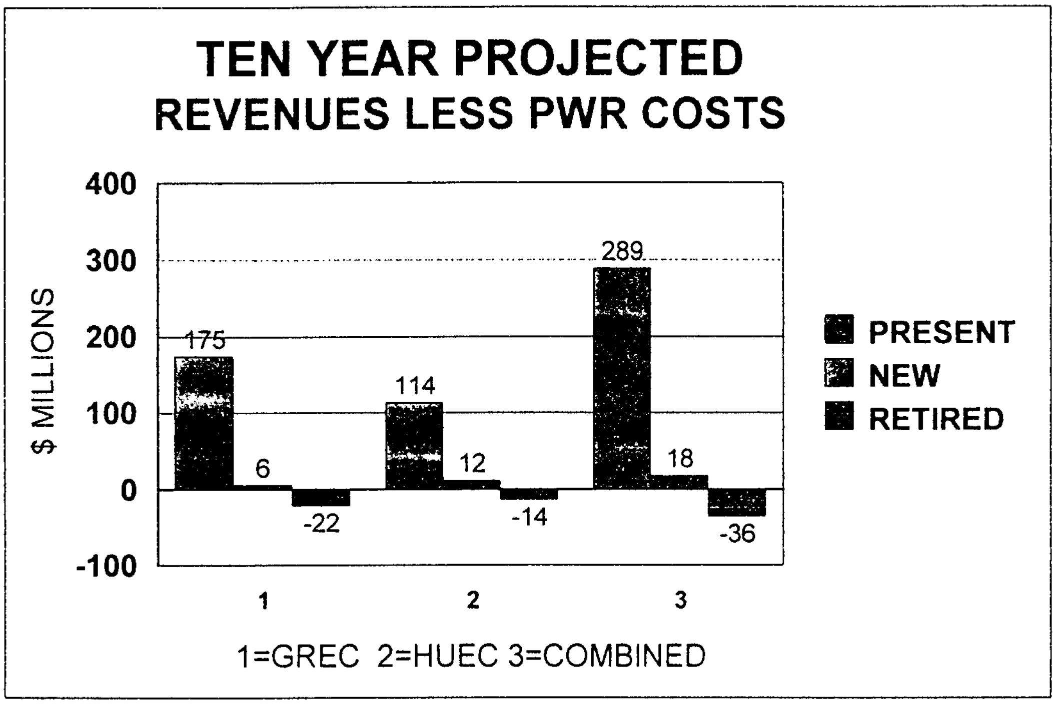
E. The minimum TIER was lowered to 1.50, with the RUS provision that TIER can fall to 1.00 during the first 5 years after consolidation, providing the forecast indicates that TIER will be at 1.50 or above after the initial 5 year period.

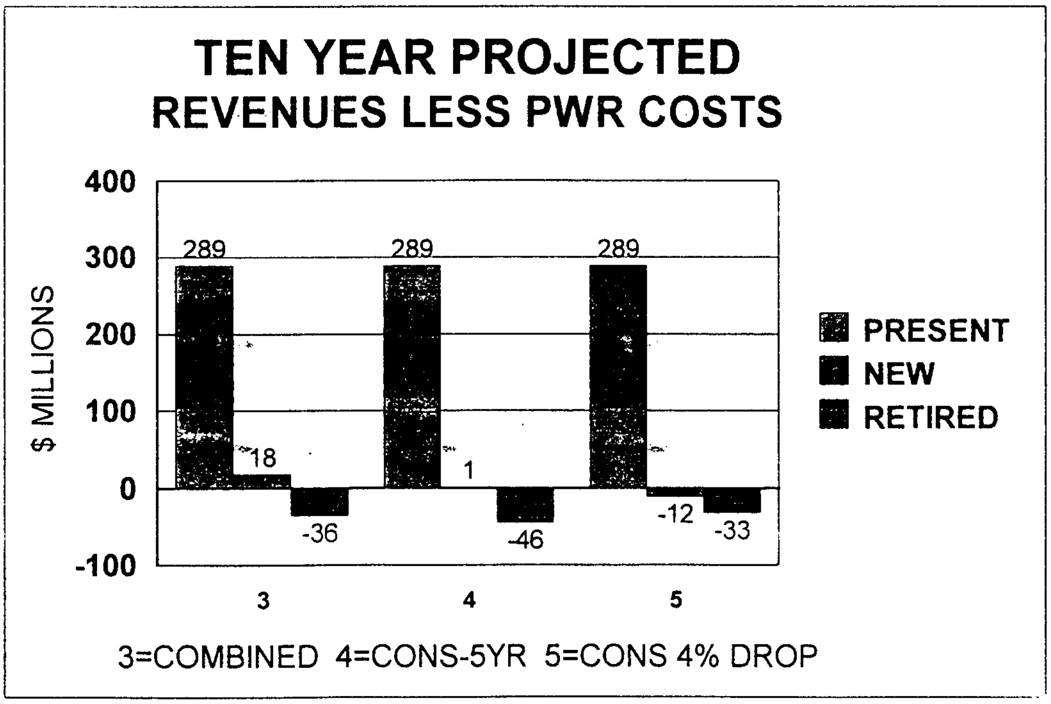
F. Capital credit retirements were adjusted to equalize years oustanding. Total retirements over the ten-year period are $33 million.

SYNOPSIS OF CONSOLIDATED FINANCIAL FORECASTS

ITEM		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Equity/ [illegible]et [illegible]tio (%)	Combined	36.63	34.99	33.88	32.24	31.58	31.10	30.72	30.80	30.83	31.24
	Immediate	37.36	35.17	34.67	33.49	32.72	31.82	30.63	30.74	30.48	30.43
	5 Year	36.82	34.20	33.45	32.18	31.46	30.59	29.41	29.56	29.34	29.31
	10 Year	36.75	33.99	33.02	31.47	30.43	29.39	28.20	28.40	28.21	28.21
	5 Yr. 4%	36.82	34.20	33.11	31.50	30.42	29.18	27.60	28.36	28.61	28.97
Equity/ Capital Ratio (%)	Combined	44.65	42.18	40.51	38.11	37.04	36.22	35.53	35.44	35.29	35.62
	Immediate	45.42	42.37	41.37	39.44	38.27	37.00	35.42	35.37	34.91	34.75
	5 Year	44.84	41.33	40.06	38.04	36.91	35.66	34.11	34.10	33.68	33.55
	10 Year	44.77	41.10	39.59	37.27	35.79	34.37	32.80	32.84	32.46	32.36
	5 Yr. 4%	44.84	41.33	39.69	37.30	35.79	34.14	32.14	32.80	32.89	33.18
TIER	Combined	2.41	2.14	2.01	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	Immediate	2.90	2.65	2.47	2.33	2.18	2.10	2.01	2.00	2.00	2.00
	5 Year	2.53	2.37	2.30	2.24	2.18	2.10	2.01	2.00	2.00	2.00
	10 Year	2.49	2.27	2.17	2.07	2.00	2.00	2.00	2.00	2.00	2.00
	5 Yr. 4%	2.53	2.37	1.69	1.67	1.64	1.58	1.51	1.96	1.93	1.91
O & M Expense/ Consumer ($)	Combined	156.07	161.87	164.19	166.54	169.21	171.92	174.70	177.52	180.39	183.62
	Immediate	130.34	135.02	136.40	137.46	139.09	140.80	142.36	144.46	146.48	149.18
	5 Year	150.93	151.13	147.52	143.27	139.09	140.80	142.36	144.46	146.48	149.18
	10 Year	153.50	156.50	155.85	154.81	154.15	153.25	152.06	151.07	149.87	149.19
	5 Yr. 4%	150.93	151.13	147.52	143.27	139.09	140.80	142.36	144.46	146.48	149.18
A & G Expense/ Consumer ($)	Combined	68.64	69.95	70.95	71.96	73.12	74.29	75.49	76.71	77.95	79.35
	Immediate	65.99	67.17	68.08	68.96	70.01	71.08	72.15	73.30	74.45	75.79
	5 Year	68.11	68.84	69.22	69.56	70.01	71.08	72.15	73.30	74.45	75.79
	10 Year	68.38	69.39	70.09	70.76	71.56	72.36	73.15	73.98	74.80	75.79
	5 Yr. 4%	68.11	68.84	69.22	69.56	70.01	71.08	72.15	73.30	74.45	75.79
Customer [illegible]ct [illegible]ense/ Consumer $	Combined	48.12	50.68	51.40	52.14	52.98	53.82	54.69	55.58	56.48	57.49
	Immediate	44.46	47.01	47.74	48.47	49.31	50.16	51.03	51.91	52.81	53.82
	5 Year	47.39	49.21	49.20	49.21	49.31	50.16	51.03	51.91	52.81	53.82
	10 Year	47.75	49.95	50.30	50.67	51.14	51.62	52.13	52.64	53.18	53.82
	5 Yr. 4%	47.39	49.21	49.20	49.21	49.31	50.16	51.03	51.91	52.81	53.82
Dollar Savings ($) Total ($1,000) (exc power)	Combined	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Immediate	1658	1757	1846	1958	2056	2155	2269	2356	2455	2531
	5 Year	421	772	1155	1591	2056	2155	2269	2357	2455	2531
	10 Year	266	443	637	856	1091	1345	1628	1913	2224	2531
	5 Yr. 4%	421	772	1155	1591	2056	2155	2269	2357	2455	2531
% Rate Increase Required*	Combined	0%	0%	0%	1.03%	2.17%	2.86%	3.63%	4.11%	4.47%	4.68%
	Immediate	0%	0%	0%	0%	0%	0%	0%	.33%	.64%	.83%
	5 Year	0%	0%	0%	0%	0%	0%	0%	.33%	.64%	.83%
	10 Year	0%	0%	0%	0%	.20%	.53%	.91%	1.02%	.99%	.83%
	5 Yr. 4%	0%	0%	0%	0%	0%	0%	%	0%	0%	0%
Rate Increase Required ($1,000)*	Combined	0	0	0	593	1279	1736	2265	2635	2944	3161
	Immediate	0	0	0	0	0	0	0	209	420	560
	5 Year	0	0	0	0	0	0	0	209	420	560
	10 Year	0	0	0	0	117	323	568	653	651	560
	5 Yr. 4%	0	0	(2422)	(2491)	(2558)	(2627)	(2698)	0	0	0
Total Margins $1,000	Combined	4816	3916	4014	4381	4801	5107	5430	5712	5958	6170
	Immediate	6474	5673	5864	5761	5597	5542	5451	5660	5906	6119
	5 Year	5237	4688	5173	5394	5596	5542	5451	5660	5906	6119
	10 Year	5082	4360	4655	4659	4748	5055	5378	5660	5906	6119
	5 Yr. 4%	5237	4688	2751	2903	3038	2916	2753	5451	5486	5558
Capital [illegible]dits [illegible]ired (Millions)	Combined	3.0	3.6	3.7	3.7	3.7	3.6	3.6	3.7	3.7	3.7
	Immediate	3.0	6.6	4.0	3.8	4.5	5.1	5.8	3.5	4.4	5.0
	5 Year	3.0	6.6	4.0	3.8	4.5	5.1	5.8	3.5	4.4	5.0
	10 Year	3.0	6.6	4.0	3.8	4.5	5.1	5.8	3.5	4.4	5.0
	5 Yr. 4%	3.0	6.6	2.4	2.2	2.9	3.5	4.2	1.9	2.8	3.4

*Non-Dedicated Customers


TEN YEAR PROJECTED
REVENUES LESS PWR COSTS
400
300
200
100
0
-100
$ MILLIONS
175
6
-22
114
12
-14
289
18
-36
1
2
3
PRESENT
NEW
RETIRED
1=GREC 2=HUEC 3=COMBINED


TEN YEAR PROJECTED
REVENUES LESS PWR COSTS
400
300
200
100
0
-100
$ MILLIONS
289
18
-36
289
1
-46
289
-12
-33
3
4
5
PRESENT
NEW
RETIRED
3=COMBINED 4=CONS-5YR 5=CONS 4% DROP

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

March 26, 1999

Mr. Bill Toler
Vice President-Finance
Commonwealth Aluminum
500 W. Jefferson Street, Citizens Plaza - 1
Louisville, KY 40202-2823

Dear Bill:

On January 23, 1999, the boards of directors of Green River Electric Corporation and Henderson Union Electric Cooperative entered into a consolidation agreement. The vote of the member-customers will be by mail ballot and conducted simultaneously with votes being tabulated not later than April 15, 1999. The effective date of the consolidation, if approved, will be July 1, 1999.

This letter is being sent to the seven (7) member-customers of Green River Electric which comprise a class designated as "Special Contract" or "Directly Served Members." A similar letter is being sent to the 14 member-customers of Henderson Union Electric in this class. These 21 customers are served directly from transmission lines with a dedicated substation and are large users of electricity.

Section 15 of the Consolidation Agreement provides that after a successful vote, the two cooperatives shall immediately apply to the Kentucky Public Service Commission for a 4% rate reduction for five (5) years for all <u>non-direct</u> served members. This application will be filed under a recently enacted Kentucky law that permits special contract customers to be excluded from a rate reduction if the decrease in revenue is allocated among and within consumer classes on a proportional basis that does not result in a change in the rate design.

During 1998, revenues and power costs from the 21 directly served members were $171,823,979.00 and $169,428,327.00 respectively, leaving a gross margin before expenses of $2,395,653.00. The 4% rate reduction cannot apply to the directly served members because this would result in a loss of approximately $4.5 million from customers of this class.

In closing, we trust you understand the reasoning behind our making the 4% reduction available only to non-direct customers. We are hopeful of having your support for the consolidation. Please call should you want to discuss these matters further.

Sincerely,

Dean Stanley
President and CEO

dh

GREEN TRIC CORPORATION
AVALY. PATRONAGE CAPITAL
G & T ALLOCATIONS

YEAR	INDIVIDUAL YEAR	CUMULATIVE	RURAL SYSTEM	NSA	WILLIAMETTE	COMMONWEALTH	ALUMAX	SOUTHWIRE	GR COAL	ROSE BROS	WORLDSOURCE	TOTAL
1970	$113,318	$113,318	$43,016	$55,293	$6,712	$8,237	$60	$0	$0	$0	$0	$113,318
1971	$0	$113,318	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
1972	$0	$113,318	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
1973	$223,068	$336,386	$44,401	$158,768	$7,708	$9,435	$2,755	$0	$0	$0	$0	$223,068
1974	$4,031	$340,417	$1,530	$1,967	$239	$293	$2	$0	$0	$0	$0	$4,031
1975	$0	$340,417	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
1976	$0	$340,417	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
1977	$0	$340,417	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
1978	$595,784	$936,202	$54,505	$497,140	$21,068	$18,849	$4,221	$0	$0	$0	$0	$595,784
1979	$4,579,966	$5,516,167	$418,069	$3,815,913	$162,949	$167,332	$15,703	$0	$0	$0	$0	$4,579,966
1980	$2,503,128	$8,019,295	$237,764	$2,065,255	$89,023	$109,726	$1,361	$0	$0	$0	$0	$2,503,128
1981	$3,718,485	$11,737,781	$352,085	$3,028,551	$147,059	$190,791	$0	$0	$0	$0	$0	$3,718,485
1982	$1,926,046	$13,663,826	$210,721	$1,481,439	$140,659	$90,813	$2,414	$0	$0	$0	$0	$1,926,046
1983	$5,167,633	$18,831,460	$558,776	$3,951,467	$368,990	$259,737	$28,665	$0	$0	$0	$0	$5,167,633
1984	$2,508,341	$21,339,801	$261,100	$1,936,230	$179,051	$113,062	$13,911	$0	$4,987	$0	$0	$2,508,341
1985	$2,006,332	$23,346,133	$219,464	$1,528,234	$144,248	$94,414	$12,059	$0	$7,912	$0	$0	$2,006,332
1986	$0	$23,346,133	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
1987	$0	$23,346,133	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
1988	$0	$23,346,133	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
1989	$0	$23,346,133	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
1990	$0	$23,346,133	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
1991	$0					$0						
1992	$0											
1993	$0											
1994	$0											
1995	$0											
TOTALS	$23,346,133	$23,346,133	$2,401,431	$18,520,257	$1,267,706	$1,062,689	$81,151	$0	$12,899	$0	$0	$23,346,133

Attachment 4b

HENDERSON UNION ELECTRIC

G & T Capital Credit Allocation

YEAR	Individual Year	Cumulative	Rural System	Alcan	Industrial	TOTAL
1970	14,638	14,638	14,621	0	17	14,638
1971		14,638	0			0
1972		14,638	0			0
1973	76,739	91,377	24,672	48,391	3,676	76,739
1975		91,377	0		0	0
1976		91,377	0		0	0
1977		91,377	0		0	0
1978	326,948	418,325	58,362	251,841	16,745	326,948
1979	3,148,557	3,566,882	573,100	2,507,983	67,474	3,148,557
1980	2,015,336	5,582,218	265,797	1,651,998	97,542	2,015,336
1981	2,956,950	8,539,168	386,207	2,429,223	141,520	2,956,950
1982	1,383,854	9,923,022	217,791	1,077,109	88,954	1,383,854
1983	3,345,683	13,268,705	567,260	2,546,500	231,923	3,345,683
1984	1,865,189	15,133,894	295,334	1,446,902	122,953	1,865,189
1985	1,209,169	16,343,063	218,255	911,714	79,201	1,209,169
1986						
1987						
1988						
1989						
1990						
1991						
1992						
1993						
1994						
1995						
1996						
1997						
Total	16,343,063	16,343,063	2,621,398	12,871,661	850,004	16,343,063

ARTHUR
ANDERSEN

To: Files, Big Rivers Electric Power Cooperative, Inc.

From: James Howard Smith, OFTS

Date: October 17, 1999

Subject: RUS Meeting Regarding Accounting for BREC Capital Credit Write-off

---

On 2 September 1999 a meeting was held in Washington, DC at the Rural Utilities Service (RUS) headquarters. The following were in attendance:

For the RUS:
Blane D. Stockton, Jr., Assistant Administrator Electric
Thomas W. Nusbaum, Northern Regional Division Director
Thomas L. Eddy, Power Supply Division Director
Kenneth M. Ackerman, Assistant Administrator Program Accounting and Regulatory Analysis
Peter D. Gvozdas, Northern Regional Area Branch Chief
Richard C. Annan, Technical Accounting and Auditing Staff Branch Chief
Ed Stapanon
Michael Kelley, Office of General Counsel, US Department of Agriculture
Terrence Brady, Office of General Counsel, US Department of Agriculture

For the Cooperatives:
Mike Core, President and CEO, Big Rivers Electric Corporation
Burns Mercer, President/CEO, Meade County Rural Electric Cooperative Corporation
Kelly Nuckols, General Manager, Jackson Purchase Electric Cooperative Corporation

Not in attendance as a result of cancelled flight en route:
Mark Hite, Vice President of Finance & Administrative Services, Big Rivers Electric Corporation
Dean Stanley, President and CEO, Kenergy
Steve Thompson, Kenergy

The meeting was called by the Big Rivers members to discuss the RUS response dated 14 May 1999 to questions from the Big Rivers members regarding the accounting for the elimination of the members' investment in Big Rivers as a result of an order of the bankruptcy court. In adopting a plan of reorganization, the Court ordered that the holders of patronage claims shall not receive any distribution under the plan of reorganization and that in accordance with the absolute priority rule, each claim shall be extinguished, released and discharged pursuant to the plan of reorganization. Big Rivers provided notice to each member of the amount of their capital, which was written off.

The letters from RUS stated that the distribution cooperatives must eliminate that portion of their investment in Big Rivers on their books and should reflect the write-off in current operations. However, the RUS also indicated that such write-off could not be made to Account 201, Patronage Capital but must be accounted for as "Other Margins and Equities" and eliminated by future year's nonoperating margins. This conclusion was based upon the RUS' analysis of language in the distribution cooperative's bylaws which provide that

> only revenues in excess of operating costs and expenses (net margins) are allocated to the members as patronage. As a result the net loss for 1998 will have to be recorded as Other Margins and Equities and eliminated by future year's nonoperating margins. The

Date: October 17, 1999

Subject: RUS Meeting Regarding Accounting for BREC Capital Credit Write-off

accounting requirement for this transaction does not provide for the offsetting of current period losses against prior years' capital credit allocations.

The letter stated that the required RUS accounting is consistent with long standing cooperative practices.

The Distribution members challenged the RUS finding and presented an alternative to the accounting which would have allowed the Distribution members to match the Big Rivers capital credit write-offs against the Distribution member's capital credit accounts and write-off those Distribution members' accounts.

Mike Core opened the discussion with an overview of the facts and issues that brought the parties to the meeting. An outline and description of the issues which had been prepared for presentation to the RUS by Dean Stanley, Steve Thompson and Mark Hite was presented and discussed by those of us in attendance, owing to the cancelled flight of the intended presenters.

The presentation included an opinion of counsel from at least one of the Distribution cooperatives (Kenergy) indicating that the approach was consistent with Kentucky Law and that members' bylaws; an analysis of how the approach mandated by the RUS would result in an inequitable result and a technical discussion of why the accounting for the Big Rivers write-off should cascade down to the members to whom the Big Rivers capital credits had been assigned.

The GAAP support for the Members' position is found in AICPA Statement of Position 85-3 which provides that "the carrying amount of an investment in a cooperative should be reduced if the patron is unable to recover the full carrying value of the investment." Support for the position was also provided for Federal income tax law purposes by demonstrating that REA Bulletin 102-1 which provides some support for the RUS position is not consistent with the tax law (GCM 34293, dated May 21, 1970).

During discussions, which followed the presentation, it became clear that the Distribution members had merely asked RUS how to account for the notification from Big Rivers. RUS determined that the Court Order to Big Rivers was not a Court Order to the Distribution members and, consequently, RUS accounting for the Distribution Members would be unaffected by the Bankruptcy court order to Big Rivers. RUS representatives indicated that since the prior margins had been allocated by the Distribution cooperatives to its members, nothing in the court order to Big Rivers and nothing in the accounting literature would support the RUS in ordering the Distribution Members to write-off the capital credits issued to members of the Distribution cooperatives.

With this finding, the following situation was hypothecated:

> Assume that after receiving notice from Big Rivers regarding the Big Rivers write-off set forth in the Bankruptcy court order the Board of Directors determined that the Distribution cooperative would, to the extent possible, track the Big Rivers write-off to the members of the Distribution cooperative who had received such margin and reverse such receipt since it would not be rotated by Big Rivers on a vintage basis. In addition, such members would be notified of such reversal.

Date: October 17, 1999

Subject: RUS Meeting Regarding Accounting for BREC Capital Credit Write-off

Given such a fact pattern, the RUS indicated that it would allow the accounting proposed by the members but stating that the reversal from Big Rivers must be accounted for as a current item and not as an adjustment to a prior period.

Apologies were made for not asking the correct question and the meeting was adjourned.

JHS
DocumentS

PRESENTATION TO RUS

WRITEOFF OF BIG RIVER'S CAPITAL CREDITS

SEPTEMBER 2, 1999

Patronage Capital Allocations

- INTRODUCTION & OVERVIEW
- PRESENTATION
- SUMMARY & CONCLUSION
- DISCUSSION

Patronage Capital Allocations

- Big Rivers Electric Corporation (BREC) made patronage capital allocations for the years 1970 through 1982 totaling $42 million

- The net accounting entry BREC made to record these allocations was:

Dr. 219.1 Operating Margins	$42 million
Cr. 201.1 Patronage Capital Credits	$42 million

Patronage Capital Allocations

- BREC filed Chapter 11 September 25, 1996, and emerged therefrom July 17, 1998
- Section 4.2.10 of BREC's Plan of Reorganization states that "all such Claims shall be canceled, terminated and of no further force or effect. As of the Effective Date, each Class 10 Claim shall be extinguished, released and discharged pursuant to the Plan."
- The accounting entry BREC made was:

Dr. 201.1 Patronage Capital Credits	$42 million	
Cr. 219.1 Operating Margins – Prior Year		$42 million

Patronage Capital Allocation

- BREC has not been exempt from federal income tax pursuant to 501(c)(12) since 1983
- BREC's Bylaws state that the basis for patronage allocation is taxable income for federal income tax purposes
- BREC retained its historical tax net operating losses (NOLs) upon emergence from bankruptcy
- At December 31, 1998, BREC's cumulative member tax losses were approximately $479 million

Patronage Capital Allocations

- Excerpt from Kenergy Bylaws -

"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

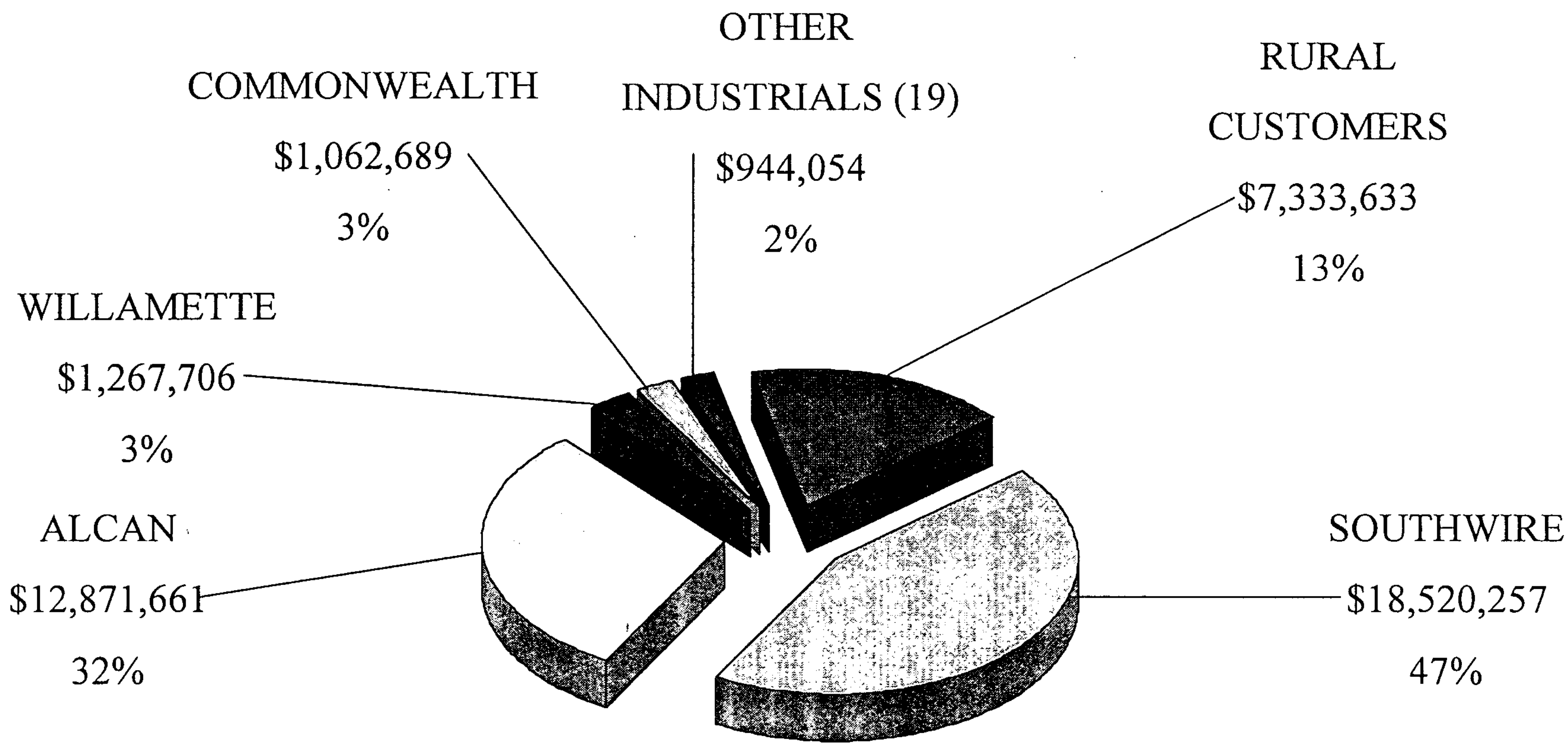
c. Provide for appropriate notifications to patrons with respect to their accounts, and

d. Preclude a general retirement of the power supply portion of capital credited to patrons for a fiscal year until the payment therefore is actually received from the power supplier."

Patronage Capital Allocations

MEMBER COOPERATIVES

NON-CASH G & T ALLOCATIONS



Patronage Capital Allocations

- Excerpt from Legal Opinion -

"It is our opinion that under the Kentucky statutes, Green River Electric Corporation's Articles of Incorporation and its Bylaws, the power supply patronage allocations to your members which represent allocations for power supply patronage allocated by Big Rivers prior to the bankruptcy petition date should be adjusted to reflect the bankruptcy discharge of the power supply patronage."

Patronage Capital Allocations

ON BOOKS AS		WRITEOFF (PER BREC PLAN)		
ASSET		ASSET		
$42,000,000 – Investment	less	($42,000,000)	=	$0
EQUITY		EQUITY		
($42,000,000) – G&T Patronage Capital	less	$42,000,000	=	$0

Patronage Capital Allocations

WRITEOFF

(PER RUS LETTER)

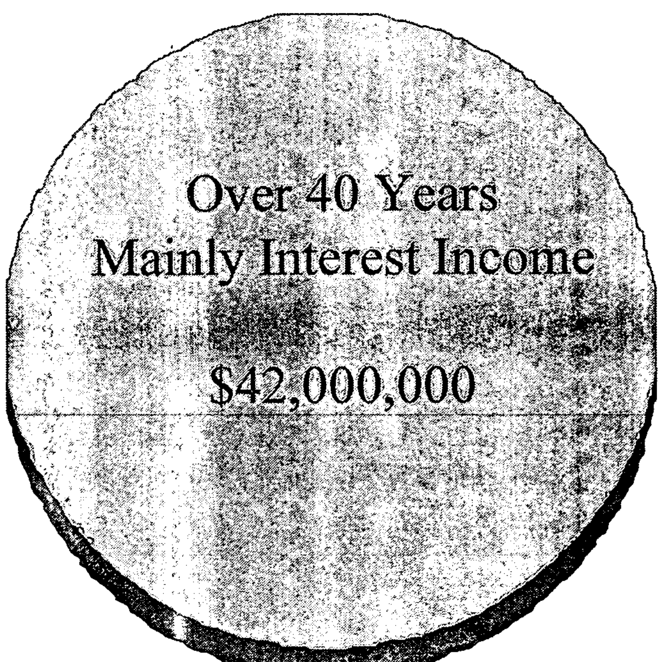
ASSET		ASSET		
$42,000,000 – Investment	less	($42,000,000)	=	$0
EQUITY		EQUITY		
($42,000,000)	less	-0-	=	($42,000,000)
G&T Patronage Capital		G&T Patronage Capital		
	less	$42,000,000	=	$42,000,000
		Non-Operating Margins		

$0

Patronage Capital Allocations

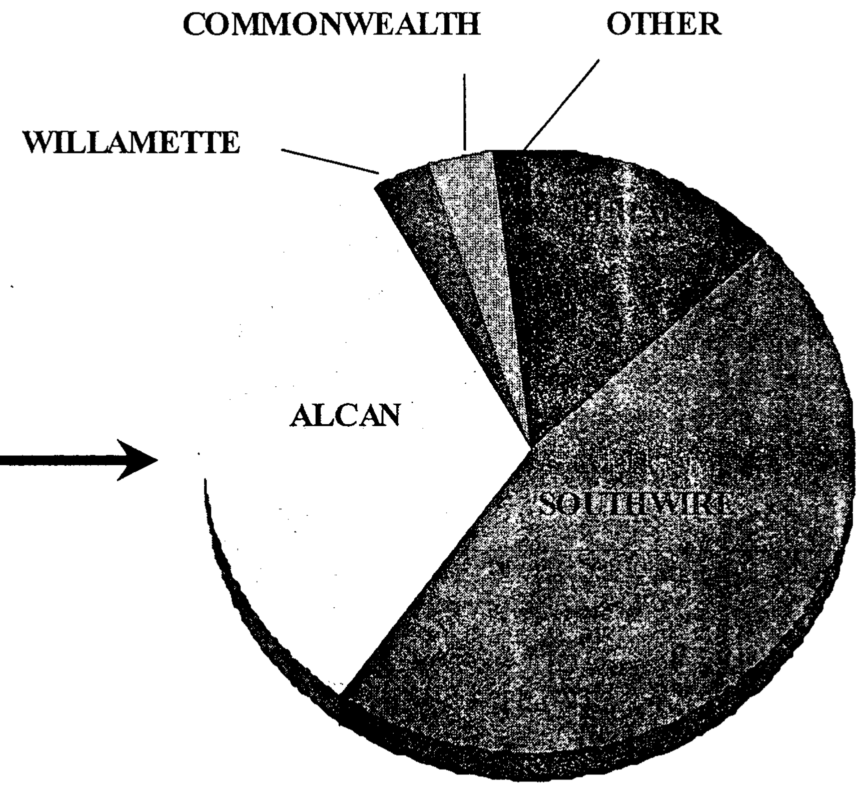
OFFSET FUTURE CASH NON-OPERATING MARGINS

Future Cash Non-Operating Margins



Would Have Been Allocated to Rural

Non-Cash G&T Allocations



Patronage Capital Allocations

Serious Legal Issues Created by Offsetting Future Non-Operating Margins:

- The mixing of G&T wholesale allocations against non-wholesale generated margins, which is prohibited by the Kenergy bylaws
- The transfer of future <u>cash</u> non-operating margins to prior non-cash allocations
- The offsetting of $31,391,918 representing allocations to two industrial customers (which have consented to the discharge) against future non-operating margins that would have been allocated to the source providing them
- Produces a result contrary to the legal opinion

COOPS ARE REQUESTING APPROVAL FROM RUS TO

- Reverse the accounting entries that were utilized to record the non-cash allocations.
- Dr. 423.000 – Generation and transmission cooperative capital credits
  Cr. 123.100 – Patronage capital from G&T cooperatives
- Dr. 219.100 – Operating Margins
  Cr. 423.000 – (See above)
- Dr. 201.100 – Patronage Capital
  Cr. 219.100 – Operating Margins

COOPS REQUEST SHOULD BE GRANTED

- Why?
  - Consistent with Generally Accepted Accounting Principles (GAAP)
  - Consistent with Federal income tax law

COOPS REQUEST SHOULD BE GRANTED

- Follow GAAP as set forth in Statement of Position 85-3, viz.,

"The carrying amount of an investment in a cooperative should be reduced if the patron is unable to recover the full carrying value of the investment. (Statement of Position 85-3, "Accounting by Agricultural Producers and Agricultural Cooperatives" (April 30, 1985) Accounting Standards Division of the AICPA)

COOPS REQUEST SHOULD BE GRANTED

- **RUS recommendation risks cooperative status**

In order to qualify as a cooperative, the organization must satisfy three conditions, viz.,

1. Subordination of capital
2. Democratic control
3. Non-profit operation

COOPS REQUEST SHOULD BE GRANTED

- **RUS recommendation may create taxable dividend to member/patrons**

In order for a cooperative to gain the tax benefit of a "true patronage dividend" the allocation must be made:

1. Pursuant to a preexisting legal obligation
2. On the basis of patronage, and
3. From the profits derived from the particular patron's dealings with the cooperative.

OVERALL SUMMARY

- Coops have separated non-cash G&T allocations on their books
- 79% of these allocations went to 2 industrial customers
- Bankruptcy discharged these allocations
- Legal opinion supports adjusting these off books
- Request RUS to approve removal of these allocations entirely from books

Kenergy

P.O. Box 1389 • 3111 Fairview Drive
Owensboro, Kentucky 42302-1389
(270)926-4141 • FAX (270) 685-2279
(800) 844-4732

July 22, 1999

Mr. Thomas W. Nusbaum
Chief, Northern Regional Division
U.S. Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250-1500

Dear Tom:

In March 1999, we forwarded a legal opinion to Mr. Pete D. Gvozdas pertaining to the writeoff of Big Rivers' capital credits subsequent to the July 1998 Chapter 11 bankruptcy settlement. We received an RUS reply under letter dated May 14, 1999, from Mr. Kenneth Ackerman. The outcome from this letter differed considerably from general discussions that had taken place with various RUS staff earlier in the year. In short, we believe there is a significant misunderstanding of the issues involved and are very concerned regarding the potential legal ramifications with complying with the RUS position. We understand RUS has stated a similar position to the other two Big Rivers system distribution cooperatives -- Meade County Rural Electric and Jackson Purchase Energy.

The end result of following RUS's standard accounting procedure for Kenergy Corp. would be offsetting $39,689,199 of prior non-cash wholesale G&T allocations (of which $31,391,918 represents two aluminum smelters) against future non-wholesale non-operating margins which likely would have been paid in cash. This end result could create many legal issues such as:

1. The use of prior non-cash allocations now discharged through Chapter 11 Bankruptcy settlement to offset future cash margins up to $39,689,199;

2. The mixing of G&T wholesale allocations against non-wholesale generated margins, which is prohibited by the Kenergy Bylaws, up to $39,689,199;

3. The offsetting of $31,391,918 representing allocations to two aluminum smelters (which have consented to the discharge through the Chapter 11 bankruptcy settlement) against future

non-operating margins generated from providing other value added services such as telephone, equipment merchandising, etc., and interest income from short-term investments.

4. At the current level of 1998 non-operating margins, it would take over 40 years to offset the loss of $39,689,199;

5. Following the RUS standard accounting procedure produces a result that is contrary to the legal opinion obtained from our bankruptcy counsel, Parr, Richey, Obremskey & Morton (copy enclosed).

We would like to request a global meeting with you and other RUS staff, appropriate staff from Big Rivers Electric, and the three member distribution cooperatives to discuss this very complex issue in detail, as well as options we may have to comply with the advice received from legal counsel and respective cooperative bylaws which conflict with standard RUS accounting procedure. We are attempting to facilitate this discussion for each of the respective companies and would ask that you call at your first opportunity to discuss scheduling a meeting of all parties in Washington, DC. You may reach me at 270/926-4141.

Sincerely,

Dean Stanley

Dean Stanley
President and CEO

dh
Enclosures

c: Mike Core, Big Rivers Electric Corp.
Burns Mercer, Meade County RECC
Kelly Nuckols, Jackson Purchase Energy

USDA

United States Department of Agriculture
Rural Development

Rural Business–Cooperative Service • Rural Housing Service • Rural Utilities Service
Washington, DC 20250

Orig - file
cc: John / Steve
Dean

MAY 14 1999

Mr. Dean Stanley
General Manager
Green River Electric Corporation
P.O. Box 1389
Owensboro, Kentucky 42302-2279

Dear Mr. Stanley:

This letter is to state the position of the Rural Utilities Service (RUS) with regard to the accounting for the elimination of Green River Electric Corporation's (Green River) investment in Big Rivers Electric Corporation (Big Rivers) as a result of the action of the Big Rivers bankruptcy proceedings. The First Amended Plan of Reorganization, as Modified and Restated, dated June 9, 1997, (Plan) provides that as of the effective date of the Plan (July 17, 1998) the holders of patronage claims shall not receive any distribution under the Plan, and that each claim shall be extinguished, released and discharged pursuant to the Plan.

As a result of this action, Green River must eliminate that portion of the investment in Big Rivers that represents accumulated patronage capital allocations from Big Rivers. The Uniform System of Accounts – Electric (RUS Bulletin 1767B-1) provides that losses relating to investments written off or written down be charged to Account 426.5, Other Deductions. And, that if such write-off is significant so as to distort the current year's net operating margins, it should be recorded in Account 435, Extraordinary Deductions.

Regardless of how the write-down of the investment is accounted for, it will ultimately result in a significant net loss for Green River on its Statement of Revenue and Patronage Capital for the year ended 1998. Green River's bylaws provide that only revenues in excess of operating costs and expenses (net margins) are allocated to the members as patronage. As a result, the net loss for 1998 will have to be recorded as Other Margins and Equities and eliminated by future year's nonoperating margins. The accounting requirement for this transaction does not provide for the offsetting of current period losses against prior years' capital credit allocations.

This requirement is for RUS accounting purposes and is consistent with long standing cooperative practices.

If you have any further questions contact me or Peter D. Gvozdas of my staff at (202) 720-0702.

Sincerely,

Kenneth M. Ackerman

KENNETH M. ACKERMAN
Assistant Administrator
Program Accounting and
Regulatory Analysis

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

December 18, 1998

Mr. Bob Halligan
Rural Utility Service
Technical Accounting & Auditing Division
STOP 1523
1400 Independence Avenue SW
Washington, D.C. 20250-1523

Dear Bob:

The purpose of this letter is to request a written confirmation of my understanding of our phone conversation regarding the writeoff of Big Rivers capital credits. The accounting entry which I understood RUS to recommend is as follows:

Acct. No.	Description	
Credit - 123.1	"Patronage Capital from Associated Companies"	$23,346,133
Debit - 435	"Extraordinary Deductions"	$23,346,133

The $23,346,133 balance in 435 will be closed out to account 2 419.200*"Non-Operating Margins". This amount will then be transferred to account 201.200 "Patronage Capital Assignable" from which the $23,346,133 will be removed from the subsidiary capital credit accounts.

Sincerely,

Steve Thompson

Stephen J. Thompson
Supervisor – General Accounting

SJT/bm

***We discovered the above account number (419.200) should have been (219.200) after letter was already mailed to RUS.**

Attachment 4f (2)

(800) 844-4832 (502) 926-4141 (Fax) 685-2279

PARR RICHEY OBREMSKEY & MORTON

ATTORNEYS

www.parrlaw.com

1600 MARKET TOWER
TEN WEST MARKET STREET
INDIANAPOLIS, INDIANA 46204
(317) 269-2500 (317) 269-2514/2508 FAX
promiadplw@parrlaw.com

Charles W. Ritz III

March 22, 1999

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

Re: Adjustment of Patronage Capital Allocations

Dear Dean:

Green River Electric Corporation is a member of Big Rivers Electric Corporation. Prior to the filing of its Petition for Relief under Chapter 11 of the Bankruptcy Code, Big Rivers Electric Corporation (hereinafter referred to as "Big Rivers") allocated certain patronage to its distribution cooperative members including Green River Electric Corporation, hereinafter referred to as "power supply patronage"). Pursuant to the Amended Plan of Reorganization confirmed by the bankruptcy court and implemented by Big Rivers, the power supply patronage allocated prior to the petition date was discharged. Subsequently, Green River Electric Corporation wrote off the value of those pre-petition power supply patronage allocations on its financial records. You have now asked for our legal opinion on the question of how Green River Electric Corporation should adjust Green River Electric Corporation power supply patronage which Green River Electric Corporation assigned to its distribution members.

It is our opinion that under the Kentucky statutes, Green River Electric Corporation's Articles of Incorporation and its Bylaws, the power supply patronage allocations to your members which represent allocations for power supply patronage allocated by Big Rivers prior to the bankruptcy petition date should be adjusted to reflect the bankruptcy discharge of the power supply patronage.

Kentucky statutes provide, in pertinent part, at KRS, §279.030, Subsection (2) as follows:

> "The articles of incorporation may contain any other lawful provision that the incorporators choose to insert for the purpose of regulating the business and affairs of the corporation, for the purpose of creating, defining, limiting or

Lebanon Office
225 West Main Street · Lebanon, IN 46052-0688 · (765) 482-0110 or (317) 269-2509 · (765) 483-3444 Fax · promlcb@parrlaw.com

regulating the rights, powers and duties of the corporation and its board of directors and members and the exercise of any such powers, or for the purpose of creating or defining the rights and privileges of the members of the corporation among themselves..."

KRS §279.070 at Subsection (2), in pertinent part, provides as follows:

"The bylaws may provide for any or all of the following matters:

(h) The qualifications of members of the corporation ..., the manner of assignment or transfer of the interest of a member ..., the manner of determining the value of a member's interest in provision for its purchase by the corporation upon the death or withdrawal of a member...

(i) Any other matter relating to the operation or management of the corporation and not inconsistent with law or with the articles of incorporation."

KRS §279.095 provides, in pertinent part, as follows:

"...The bylaws of a cooperative or its contracts with members and patrons shall contain such provisions relative to the disposition of revenue and receipts as may be necessary and appropriate to establish and maintain its nonprofit and cooperative character..."

In describing the general powers of a rural electric cooperative corporation, KRS §279.110 provides, in pertinent part, as follows:

"Any corporation created under this chapter may ...

(12) Do anything not specifically set forth in this section that is reasonably deemed necessary, proper or convenience for the accomplishment of the purposes of the corporation and is not prohibited by law."

Finally, in describing matters in the event of dissolution of a rural cooperative corporation, KRS §279.180, at Subsection (4) provides as follows:

"The corporation filing articles of dissolution shall continue in existence for the purpose of paying, satisfying and discharging any existing liabilities or obligations in collecting or liquidating its assets, and doing all other acts required to adjust and wind up its business and affairs and may sue and be sued, contract, and be contracted within its corporate name. Any assets remaining after the liabilities and obligations of the corporation have been satisfied or discharged shall be ratably distributed to the members of the corporation."

The Articles of Incorporation of Green River Electric Corporation, at Article X, provide, in pertinent part, as follows:

> Subject to the provisions of any mortgage… the Board of Directors, after paying or providing for the payment of all operating expenses of the Corporation including an amount for prospective operating expenses for a reasonable period, and all interest and installments on account of the principles of notes, bonds or other evidences of indebtedness of the Corporation which have become due and be unpaid or which shall have accrued at the end of the fiscal year, but which shall not be then due, and after paying or making provision for the payment of all taxes, insurance, and all other non operating expenses which shall have accrued at the end of the fiscal year, but which shall not be then due, shall apply the revenues and receipts of the corporation remaining thereafter of the following purposes and in the following order of priority:
>
> (1) The establishment and maintenance of a reserve for payment of interest on and the principal of all outstanding notes, bonds or other evidences of the Corporation in an amount which shall equal the amount of principal and interest required to be paid in respect of such notes, bonds, or other evidences of indebtedness during the ensuing fiscal year.
>
> (2) The establishment and maintenance of a general reserve fund for working capital, insurance, tax, depreciation, obsolescence, in contingencies in an amount which the Board of directors shall deem reasonable; <u>and all revenues and receipts not needed for the above and foregoing purposes shall be returned, paid or abated to the members as a patronage dividend or refunded on the basis and in the manner provided in the Act</u> under which the corporation is organized as amended from time to time…" (emphasis added)

The Bylaws of Green River Electric Corporation also speak to the method for allocation of patronage capital in Article VIII, §2, and state, in pertinent part, as follows:

> In the furnishing of electric energy, of the Corporation's operations shall be so conducted that all patrons will, through their patronage furnish capital for the Corporation. In order to induce patronage and to insure that Corporation will operate on a non profit basis, the Corporation is obligated to account on a patronage basis to all its patrons for all amounts <u>received and receivable</u> 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 as capital. The Corporation is obligated to pay by credits to a capital account for each patron all such amounts in excess of operating costs and expenses...
>
> All other amounts received by the Corporation from its operations in excess of costs and expenses shall, as far as permitted by law, be (a) used to offset any losses incurred during the current or any prior physical year and (b) to the extent not needed for that purpose allocated to its patrons on a patronage basis and any amount so allocated shall be included as part of the capital credited to the accounts of patrons, as herein provided.
>
> 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 Cooperative by an organization furnishing electric service to the cooperative. 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 a Cooperative's books of the power supply portion of capital credited to the Cooperative's patrons, (c) provide for appropriate notifications to patrons with respect to the power supply portion of capital credited to their accounts." (emphasis added)

The Kentucky statutes, the articles of incorporation and the bylaws do not directly, clearly and concisely answer the question posed. The Kentucky statutes clearly authorize the corporation to adopt articles of incorporation and bylaws on matters which affect the interest of a member and the value of a member's interest.[1] Further, the statutes permit the corporation to do that which is reasonably deemed necessary to accomplish the purposes of the corporation which are not otherwise prohibited by law.[2]

Green River Electric Corporation's Articles of Incorporation make clear reference to "revenues and receipts" not needed for the described expenses and reserves were to be returned to the members as a patronage dividend. It is my opinion that a power supplier patronage allocation which is discharged by a properly entered order of a bankruptcy court does not amount to a "revenue or a receipt" as described in the Articles of Incorporation at Article X. Further, it is my opinion that Article VIII of the Bylaws does not prohibit the change of the allocation of the power supplier patronage which has been discharged by order of the bankruptcy court. In

[1] See KRS §279.070 quoted above. Also see KRS §279.095.
[2] See KRS §279.120.

Section 2 of Article VIII of the Bylaws, the corporation is charged with the duty to account on a patronage basis to its patrons for "all amounts received and receivable." When a power supplier patronage allocation has been discharged by the bankruptcy court, it has not been received and it is no longer receivable by the distribution cooperative. If the distribution cooperative has already allocated this amount which was, prior to bankruptcy discharge, otherwise "receivable" in the future, then it is should be adjusted to reflect that it is no longer receivable following the bankruptcy discharge. This is consistent with another provision in this same section of the bylaws that clearly sets out that the Board of Directors has the power to adopt rules providing for the separate retirement of the power supply portion of capital credited to the accounts of patrons which corresponds to capital credited to the account of the Cooperative by an organization such as Big Rivers.

Although the allocation of power supplier patronage to your members should be adjusted due to the bankruptcy relief received by Big Rivers, you should continue to maintain records of your distribution members' actual power usage in order to be able, in the event of dissolution, to ratably distribute any remaining assets as required by KRS §279.180.

This opinion letter is presented for use by Green River Electric Corporation. It should not be shared or distributed to third parties for reliance by those parties without the written consent of the authors. However, the authors recognize that a copy of this letter may be provided by Green River Electric Corporation to the Rural Utility Service for information purposes, to any other current lenders to Green River Electric Corporation and to its auditors.

Very truly yours,

PARR RICHEY OBREMSKEY & MORTON

By: Charles W. Ritz, III

CWR:mas(Doc120486)

RECEIVED

FEB 01 2000

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

KENERGY CORP.'S RESPONSES TO FIRST SET OF DATA REQUESTS OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

KENERGY CORP. hereby submits the following responses to the first set of data requests of Kentucky Industrial Utility Customers, Inc.

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

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

I hereby certify that these responses have 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 31st day of January, 2000.

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

RECEIVED
FEB 01 2000
PUBLIC SERVICE COMMISSION

KENERGY CORPORATION
RESPONSE TO KIUC FIRST SET OF DATA REQUESTS
PSC CASE NO. 99-162

Item 1) Reference the Green River Electric Corporation ("GREC") and Henderson Union Electric Cooperative ("HUEC") Consolidation Study issued October 1996 and revised and updated January 1999 (the "Consolidation Study") prepared by the National Rural Electric Cooperative Association ("NRECA"). On Page 77 of the Consolidation Study, Part A under Scenario 1 states in part: "Total ten-year reduction in O&M, A&G and customer account expense of $21,981,000."

Item 1a) Please provide copies of all studies, evaluations, analyses, spreadsheets, calculations or other similar data that underlie or support the estimated annual or total amount of the expected expense reduction.

Response) Reference the table at the bottom of page 77 from the Consolidation Study. The column titled "Net Savings from Operations" lists the projected savings by year. 1998 represents the first year of consolidation, not the actual calendar year 1998. (Consolidation was effective July 1, 1999.) The sum of this column is $21,981,413, which rounded equals $21,981,000.

The column titled "Reference Case O&M, Cust Acct and A&G" is supported by the documents found under Tab 3 of the Consolidation Study. The RUS Form 325C Statement of Operations contains the line items O&M, Cust Acct, and A&G. The sum of these three line items for each year represents the totals found in this column.

The column titled "Scenario 1 (immediate) O&M, Cust Acct and A&G" is supported by the documents found under Tab 4 of the Consolidation Study. Sheet 3 under this Tab 4 shows the derivation of the three ratios utilized, O&M/Plant, A&G/Plant and Cust Acct/Customer by year. It also shows the calculation of the annual dollars by year. The combined totals shown on Lines 1 – 8 of Sheet 3, Tab 4 are found under Tab 3, Sheet 4.

Witness) Steve Thompson

Item 1b) Please provide copies of all studies, evaluations, analyses, spreadsheets, calculations or other similar data that reflects the allocations of the estimated annual or total amount of the expected expense reduction into components for O&M, A&G, and Customer Accounting.

Response) See response to 1a. There are no further analyses except Sheet 3 of Tab 4.

Witness) Steve Thompson

Item 1c) Please provide copies of all letters, memoranda, or other communications between or among GREC, HUEC, NRECA, and/or the Rural Utilities Service ("RUS") that references, discusses or provides information regarding expense reductions that are expected or estimated to arise from the merger of GREC and HUEC.

Response) A review of the files does not indicate any written correspondence relating to expense reductions. Most of the communication was verbal, either in person or over the telephone.

Witness) Dean Stanley and Steve Thompson

Item 1d) Please provide copies of all letters, memoranda, or other communications between or among GREC, HUEC, NRECA, and/or the Rural Utilities Service ("RUS") that reference or discuss the possible applications of the additional cash flow expected to arise from expense reductions related to the merger of GREC and HUEC.

Response) See response to 1c.

Witness) Dean Stanley and Steve Thompson

Item 2) On Page 82 of the Consolidation Study, the NRECA states that "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 customers."

Item 2a) Please identify the NRECA representative who is responsible for this recommendation, and indicate whether that person will be available for cross-examination at the Public Hearing in this matter.

Response) Joseph Slater. Kenergy is not planning on Mr. Slater being present at the hearing.

Witness) Dean Stanley

Item 2b) Please explain why NRECA would make a recommendation regarding the disposition of the merger savings when NRECA did not make any recommendation on this issue in its earlier report of October 1996.

Response) Mr. Slater and Kenergy both feel the 4% reduction should have been part of the October 1996 consolidation recommendation.

Witness) Dean Stanley

Item 2c) Please provide copies of all letters, memoranda, or other communications between or among GREC, HUEC, NRECA, and/or RUS that references or discusses the use of merger savings for a rate decrease, the total amount of any proposed rate decrease, the proposed allocation of any rate decrease, and/or the rationale for NRECA's recommendation that the entire rate decrease be directed to rural customers.

Response) See response to 1c.

Witness) Dean Stanley

Item 2d) Please provide copies of any studies, evaluations, or analyses performed by GREC, HUEC, Kenergy, NRECA, or by a third party on behalf of any of the foregoing, that shows the electric rates to all customer classes would continue to be fair, just, and reasonable following a 4% rate reduction to the rural ratepayers and no rate reduction to any other class of ratepayers.

Response) See testimony of Jack Gaines in the amended application. See also Attachment 4, pages 13 and 14.

Witness) Dean Stanley and Jack Gaines

Item 3) Please provide a copy of the Consolidation Agreement that was presented to and approved by the Board of Directors of each of GREC and HUEC prior to presenting the merger question to a vote of the membership of the two cooperatives.

Response) See Attachment 3, pages 1 - 9 (Exhibits A, Pages 1 - 7; Exhibit B, Pages 1 - 28.

Witness) Dean Stanley

Item 4) Please provide a copy of all information, including all promotional materials, that was disseminated to the membership of the two cooperatives to explain the purposes of the proposed merger and to solicit the support of the membership.

Response) See Attachment 4, pages 1 - 39 for Green River Electric material. Green River Electric Corporation and Henderson Union Electric Cooperative conducted a joint informational campaign, and most of the information was identical. However, each cooperative was responsible individually for disseminating the information to its member-customers. See Attachment 4, pages 40 - 67 for Henderson Union material.

Witness) Dean Stanley

Item 5) Please provide copies of the RUS Form 7 (or any other substantially similar information filed with the RUS) for 1997 and 1998 filed by each of GREC and HUEC.

Response) See Attachment 5, pages 1 - 8.

Witness) Steve Thompson

Item 6) Please provide a copy of the RUS Form 7 (or any other substantially similar information filed with the RUS) for 1999 filed by Kenergy. If Kenergy's final RUS Form 7 for 1999 is not yet available, please provide the preliminary filing of that form. If the preliminary filing is not available, please provide Kenergy's RUS Form 7 for the eleven months ended November 30, 1999. If Kenergy cannot yet provide the final RUS Form 7, please indicate when that document will be available.

Response) See Attachment 6, pages 1 and 2. The 1999 Form 7 is subject to the annual audit, which is completed in mid-March.

Witness) Steve Thompson

Item 7) Please complete the attached form showing the total megawatt hour sales of Kenergy and its predecessors for 1997, 1998, and 1999, divided into sales to each specified industrial ratepayer or group of industrial or rural ratepayers.

Response) See Attachment 7.

Witness) Steve Thompson

Item 8) Please complete the attached forms for 1997, 1998, and 1999, for Kenergy and its predecessors, showing for each specified industrial ratepayer or group of industrial or rural ratepayers, the annual revenue to the cooperative, the directly related purchased power expense, and the distribution revenue (revenue in excess of purchased power expense). Please also complete the attached forms to reflect total patronage capital and allocations thereof to each specified ratepayer or ratepayer group in 1997 and 1998.

Response) See Attachment 8, pages 1 – 3.

Witness) Steve Thompson

Item 9) Please provide copies of the calculations performed by GREC and HUEC to determine the allocations of patronage capital to each specified ratepayer or ratepayer group, as set forth on the forms related to Item 8 of KIUC's Requests for Information.

Response) See Attachment 9, pages 1 – 11. (Pages 1-9, GREC; pages 10 and 11, HUEC.)

Witness) Steve Thompson

Item 10) With respect to the retail electric service provided by Kenergy to each of Alcan Aluminum Corporation ("Alcan"), Commonwealth Industries, Inc. ("Commonwealth"), Kimberly-Clark Corporation ("Kimberly-Clark"), and Southwire Company ("Southwire"), please provide:

Item 10a) Kenergy's net capital investment in electric facilities or equipment, if any, devoted to providing electric service to each of the four ratepayers named above.

Response) There is no capital investment by Kenergy related to the accounts served directly from transmission. In addition to the direct served accounts, there are multiple accounts served from secondary voltages which required capital investment.

Witness) Dean Stanley

Item 10b) Kenergy's annual operations and maintenance costs related to electric facilities and equipment devoted to providing electric service to each of the four ratepayers named above.

Response) Kenergy does not accumulate costs by individual customers.

Witness) Dean Stanley

Item 11) With respect to the retail electric service provided by Kenergy to each of Commonwealth and Kimberly-Clark, please answer the following:

Item 11a) Does Kenergy read the meters on a monthly basis? Does Kenergy test the meters? If not, who reads and tests the meters? If performed by a third party, what compensation does Kenergy pay to the third party reading and testing the meters?

Response) Kenergy is responsible for reading the meters. Kenergy has agreements with Big Rivers to perform this service, and associated costs are bundled in wholesale power cost.

Witness) Dean Stanley

Item 11b) Does Kenergy calculate the monthly electric bill? Does Kenergy prepare and render the monthly bill? If either of these functions is performed by a third party, what compensation does Kenergy pay to the third party for such services?

Response) Kenergy is responsible for calculating the monthly bill. Kenergy has agreements with Big Rivers to perform this service, and associated costs are bundled in wholesale power cost.

Witness) Dean Stanley

Item 11c) Explain the relationship between changes in Kenergy's customer accounting costs and changes in the energy consumption of Commonwealth and Kimberly-Clark.

Response) Kenergy customer accounting costs (i.e., those costs booked in accounts 901 through 905) are not related to changes in consumption. However, risk associated with bad debt, which is a customer accounting cost does bear a relationship to consumption.

Witness) Jack Gaines

Item 11d) Explain the relationship between changes in Kenergy's customer accounting costs and changes in the monthly kW demand of Kimberly-Clark and Commonwealth.

Response) See response to Item 11c.

Witness) Jack Gaines

Item 11e) Explain how the amount of customer accounting costs incurred by Kenergy in providing electric service to each of Commonwealth and Kimberly-Clark is distinguishable from the amount of customer accounting costs incurred by Kenergy in providing electric service to a rural residential customer.

Response) See response to Item 11c.

Witness) Jack Gaines

Item 12) With respect to retail electric service provided by Kenergy to each of Alcan and Southwire, please answer the following:

Item 12a) Does Kenergy read the meters on a monthly basis? Does Kenergy test the meters? If not, who reads and tests the meters? If performed by a third party, what compensation does Kenergy pay to the third party reading and testing the meters?

Response) See response to Item 11a.

Witness) Dean Stanley

Item 12b) Does Kenergy calculate the monthly electric bill? Does Kenergy prepare and render the monthly bill? If either of these functions is performed by a third party, what compensation does Kenergy pay to the third party for such services?

Response) See response to Item 11b.

Witness) Dean Stanley

Item 12c) Does Kenergy collect and process the monthly payments from Alcan and Southwire? If not, what compensation does Kenergy pay to any third party for such services?

Response) The payments are processed through a lock-box agreement as provided in the contracts between Kenergy's predecessors and Alcan, Southwire, and LG&E Energy Marketing Inc.

Witness) Dean Stanley

Item 12d) Explain the relationship between changes in Kenergy's customer accounting costs and changes in the energy consumption of Alcan and Southwire.

> **Response)** See response to Item 11c.
>
> **Witness)** Jack Gaines

Item 12e) Describe the liability borne by Kenergy in the event that either Alcan or Southwire should fail to pay its monthly invoice for electric power service.

> **Response)** This question asks for a conclusion of law. The various contracts speak for themselves. All terms and conditions were negotiated most recently as part of the Big Rivers bankruptcy settlement.
>
> **Witness)** Dean Stanley

Item 12f) Describe the liability borne by Kenergy in the event that any wholesale supplier providing power to Kenergy for resale to either Alcan or Southwire should fail to deliver all or any portion of the power requirements of Alcan or Southwire.

> **Response)** See response to Item 12e.
>
> **Witness)** Dean Stanley

Item 13) For GREC and HUEC for 1997 and 1998, and for Kenergy in 1999, please provide a schedule showing total Administrative and General ("A&G") Expenses for each year, with a breakdown of the annual A&G expenses into major functions or components.

> **Response)** See Attachment 13.
>
> **Witness)** Steve Thompson

Item 14) Please provide a description of Kenergy's A&G expenses that are directly attributable to providing service to Alcan, Commonwealth, Kimberly-Clark and Southwire. For each directly attributable component of A&G expense, please describe which expenses are directly related to kWh consumption, which are directly related to kW demand, and which are not directly related to either kWh consumption or kW demand.

> **Response)** Kenergy can specifically identify only those costs directly attributable to increased load and consumption, which are wholesale power costs and PSC assessment.
>
> **Witness)** Jack Gaines

Item 15) Please provide a narrative that addresses which of Kenergy's A&G expenses that are not directly attributable to providing service (as set forth in Item 14 above) are indirectly attributable (where the expenses should be allocated in part) to providing service to Alcan, Commonwealth, Kimberly-Clark and Southwire. For each allocable component of A&G expense, please describe which expenses are directly related to kWh consumption, which are directly related to kW demand, and which are not directly related to either kWh consumption or kW demand.

Response) Kenergy incurs the following expenses in providing services to these four customers, which are intermingled with expenses to serve the remaining 50,000 customers:

1. Executive and staff salaries;
2. General office salaries;
3. Employee benefits;
4. Transportation expense;
5. Outside services;
6. Director fees and expenses;
7. Maintenance of general plant;
8. Business insurance;
9. Travel expense;
10. Regulatory commission expenses other than regulatory assessment;
11. General expenses;
12. Depreciation expense including general plant;
13. Property taxes including property tax on general plant;
14. Payroll taxes;
15. Interest expense;
16. Customer service expense associated with commercial and industrial accounts program;
17. Expense associated with Industrial Resource Comm. & board representative
18. Margins.

Witness) Jack Gaines

Item 16) Please describe in detail how the expenses incurred by Kenergy in providing electric service to Southwire increased upon the construction and operation of Southwire's fifth pot line.

Response) As with any customer served by Kenergy, only direct costs change as result of a change in load. Such costs would include wholesale power cost, PSC assessment, investment costs associated with plant expansion and operations costs associated with plant utilization. Over time, other indirect costs change as the system expands or contracts. Other costs include general plant costs, administration and general costs, liability and risk.

Witness) Jack Gaines

Item 17) Please describe in detail how the expenses incurred by Kenergy in providing electric service to Alcan would increase (a) if Alcan were to place its idle third pot line back into service, or (b) if Alcan were to construct and operate a fourth pot line. Also, please describe in detail how the expenses incurred by Kenergy in providing electric service to Alcan would decrease if (a) Alcan were to take a second pot line out of service, or (b) if Alcan were to take both active pot lines out of service.

Response) See response to Item 16.

Witness) Jack Gaines

Item 18) Does Kenergy agree that all of its rates in effect prior to the Commission's approval of the 4% rural rate reduction were "fair, just and reasonable"? Please explain.

Response) By the orders of the Commission in Case No. 97-219 and Case No. 97-220 the Commission approved those rates in effect prior to the 4% reduction and so deemed Kenergy's rates to be "fair, just and reasonable" based upon the record of each respective case. Kenergy accepts these rulings. Kenergy's current rates reflect changes which have been approved by the Commission in a series of cases over many years. In each case many factors are considered by the Commission including, for example, cost of service, customer impact, customer understandability and environmental effects. All factors are weighed by the Commission in reaching each subsequent decision. Nevertheless, each time the Commission approves rates they are, by definition, "fair, just and reasonable," yet may be changed by Order of the Commission based upon the record and after due process in subsequent cases.

Witness) Jack Gaines

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;

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 [signature]
Richard H. Wilson, Chairman

ATTEST:

[signature]
William Reid, Secretary

(seal)

DATE SIGNED: January 23, 1999

HENDERSON UNION ELECTRIC COOPERATIVE CORP.

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

ATTEST:

[signature]
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 18th day of JUNE, 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 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

STATE OF KENTUCKY
COUNTY OF HENDERSON. . . . . Sct.

I, Wilma G. Martin, Clerk of Henderson County, certify that the foregoing Articles of Consolidation was this day at 3:45 O'clock P M. lodged in my said office for record and that I have recorded it, the foregoing and this certificate in my said office.

Given under my hand this 25th day June 1999

WILMA G. MARTIN

BY: Angela Weiss D.C.

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 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 JULY 1, 1999

Dr. H. M. Smith
Chairman

ATTEST: William H. Reed
Secretary

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

January 23, 1999

Mr. Robert Anderson
1515 East 18th Street
Owensboro KY 42303

Dear Mr. Anderson:

The utility industry is rapidly changing. Competition, reliability and the need to offer additional services cost effectively are factors shaping the way we do business.

With those aspects of our business in mind, we are pleased to announce plans for a consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative. Both boards of directors agreed January 23 to put the consolidation proposal to a vote by the member-owners of their cooperatives in April.

The attached news release provides details about the benefits of a consolidation. However, there are a few points that are particularly important to highlight:

- The consolidation will result in a 4 percent rate reduction for customers after the state Public Service Commission approves it.
- Sharing services and greater efficiencies will enable the cooperative to provide more reliable service and additional programs for customers.
- No jobs will be lost. Staff reductions will take place through normal attrition and voluntary retirements.
- We'll continue to maintain fully-staffed service centers throughout the region.

I look forward to sharing the benefits of a consolidation as we proceed. Please don't hesitate to call if you have any questions.

Sincerely,

Dean Stanley

Dean Stanley
President and CEO

Attachment

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

Green River
~~Henderson Union~~ Electric Cooperative
6402 Old Corydon Road P.O. Box 18, Henderson, KY 42420-0018
(502) 826-3991 Toll Free in KY 1-800-844-4832

HENDERSON UNION EC

January 25, 1999

NEWS RELEASE

FOR RELEASE: After 6 a.m. Tuesday, January 26

Contact: John West, President & CEO

HENDERSON UNION, GREEN RIVER MOVE FORWARD ON CONSOLIDATION

Henderson, KY - Seeking lower rates which will represent millions of dollars in savings to customers, two Western Kentucky electric distribution cooperatives have agreed to consolidate.

The boards of directors of Green River Electric Corporation and Henderson Union Electric Cooperative voted January 23 to seek a member-owner vote in April on consolidation.

"A consolidation of our two cooperatives will result in a 4 percent reduction in customer rates, improve reliability and enhance customer service," said Dean Stanley, president and CEO of Green River Electric. "This move makes good sense. It's good for our customers. It's good for the future of our region."

John West, president and CEO of Henderson Union Electric, said the time is right for a consolidation because of the increasing pressures of deregulation in the electric utility industry and the ever-changing needs of customers.

"Deregulation and competition are not a matter of if, but when," West said. "In fact, we already are facing some competition. We have to be poised to meet the challenge. This consolidation will help us do that. Customers continually want, and deserve, better service and more program offerings. The strength of our combined cooperatives will provide that higher level of service."

MORE

The consolidation will need the approval of both cooperatives' member-owners. A vote, by mail, is scheduled for April. If approved, the cooperatives will immediately seek permission for the consolidation from the state Public Service Commission, which since 1997 has enthusiastically supported the plan.

The Commission, at that time, said the consolidation would "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."

The new cooperative, which would be named Kenergy, would immediately request approval from the Commission for a rate reduction.

"The consolidation will lower consumer rates," said Stanley. "It will make us more competitive, which will help us compete for economic development and jobs. It will make us a better company. This is one of those instances where everyone wins."

Other key aspects of the proposed consolidation include:

* Annual cost savings of between $1.75 and $2.5 million will be realized after all efficiencies of the consolidation are in place;
* No job loss because any staff reduction will occur through voluntary retirement and attrition;
* All service centers and facilities will remain open throughout the combined service territory;
* Increased reliability and quicker response time during emergencies by combining personnel and equipment; and
* Continued member ownership of the new cooperative. The current directors of both cooperatives, along with one industrial director, would serve during a transition period for the new company.

Later, a redistricting plan would be crafted to reduce the board to 11 members.

"Keep in mind, this is not new," Stanley said. "Cooperative consolidations are occurring throughout the country. They're occurring because of the need to be competitive in a rapidly changing industry. This move by our cooperatives simply reflects that trend."

#

Green River Electric Corporation

Down The Line

News and Information for Member-Owners

A Touchstone Energy Partner

Richard Wilson
Board Chairman

Dean Stanley
President and CEO

Consolidation means lower rates, improved service for member-owners

A 4 percent rate reduction.

Improved service.

Millions of dollars in savings for customers.

Sounds good, doesn't it?

All of those benefits will be the result of a consolidation between Green River Electric Corporation and Henderson Union Electric Cooperative.

You can make it happen.

As a member-owner of your cooperative, you will have the chance to vote for the consolidation in April.

The new cooperative that emerges, Kenergy, will have a renewed commitment—a commitment to better and more efficient service, a commitment to lower rates and a commitment to saving money.

That's always been important to us. As a member-owned business, our primary concern always has been for our member-owners. This consolidation will enhance the benefits you've long enjoyed from your cooperative.

We'll remain member-owned with staffed service centers in Henderson, Owensboro, Marion, Hanson, Hartford, Sturgis, and Hawesville to maintain the close, reliable service you depend on.

A financial analysis revealed that consolidation would generate significant savings each year through the efficiencies of putting the two cooperatives together. Current employees won't lose their jobs. Over time, we'll reduce staff size through retirements and normal attrition.

Perhaps most important, though, is what those savings will allow us to do with rates. Our studies indicate that we will be able to lower rates by 4 percent as soon as possible after the consolidation becomes a reality.

Our rates already are among the lowest in the country. Providing still lower rates is good for customers. It's good for economic development. And it's good for our cooperative as the electric industry becomes increasingly competitive.

But to make all of these benefits a reality, we'll need your help.

We'll mail a ballot to your home in April. We urge you to return it with a yes vote for consolidation.

Remember: consolidation, rate reduction—two thumbs up.

Consolidation efforts under way between Green River and Henderson Union

The consolidation of Green River Electric Corporation (GREC) and Henderson Union Electric Cooperative (HUEC) would enhance system reliability, improve customer service, and save millions of dollars. That's why the two distribution cooperatives plan to consolidate this year.

The consolidation also will strengthen the cooperatives and better position them for a deregulated electric environment, according to Board Chairmen Richard Wilson of GREC and Dr. H.M. Smith of HUEC.

Both cooperatives' boards of directors have voted to move ahead with the consolidation process. Member-owners will vote in April.

According to independent studies and the Public Service Commission (PSC), the consolidation would benefit customers in several ways. The PSC, which is the state agency that regulates utilities, concluded in 1997 that "the proposed 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."

Components of consolidation

Key aspects of the consolidated company, which would be named Kenergy Corp., include:

- A 4 percent rate reduction;
- Significant annual savings will be realized after all the efficiencies of consolidation are in place;
- By combining personnel and equipment, reliability will be enhanced;
- Improved customer service will occur as a result of more available resources and additional services;
- No job loss because reductions will occur through voluntary retirement and attrition;
- Staffed service centers will be located in Henderson, Owensboro, Marion, Hawesville, Hanson, Sturgis, and Hartford; and
- The current directors of both cooperatives, along with one industrial director, will serve during the transition.

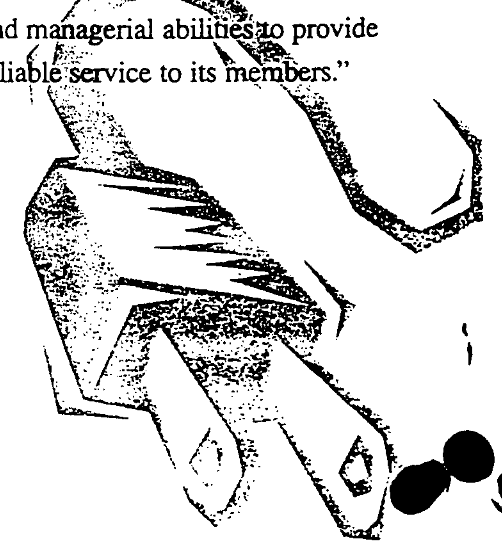
Consolidations are not new. Several co-ops around the country have consolidated recently to make them more competitive in a deregulated environment.

What's next

The member-owners of both cooperatives will vote in April 1999. The combined cooperative would distribute electricity to 49,000 customer accounts in 14 western Kentucky counties—Breckinridge, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union, and Webster.

For a number of years, GREC has been No. 1 in energy sales among the nation's 1,000 co-ops. Henderson Union currently ranks third in the nation in power sales. The new cooperative would be the second largest in the state in terms of customers.

The PSC also said "the evidence conclusively demonstrates that the consolidated organization, Kenergy, will have the financial, technical, and managerial abilities to provide reliable service to its members."



Top 10 reasons for consolidation include rate reduction, improved service

The proposed consolidation of Green River Electric and Henderson Union Electric will produce numerous benefits for the member-owners of the two cooperatives. There are too many reasons to print here. So, we've narrowed the list down for you.

Below are your top 10 reasons to vote for consolidation.

1. **Rates, rates, rates:** An independent study shows that consolidation will result in lower rates. After consolidation approval, we will take a request to lower rates by 4 percent to the state Public Service Commission.

2. **Less is more:** The combined companies will generate significant annual savings. The savings will be created through the efficiencies generated by putting the companies together.

3. **No job loss:** Jobs will be maintained. No one will lose a job as a result of the consolidation. Any reductions will be handled through retirements and normal attrition.

4. **More services:** Your wants and needs will be met more effectively through improved customer service, more available resources, and additional programs.

5. **Member-owned, member-controlled:** The new cooperative created by consolidation, Kenergy, will remain member-owned and controlled. All cooperative facilities will remain open and staffed in Henderson, Owensboro, Marion, Hawesville, Hanson, Sturgis, and Hartford.

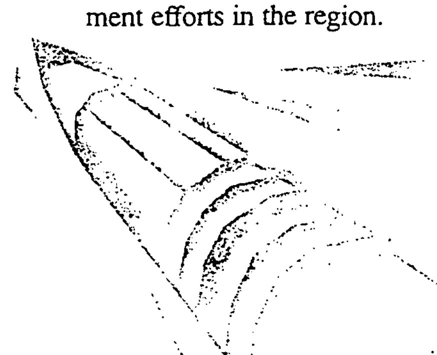
6. **We're there when you call:** Because the cooperatives are pooling their resources and combining personnel and equipment, you will receive improved services, 24-hour dispatching throughout the region, and a quicker response time.

7. **Ready to compete:** A larger, yet more efficient, co-op will be prepared to compete in a deregulated electric utility environment. Kenergy will be the second largest distribution cooperative in Kentucky and will sell more electricity than any other cooperative in the nation.

8. **Oh, by the way, did we mention rates:** The new co-op, Kenergy, will lower rates by 4 percent.

9. **Looking out for you:** The state Public Service Commission, which regulates utilities on behalf of consumers, said in 1997 that 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."

10. **Working hard for the community:** Already, both cooperatives have had great success in attracting industry and jobs to the region. The combined, new cooperative will be better positioned to continue important economic development efforts in the region.



Consolidation, rate reduction. Two thumbs up!

The consolidation of Green River Electric and Henderson Union Electric is a win-win for everyone.

First, and foremost, consumers will win because the new cooperative—**Kenergy**—will be in a position to lower rates by 4 percent as soon as the state Public Service Commission approves it.

Consumers also win because services will be enhanced.

Employees win because there will be no job loss, unlike many mergers you read about.

And the community will be an economic development magnet throughout our combined service areas.

Consumers will make the decision in April 1999. Vote for lower rates. Vote for improved services.

Vote yes for consolidation.

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

February 8, 1999

Ms. Brenda Clayton
815 East Parrish Avenue, Suite 240
Owensboro KY 42303-3222

Dear Ms. Clayton:

Electric cooperatives and investor-owned utilities are consolidating or merging at a furious pace. In the past four years alone, approximately 85 utilities have done so.

The reasons are straightforward: increasing competition, the need for more customer services and the desire for lower rates. These also are driving the consolidation of Green River Electric and Henderson Union Electric. The consolidation will enable us to **lower rates 4 percent** and to provide a greater range of services.

The consolidation will accomplish something else. It will allow us to remain a member-owned, community-focused company.

I know that for many people the word consolidation conjures images of job loss. The boards of Green River and Henderson Union have pledged in writing that no jobs will be lost because of consolidation. Any reductions will occur through voluntary retirements and normal attrition. At Green River and Henderson Union, our greatest assets are our member-owners and the employees who serve them. Breaking that bond in any way would undermine the philosophy behind the creation of the cooperative -- to provide affordable, reliable power.

That's still part of our mission. But, our mission today is broader. Our members expect more from us. And, the consolidation will give us the ability to do more.

Consolidation is a winning situation for our members and our employees. With consolidation, we can be poised to successfully meet the challenges of a rapidly changing industry, while maintaining our long-standing commitment to service. Consolidation is a good decision for our members, our employees and for the region we serve. I hope you will support it wholeheartedly. If you have any questions, please call me at (502) 926-4141 or 1-800-844-4732.

Sincerely,

Dean Stanley

Dean Stanley
President and CEO

Enclosure

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

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

February 22, 1999

Charles and Sue Payne
8438 State Route 456
Owensboro KY 42301-9529

Dear Charles and Sue:

As you know, the boards of directors of Green River Electric and Henderson Union Electric have signed a Consolidation Agreement. It is the strong belief of the boards and the management of both cooperatives that consolidation will benefit customers and will be positive for employees and beneficial to the region.

According to a recent survey, member-owners strongly agree. Enclosed is a news release we will distribute this week. After being informed of the benefits of the consolidation, a large majority—nearly 90 percent—support the effort.

We shared with them the following information about what the consolidation would mean:

- Annual savings generated from the consolidation would be $1.75 million to $2.25 million;
- Upon approval, the new cooperative would ask the Public Service Commission for an immediate 4 percent rate decrease for customers; and
- No job loss would occur as a result of the consolidation.

The survey results were based on interviews with 375 member-owners.

Ballots will be mailed to every member-owner on March 29. In the coming weeks, we will continue to share information on the consolidation with you and member-owners. However, if you have any additional questions, please feel free to call me at (502) 926-4141 or 1-800-844-4732.

Sincerely,

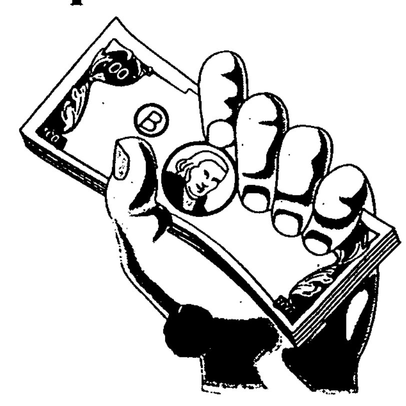
Dean Stanley

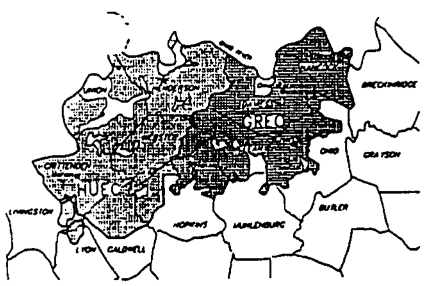
Dean Stanley
President and CEO

Enclosure

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

Each member-owner returning a valid ballot will be eligible to win $1,000 from the cooperative in a drawing to be conducted April 15. To be valid and counted, ballots must be returned to the cooperative in the official envelope provided prior to 4:30 p.m. April 13.





Legend

Darker Area: Green River Electric's current service area

Lighter Area: Henderson Union's current service area

B[illegible]EC and HUEC currently serve customers in Henderson, Ho[illegible]s and Webster counties.

- Headquarters: Henderson
- Other service centers: Owensboro, Marion, Hanson, Hartford, Hawesville and Sturgis

Facts & Figures for Consolidated Co-op

Total Customer Accounts	48,650
No. Residential Customers	42,860
Miles of Primary Line	6,500
Energy Revenue (1998)	$230,000,000
Energy Sales (KWH/1998)	7,422,823,000
Rural System	917,653,000
Industrials	6,505,170,000
Plant Investment	$135,710,000

Green River Electric
P.O. Box 1389 • Owensboro, KY 42302
(502) 926-4141 • 1-800-844-4732

Henderson Union Electric
P.O. Box 18 • Henderson, KY 42419
(502) 826-3991 • 1-800-844-4832

http://www.kenergycorp.com

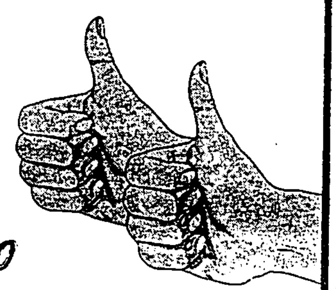
Green River Electric
Henderson Union Electric

A Touchstone Energy℠ Partner

The power of human connections

✓ **Reduced Rates**

✓ **Better Service**



Two Thumbs Up for Consolidation

VOTE YES

Lower Rates. Better Service. Thumbs Up for Consolidation.

Green River Electric and Henderson Union Electric have agreed to consolidate. You can make it happen. As a member-owner, you will have an opportunity in April to vote.

[illegible]

• Lower rates

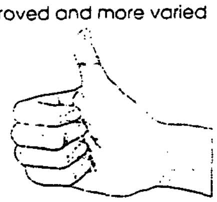
The savings generated by a consolidation will allow the proposed new cooperative -- Kenergy -- to seek approval for an immediate *4 percent rate reduction.*

• Better service

More resources will be available to offer additional value-added services to members.

• A cooperative better positioned for the future in a restructured, competitive industry

Consolidation is a good business decision as it would strengthen the cooperatives' financial position and workforce characteristics, improve operating performance and offer improved and more varied services for all customers. Much of the savings will come through economies of scale, increased efficiency and the elimination of duplicative efforts and from avoided costs by sharing resources. Consolidation also is a "natural fit" for the neighboring cooperatives since both are strong financially and share many similarities, including enviable customer growth, solid equity positions and upgraded physical plants.



[illegible] that consolidation will [illegible]

1 **Significant annual savings of $1.75 million to $2.5 million will be realized as a result of consolidation.** The efficiencies to be gained by combining the cooperatives will maximize the ability to serve you in the most cost-effective manner possible.

2 **Improved service.** Around-the-clock dispatching service now available in the Green River service territory will be expanded throughout the Kenergy region to improve response time to all customers.

3 **Capital credits are yours.** All capital credits which have been earned by you as a member-owner of either cooperative will be preserved.

4 **Member-owned, member controlled.** The new cooperative – Kenergy – will continue to be owned and controlled by you -- our customers. All cooperative facilities will remain open and staffed in Henderson, Owensboro, Marion, Hartford, Hanson, Sturgis and Hartford. Service always will be Priority #1.

5 **No job loss.** Both cooperatives' boards of directors have adopted a resolution ensuring employees that no jobs will be lost because of consolidation. Any workforce reductions will occur through voluntary retirement and normal attrition.

6 **Looking out for you.** The Kentucky Public Service Commission, which regulates utilities on your behalf has told the cooperatives that 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."

7 **Working hard for the community.** Already both cooperatives have had great success in attracting industry and jobs to their areas. The combined, new cooperative will be better positioned to continue important economic development efforts in the region.

8 **Ready to compete.** A larger, yet more efficient cooperative will be prepared to compete in a restructured electric utility environment. Kenergy will be the second largest cooperative in the state and will sell significantly more electricity than any other distribution cooperative in the nation.

Lower rates.

Better service.

Consolidation deserves your support.

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

March 26, 1999

Mr. Bill Toler
Vice President-Finance
Commonwealth Aluminum
500 W. Jefferson Street, Citizens Plaza - 1
Louisville, KY 40202-2823

Dear Bill:

On January 23, 1999, the boards of directors of Green River Electric Corporation and Henderson Union Electric Cooperative entered into a consolidation agreement. The vote of the member-customers will be by mail ballot and conducted simultaneously with votes being tabulated not later than April 15, 1999. The effective date of the consolidation, if approved, will be July 1, 1999.

This letter is being sent to the seven (7) member-customers of Green River Electric which comprise a class designated as "Special Contract" or "Directly Served Members." A similar letter is being sent to the 14 member-customers of Henderson Union Electric in this class. These 21 customers are served directly from transmission lines with a dedicated substation and are large users of electricity.

Section 15 of the Consolidation Agreement provides that after a successful vote, the two cooperatives shall immediately apply to the Kentucky Public Service Commission for a 4% rate reduction for five (5) years for all non-direct served members. This application will be filed under a recently enacted Kentucky law that permits special contract customers to be excluded from a rate reduction if the decrease in revenue is allocated among and within consumer classes on a proportional basis that does not result in a change in the rate design.

During 1998, revenues and power costs from the 21 directly served members were $171,823,979.00 and $169,428,327.00 respectively, leaving a gross margin before expenses of $2,395,653.00. The 4% rate reduction cannot apply to the directly served members because this would result in a loss of approximately $4.5 million from customers of this class.

Mr. Bill Toler
Page 2
March 26, 1999

In closing, we trust you understand the reasoning behind our making the 4% reduction available only to non-direct customers. We are hopeful of having your support for the consolidation. Please call should you want to discuss these matters further.

Sincerely,

Dean Stanley

Dean Stanley
President and CEO

dh

Green River Electric Corporation

Down The Line

News and Information for Member-Owners

A Touchstone Energy Partner

Kenergy will stay local

Change is inevitable in business. An increasingly competitive economy often dictates that consolidations are necessary to make companies stronger. That usually means an impersonal, out-of-state corporate giant coming in, downsizing through employee lay-offs, and attempting to take care of the needs of people they don't know and don't understand.

Henderson Union Electric Board Chairman Dr. H.M. Smith joins Green River Electric Chairman Richard Wilson in signing the Consolidation Agreement at a January 23 joint board meeting. As a result, member-owners will vote in April on consolidating the two cooperatives, which will decrease rates by 4 percent.

The opposite is true with the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative. It means your friends and neighbors will continue meeting your electric needs at service centers throughout the area. And any job reduction will occur only through voluntary retirements and attrition. It also means a **4 percent rate reduction** and more value-added services.

We're proud to be part of a change that is positive. It's a consolidation of two neighboring companies, doing what is best for our customers.

Our commitment to the area is reflected in the name selected for the proposed new cooperative—Kenergy.

The "K" in Kenergy stands for Kentucky. It's an important symbol to us because other utilities around the state are often headquartered in cities halfway across the country.

Your consolidated cooperative will remain local and strong.

The rest of the name, obviously, is the word "energy." It's what we provide, and it's what we bring to the job. We aren't just satisfied providing low-cost, reliable electricity. Our business is dynamic and constantly changing. We are always looking for ways to make your lives easier and to save you money.

We're proud to be a Kentucky company providing energy and solutions for our neighbors. We're proud of what Kenergy stands for. We're proud to be serving you.

Consolidation deserves your support. Vote YES.

Attachment 4
Page 15 of 67

Vote YES for consolidation!

Richard Wilson
Board Chairman

Dr. H.M. "Bo" Smith
Board Chairman

We're excited about what consolidation can mean for you, for our employees, and for the region we serve. And that's why we're so enthusiastic about urging you to vote for consolidation in April.

Green River Electric and Henderson Union Electric are striving to be more competitive, to provide lower rates, and offer more and better services.

Throughout these pages are details about the benefits of consolidation and procedures for voting. We urge you to vote YES for consolidation. It will mean lower rates and better service, while maintaining our longstanding commitment to remain member-owned and community-centered.

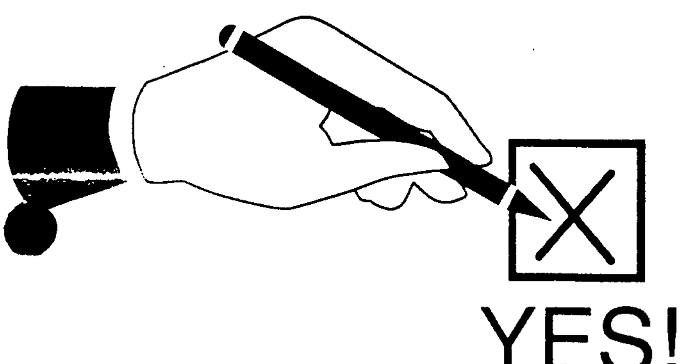
Consolidated, we will be a stronger, more responsive organization.

Remember, a **YES** vote for consolidation means a **4 percent reduction** in electric rates.

Two thumbs up for consolidation. It's a winning combination for all.

Richard H. Wilson
Board Chairman, Green River Electric

Dr. H.M. Smith
Board Chairman, Henderson Union Electric



Win $1,000

Your vote counts

A 4 percent rate reduction.

A $1,000 cash drawing.

More value-added services.

Voting is important. The election to consolidate Green River Electric and Henderson Union Electric Cooperative will benefit your family—**if you vote YES.**

Watch for your ballot

As a member-owner, you will have the opportunity to vote on the consolidation. Ballots will be mailed to each cooperative member on March 29. To be valid and counted, the ballot must be received by the cooperative before 4:30 p.m., Tuesday, April 13.

The ballot question reads: ***Are you in favor of the consolidation of Henderson Union Electric Cooperative Corp. and Green River Electric Corporation as set out in the Consolidation Agreement dated January 23, 1999?***

The official ballot mailer will contain information about the Consolidation Agreement.

Each member-owner who returns a valid ballot will be eligible to win $1,000 from the cooperative in an April 15 drawing. To ensure secret balloting, a member-comprised Credentials and Election Committee will count the ballots.

Attachment 4
Page 16 of 67

Consolidation will benefit customers

Lower rates and better service. As a customer, you demand them. As a member-owner, you can make them a reality.

In April, you will have the opportunity to vote for the consolidation of Green River Electric and Henderson Union Electric.

Here's what consolidation will mean for you:

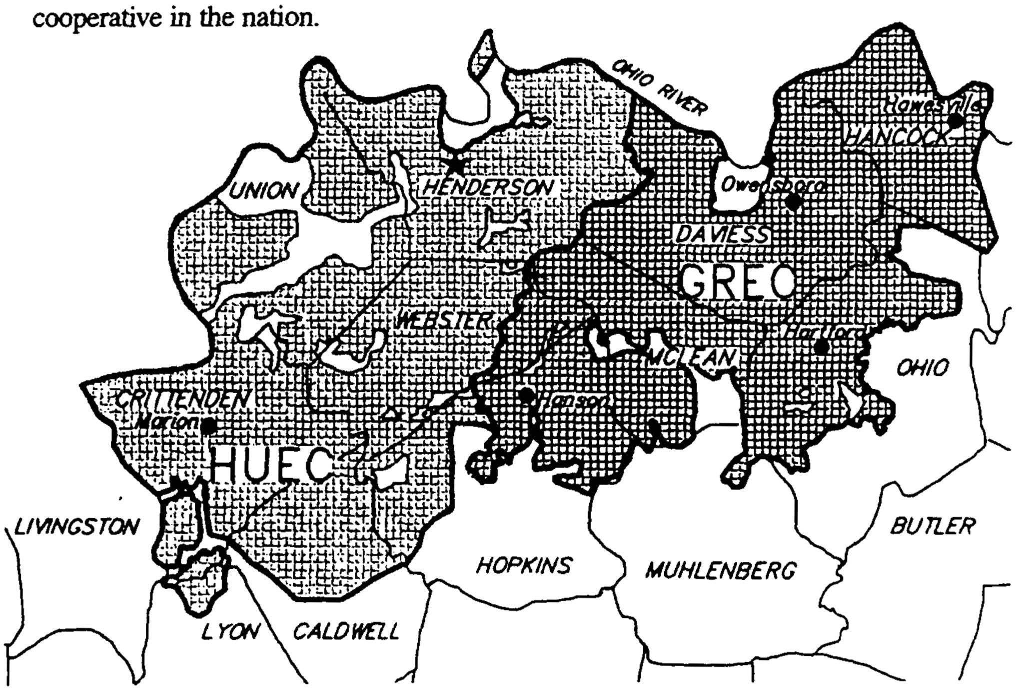
- **Saving you money:** The consolidated cooperative, Kenergy, will seek approval for an immediate **4 percent rate reduction**. Through greater efficiencies, the new company will save $1.75 million to $2.5 million each year. Those savings will be passed on to you.

In addition, all capital credits that you have earned as a member-owner of either cooperative will be preserved.

- **Better service**: The larger cooperative will offer additional value-added services to members. Meanwhile, the reliable electric service you expect will continue. All cooperative facilities will remain open and staffed. In addition, around-the-clock dispatching services, which already are available to Green River Electric customers, will be expanded to the entire Kenergy region.

These improvements will occur without job loss. Both cooperatives' boards of directors have adopted a resolution ensuring that no employees will lose jobs because of consolidation. Any reductions will occur through voluntary retirement and normal attrition.

Consolidation also is a good business decision because it will strengthen the cooperative's financial position, which will help it compete in a restructured electric utility environment. Kenergy will be the second largest cooperative in the state and will sell significantly more electricity than any distribution cooperative in the nation.



Kenergy service area

Consolidation, rate reduction. It's a winner for families.

We're all working harder to make our money stretch farther. Pay bills. Save for college tuition. Challenges all families face.

It's nice to get a break every once in a while. Now is the time for the customers of Henderson Union Electric and Green River Electric to get one—it's only a vote away.

As a member-owner, you can make a rate reduction happen.

Consolidation between Henderson Union and Green River will result in a **4 percent** rate reduction, which represents millions of dollars in savings. That's money in the pockets of working families.

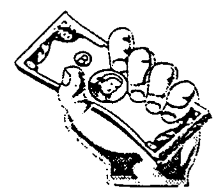
Vote yes for consolidation.

Attachment 4
Page 18 of 67

4 PERCENT
RATE REDUCTION!

IMPROVED SERVICE!

MILLIONS IN
ANNUAL SAVINGS!



A $1,000 CASH PRIZE!

Green River Electric

P.O. Box 1389 • Owensboro, KY 42302
(502) 926-4141 • (800) 844-4732

Henderson Union Electric

P.O. Box 18 • Henderson, KY 42419
(502) 826-3991 • (800) 844-4832

SOUND GOOD?
OPEN THIS FOR DETAILS

Green River Electric and Henderson Union Electric have agreed to consolidate. The savings generated by a consolidation will allow the new cooperative — **Kenergy** — to reduce rates by **4 percent** upon approval from the Kentucky Public Service Commission.

Ballots will be mailed to all consumers March 29 to vote on the consolida-tion. If you return your ballot to the cooperative by April 13, you automatically will be eligible for a $1,000 cash prize drawing.

But you must return the ballot by 4:30 p.m. April 13.

Vote YES for consolidation

Service will be improved.

- More value-added services — such as Internet, telephone and home-security — will be offered to members.
- All service centers will be maintained to ensure timely, quality service.
- System wide, 24-hour central dispatching will improve our response time.

Capital credits will be preserved.

- All capital credits earned by member-owners will be preserved.

The combined coopera-tives will generate up to $2.5 million annually in savings.

- The efficiencies gained by combining the cooperatives will maximize our ability to serve you in the most cost-effec-tive manner possible.

Did we mention rates?

- As a result of the consolidation, rates will be reduced. If member-owners approve consol-idation, the new cooperative — **Kenergy** — will ask state regulators immediately for per-mission to lower rates by **4 percent**.

Lower rates. Better service. Vote YES.

Two thumbs up for consolidation!

FOR OFFICIAL BALLOT
NOT VALID AFTER
APRIL 13, 1999

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

BUSINESS REPLY MAIL
FIRST-CLASS MAIL PERMIT NO. 319 OWENSBORO KY

POSTAGE WILL BE PAID BY ADDRESSEE

GREEN RIVER ELECTRIC CORPORATION
PO BOX 1389
OWENSBORO KY 42302-9966

INSERT BALLOT, MOISTEN THIS STRIP AND FOLD OVER TO SEAL.

FOR OFFICIAL BALLOT

OFFICIAL BALLOT

VOTE ON THE CONSOLIDATION OF GREEN RIVER ELECTRIC CORPORATION AND HENDERSON UNION ELECTRIC COOPERATIVE CORP.

VOTING INSTRUCTIONS (READ CAREFULLY): Mark the ballot by placing an **X** in one of the boxes below. Place the ballot in the attached self-addressed and postage-paid envelope. The ballot must be enclosed in the official ballot envelope and returned by mail or personal delivery to one of the cooperative's offices in Owensboro, Hanson, Hartford or Hawesville. To be valid and counted, the ballot must be received by Green River Electric Corporation prior to 4:30 p.m. Tuesday, April 13, 1999. All member-owners in good standing thirty (30) days prior to the ballot count are eligible and are encouraged to vote.

Are you in favor of the consolidation of Henderson Union Electric Cooperative Corp. and Green River Electric Corporation as set forth in the Consolidation Agreement dated January 23, 1999?

YES ☐ NO ☐

PLACE YOUR MARKED BALLOT IN THE ATTACHED ENVELOPE • IT MUST BE RECEIVED BY APRIL 13 TO BE VALID AND COUNTED.

To Our Member-Owners:

The Boards of Directors of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. have agreed to consolidate in accordance with the Consolidation Agreement dated January 23, 1999. Subject to approval by a majority vote of the member-owners of each corporation voting and by the Kentucky Public Service Commission (KPSC), the consolidation will be effective July 1, 1999. **Your Official Ballot Is Attached.**

Highlights of the Consolidation Agreement follow:

- Upon approval, the new cooperative -- Kenergy Corp. -- will apply immediately to the KPSC to reduce rates by 4 percent to all members (except direct-serve industrial customers) for five years, effective upon consolidation.

- Annual savings of from $1.75 million to $2.5 million will be realized after all efficiencies of the consolidation are in place.

- Improved customer service will occur as a result of more available resources and additional services.

- System-wide, 24-hour dispatch service will improve response time.

- All current service centers will be maintained and staffed, with the principal place of business located in Henderson.

- Capital credits which have been earned by the members of each co-op will be preserved after the consolidation and will continue to exist as credits to a capital account of each member of Kenergy.

- The objective of Kenergy would be to provide rate parity for all members within two years of the effective date of the consolidation.

- The current directors of each cooperative, along with one industrial director, will serve during a three-year transition period; thereafter, the board will be reduced to 11 members, including an industrial director.

- No jobs will be lost as a result of consolidation. Any workforce reduction would occur through voluntary retirement and normal attrition.

Win $1,000

Each member-owner returning a valid ballot (see voting instructions at right) will be eligible to win $1,000 from the cooperative in an April 15, 1999 drawing. To ensure secret balloting, a member-comprised Credentials and Election Committee will separate your ballot from the return envelope bearing your membership number. The discarded envelope will be used for drawing purposes.

Green River Electric Corporation
P.O. Box 1389
Owensboro, KY 42302-1389

Win $1,000

ELECTRIC RATE REDUCTION
$1000 DRAWING
DETAILS INSIDE

BULK RATE
U.S. POSTAGE
PAID
Owensboro, KY
Permit No. 319
42301

OFFICIAL BALLOT

TO OPEN: TEAR ALONG PERFORATION AND
PEEL BACK THE TOP COPY

Green River Electric
Corporation

Down The Line

News and Information for Member-Owners

A Touchstone Energy Partner

Vote YES for lower rates

It's time to vote on the consolidation of Green River Electric and Henderson Union Electric.

You've heard what consolidation will mean. A 4 percent rate reduction. Better and more enhanced services. No job loss.

Henderson Union Electric Board Chairman Dr. H.M. Smith joins Green River Electric Chairman Richard Wilson in signing the Consolidation Agreement at a January 23 joint board meeting. As a result, member-owners will vote this month on consolidating the two cooperatives, which will decrease rates by 4 percent.

These pledges have been put in writing.

The boards of directors and management of the two cooperatives believe so strongly in the consolidation that these benefits have been made a part of the Consolidation Agreement, which was approved at a recent joint board meeting.

We're committed to providing low-cost, reliable electricity. We're committed to serving you better, including providing new value-added services that will make your lives easier. And we're committed to making this region an even better place to live—through enhanced economic development efforts that provide good-paying jobs.

You should have received your ballot, which was mailed March 29, along with information about the consolidation.

Looking through that information, you'll discover some interesting facts.

For example, through efficiencies of consolidation, the new company, Kenergy, will save $1.75 million to $2.5 million each year—savings we'll all share. The new cooperative would immediately apply to the Kentucky Public Service Commission for a **4 percent rate reduction.**

In addition, all cooperative facilities will remain open and staffed. Around-the-clock dispatching services, which already are available to Green River Electric customers, will be expanded to the entire Kenergy region.

Consolidation is a winning combination that deserves your support. Vote YES and return your ballot by April 13.

Attachment 4
Page 25 of 67

Consolidation means lower rates, better service

Lower rates. Millions of dollars in savings. Better service. That's what a **YES** vote for consolidating Green River Electric and Henderson Union Electric will mean.

"The customers of both cooperatives will enjoy several benefits from the consolidation," said Dean Stanley, president and CEO of Green River Electric. "The region itself also will benefit by retaining a locally owned company that is committed to economic development."

This month, member-owners of both cooperatives will vote by a mail-in ballot on the consolidation. The Consolidation Agreement, which was signed jointly by the boards of directors, contains the terms of the consolidation. Here are some of the highlights:

- Through greater efficiencies, the new company will save \$1.75 million to \$2.5 million each year. Savings will be passed on to customers;
- The new cooperative, Kenergy, will immediately apply to the Kentucky Public Service Commission for a **4 percent rate reduction**;
- There will be no job loss as a result of the consolidation. Any reductions will occur through retirement and normal attrition;
- The headquarters will be located in Henderson. In addition, Green River Electric's office in Owensboro and other service centers in Hanson, Hartford, Hawesville, Sturgis, and Marion will remain open;
- Kenergy's board of directors initially will consist of all Green River and Henderson Union board members who are in office on the date of the consolidation. One industrial director also will serve. Following a three-year transition period, the board will be reduced to 11 members, including an industrial director; and
- Capital credits that have been earned by the members of each cooperative will be preserved after the consolidation. They will continue to exist as credits to a capital account of each member of Kenergy.

With member-owner and Public Service Commission approval, the consolidation will take effect July 1.

"As the electric industry changes, we want rates to be as low as possible while maintaining a high level of customer service," said John West, president and CEO of Henderson Union Electric. "This consolidation ensures that we will be better prepared for whatever changes the industry brings."

Vote now, vote YES

For lower rates, better service, and the chance to win \$1,000, return your consolidation ballot to your local electric cooperative by April 13.

During the next couple of weeks, you'll have the opportunity to vote on the consolidation of Green River Electric and Henderson Union Electric.

Official ballots were mailed to each cooperative member on March 29. After you vote, simply drop the ballot in the mail. The cooperative will pay the postage.

The ballot question reads: ***"Are you in favor of the consolidation of Henderson Union Electric Cooperative Corp. and Green River Electric Corporation as set forth in the Consolidation Agreement dated January 23, 1999?"***

The official ballot mailer contains information about the Consolidation Agreement.

To be valid and counted, the ballot must be received by the cooperative by 4:30 p.m. Tuesday, April 13.

Each member-owner returning a valid ballot by the April 13 deadline will be eligible to win \$1,000 from the cooperative. To ensure secret balloting, a member-comprised Credentials and Election Committee will count the ballots.

Vote YES for consolidation today. It will mean lower rates, better service, and more value-added programs in the future.

Attachment 4
Page 26 of 67

Sample of Consolidation Ballot

Are you in favor of the consolidation of Henderson Union Electric Cooperative Corp. and Green River Electric Corporation as set forth in the Consolidation Agreement dated January 23, 1999?

❑ **YES** ❑ **NO**

Don't Throw Your Ballot Away. It Could Be Worth $1,000.

You get a lot of mail every day. Some of it is important; some is not.

As a member of the cooperative, you will receive a ballot envelope with the question above in the mail soon.

Don't throw it away. It's worth a **4 percent rate reduction**, and you could win $1,000 just for mailing it back to us.

Henderson Union Electric and Green River Electric boards of directors have agreed to consolidate. The ballot is your chance to vote on the consolidation as a member-owner.

Return it quickly to your cooperative with a YES vote for consolidation.

Think about it. Just by returning the ballot you're automatically eligible for a $1,000 cash drawing.

The consolidation will mean a **4 percent rate reduction** on your monthly electric bill, better service, and a locally controlled, member-owned, and community-oriented cooperative responding to your needs.

Returning the ballot makes sense.

Your vote could be worth $1,000.

And consolidation will put money in your pocket every month in the form of a **4 percent rate reduction.**

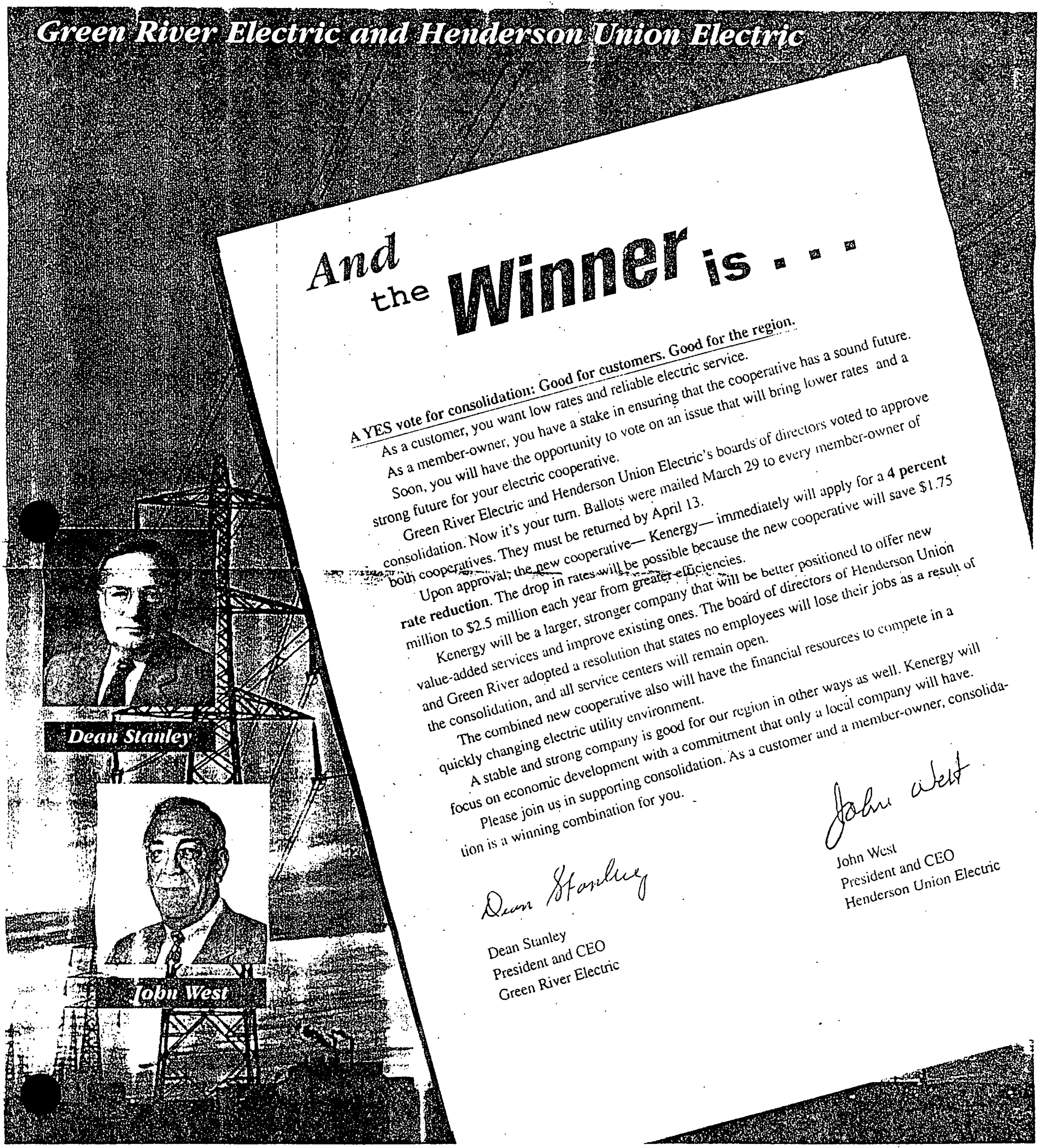
Consolidation.

Rate Reduction.

Two thumbs up! Vote Yes!

Vote YES for 4% Rate Decrease. Vote YES for Consolidation.

Attachment 4
Page 27 of 67


Green River Electric and Henderson Union Electric
And the Winner is . . .
A YES vote for consolidation: Good for customers. Good for the region.
As a customer, you want low rates and reliable electric service.
As a member-owner, you have a stake in ensuring that the cooperative has a sound future.
Soon, you will have the opportunity to vote on an issue that will bring lower rates and a strong future for your electric cooperative.
Green River Electric and Henderson Union Electric's boards of directors voted to approve consolidation. Now it's your turn. Ballots were mailed March 29 to every member-owner of both cooperatives. They must be returned by April 13.
Upon approval, the new cooperative— Kenergy— immediately will apply for a 4 percent rate reduction. The drop in rates will be possible because the new cooperative will save $1.75 million to $2.5 million each year from greater efficiencies.
Kenergy will be a larger, stronger company that will be better positioned to offer new value-added services and improve existing ones. The board of directors of Henderson Union and Green River adopted a resolution that states no employees will lose their jobs as a result of the consolidation, and all service centers will remain open.
The combined new cooperative also will have the financial resources to compete in a quickly changing electric utility environment.
A stable and strong company is good for our region in other ways as well. Kenergy will focus on economic development with a commitment that only a local company will have.
Please join us in supporting consolidation. As a customer and a member-owner, consolidation is a winning combination for you.
Dean Stanley
Dean Stanley
President and CEO
Green River Electric
John West
John West
President and CEO
Henderson Union Electric
Dean Stanley
John West

Green River Electric and Henderson Union Electric

Consolidation *means* Lower Rates, Better Service

YES

YES to lower rates, YES to better service, YES to employees retaining their jobs— that's what a YES vote for consolidating Green River Electric and Henderson Union Electric will mean.

"The customers of both cooperatives will enjoy several benefits from the consolidation," said Dean Stanley, president and CEO of Green River Electric. "The region itself also will benefit by retaining a locally owned company that is committed to economic development."

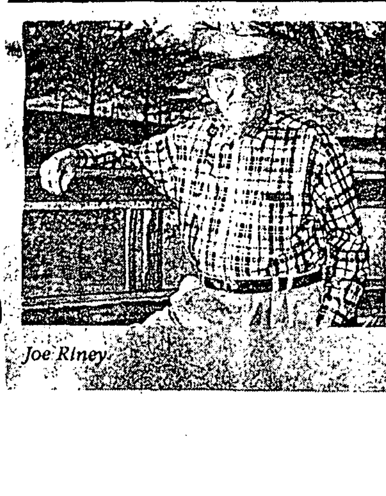
In April, member-owners of both cooperatives will vote by a mail-in ballot on the consolidation. Members will be asked "Are you in favor of the consolidation of Henderson Union Electric Cooperative Corp. and Green River Electric Corporation as set forth in the Consolidation Agreement dated January 23, 1999?"

The Consolidation Agreement, which was signed jointly by the boards of directors, contains the terms of the consolidation. Here are some of the highlights of the agreement and what it will mean for member-owners:

- The new cooperative, Kenergy, would immediately apply to the Kentucky Public Service Commission for a **4 percent rate reduction;**
- There will be no job loss as a result of the consolidation. Any reductions will occur through retirement and normal attrition;
- The headquarters will be located in Henderson. In addition Green River Electric's office in Owensboro and other service centers in Hanson, Hartford, Hawesville, Sturgis and Marion will remain open;
- Kenergy's board of directors initially will consist of all Green River and Henderson Union's board members who are in office on the date of the consolidation. One industrial director also will serve on the board. Following a three-year transition period, the board will be reduced to 11 members, including a director representing industry;
- Capital credits that have been earned by the members of each cooperative will be preserved after the consolidation. They will continue to exist as credits to a capital account of each member of Kenergy;
- Stanley will be the president and CEO of Kenergy. John West, who is president and CEO of Henderson Union Electric, previously announced plans to retire. However, he will serve as adviser to the president and board of Kenergy for one year following the consolidation; and
- With member-owner and Public Service Commission approval, the consolidation will go into effect July 1.

"As the electric industry changes, we want to protect our consumers and ensure that their rates are as low as possible, while maintaining a high level of customer service," West said. "Part of that commitment means we need to prepare for the future and anticipate change. This consolidation ensures that we will be better prepared for whatever changes the industry brings."

Joe Riney



Joe Riney

"Times have changed, and we need to keep up with change. Economically, I believe consolidation is the right direction to go to cut costs. Consolidation will eliminate duplicate management, equipment and facilities. I'm voting yes. It's in the best interest of both cooperatives and their customers."

Joe Riney
Retired Daviess County agribusinessman

William C. Denton & Gerald Wischer

William C. Denton (left) and Gerald Wischer.

"If we don't consolidate, instead of a 4 percent rate decrease, Henderson Union will be looking at a rate increase of over 6 percent within the next five years. The board of directors is committed to doing what is best for our members and employees. We see consolidation as the best decision for the future. We are asking you to vote YES when you receive your ballot."

William C. Denton
Secretary-Treasurer
Henderson Union Electric's board of directors

"As a member of the co-op, the biggest incentives for me is the 4 percent rate reduction. The consolidation will put the new cooperative in a better position to improve economic development. The employees won't lose jobs, and the headquarters will be in Henderson. It's a winning situation for all."

Gerald Wischer
Henderson County

Green River Electric and Henderson Union Electric

It's Time to Vote

There is an important vote occurring in April.

It's a vote that will affect your family significantly through:

- A 4 percent rate reduction;
- More value-added services; and
- A chance to win $1,000.

This month, you have the opportunity to vote on the consolidation of Green River Electric and Henderson Union Electric.

Return your ballot

Official ballots were mailed to each cooperative member on March 29. After you vote, simply mail the ballot in the postage-paid envelope provided. To be valid and counted, the ballot must be received by the cooperative by 4:30 p.m. Tuesday, April 13.

The ballot question reads: **"Are you in favor of the consolidation of Henderson Union Electric Cooperative Corp. and Green River Electric Corporation as set forth in the Consolidation Agreement dated January 23, 1999?"**

The official ballot mailer will contain information about the Consolidation Agreement.

Each member-owner returning a valid ballot by the April 13 deadline will be eligible to win $1,000 from the cooperative in a drawing. To ensure secret balloting, a member-comprised Credentials and Election Committee will count the ballots.

Vote YES for consolidation.

Alecia Burke & J.T. Gilson

Alec[illegible]e and J.T. Gilson

"The consolidation will be a benefit to all members with a 4 percent rate decrease and improved service. And employees won't lose jobs. The consolidation is a sound business decision that will be good for the region and the economy. I'm here today to pay my bill, and I would love to be writing it out to Kenergy."

J.T. "Terry" Gilson
Henderson County

Helping the Economy

One of the many benefits of the proposed consolidation of Green River Electric and Henderson Union Electric is the positive impact on the region's economy.

Because it involves two locally owned electric cooperatives, there won't be an out-of-state corporation taking over. Instead, the consolidation keeps taxes in state. It also ensures that good-paying, skilled jobs remain here.

"There won't be any job loss as a result of the consolidation," said John West, president and CEO of Henderson Union Electric. "In fact, our commitment to jobs is so strong that we put it in writing. The Consolidation Agreement, which was signed by both boards of directors, states that any employee reduction would come from voluntary retirement or normal attrition."

In addition, because the new company remains local, the commitment to economic development will be stronger.

In the past, Green River Electric and Henderson Union Electric have helped the area attract many new businesses and retain existing companies. A larger cooperative will be even more effective.

"Across the country, utilities are consolidating in an effort to remain financially strong as they face the pressures of competition," said Dean Stanley, president and CEO of Green River Electric. "We're proud to be part of an effort that will keep service and decision-making local, while at the same time, preparing the cooperative for the 21st century. Our customers, our employees and our economy will be better off when we consolidate."

William H. Billy Reid

William H. (Billy) Reid and his wife, Kathy

"As a fourth generation owner of Reid's Orchard, I have learned to change with the times to stay more competitive. Consolidation of Green River Electric and Henderson Union Electric will benefit the members by allowing the new cooperative to be more competitive in the future with lower rates, better service and stronger economic development in Western Kentucky. I ask you to vote YES for consolidation to ensure a strong and competitive co-op for you and your family to take into the new century."

William H. (Billy) Reid
Secretary-Treasurer of GREC's board of directors

Sample of Consolidation Ballot

Are you in favor of the consolidation of Henderson Union Electric Cooperative Corp. and Green River Electric Corporation as set forth in the Consolidation Agreement dated January 23, 1999?

☐ YES ☐ NO

Don't Throw Your Ballot Away. It Could Be Worth $1,000.

You get a lot of mail every day. Some of it is important; some is not.

As a member of the cooperative, you will receive a ballot envelope with the question above in the mail soon.

Don't throw it away. It's worth a 4 **percent rate reduction**, and you could win $1,000 just for mailing it back to us.

Henderson Union Electric and Green River Electric board of directors have agreed to consolidate. The ballot is your chance to vote on the consolidation as a member-owner.

Return it quickly to your cooperative with a YES vote for consolidation.

Think about it. Just by returning the ballot you're automatically eligible for a $1,000 cash drawing.

The consolidation will mean a 4 **percent rate reduction** on your monthly electric bill, better service, and a locally controlled, member-owned and community-oriented cooperative responding to your needs.

Returning the ballot makes sense.

Your vote could be worth $1,000.

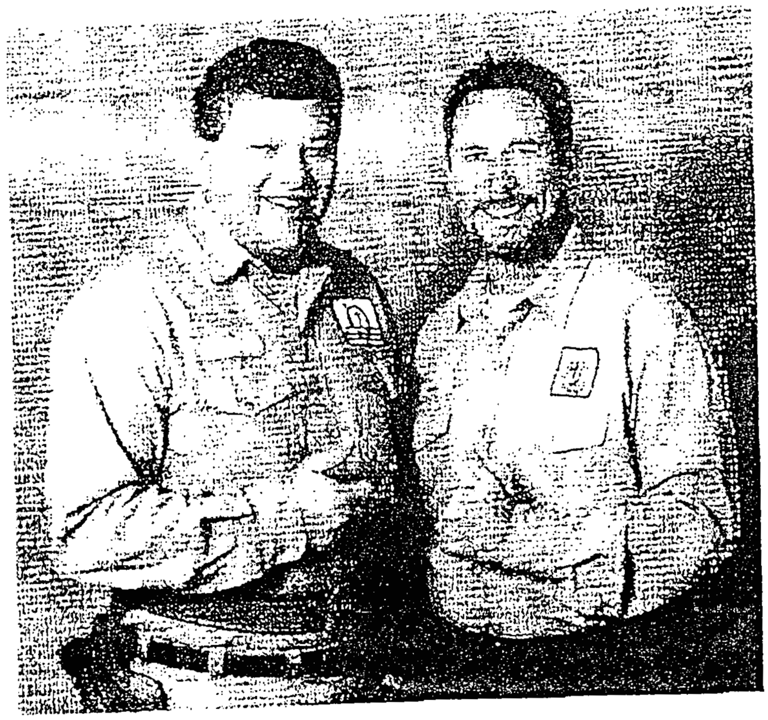
And consolidation will put money in your pocket every month in the form of a **4 percent rate reduction.**

Consolidation.

Rate Reduction.

Two thumbs up! Vote Yes!

Vote Yes for 4% Rate Decrease. Vote Yes for Consolidation.



Consolidation, rate reduction. Two thumbs up!

The consolidation of Green River Electric and Henderson Union Electric is a win-win for everyone.

First, and foremost, consumers will win because the new cooperative—Kenergy—will be in a position to lower rates by 4 percent as soon as the state Public Service Commission approves it.

Consumers also win because services will be enhanced.

Employees win because there will be no job loss unlike many mergers you read about.

And the community will be an economic development magnet throughout our combined service areas.

Consumers will make the decision in April 1999. Vote for lower rates. Vote for improved services.

Consolidation.
Rate Reduction.
Two thumbs up! Vote Yes!

Vote YES for 4% Rate Decrease. Vote YES for Consolidation.

Consolidation, rate reduction. It's a winner for families.

We're all working harder to make our money stretch farther. Pay bills. Save for college tuition. Challenges all families face.

It's nice to get a break every once in a while. Now is the time for the customers of Henderson Union Electric and Green River Electric to get one—it's only a vote away.

As a member-owner, you can make a rate reduction happen.

Consolidation between Henderson Union and Green River will result in a 4 percent rate reduction, which represents millions of dollars in savings. That's money in the pockets of working families.

Consolidation.
Rate Reduction.
Two thumbs up! Vote Yes!

Vote YES for 4% Rate Decrease. Vote YES for Consolidation.

Sample of Consolidation Ballot

Are you in favor of the consolidation of Henderson Union Electric Cooperative Corp. and Green River Electric Corporation as set forth in the Consolidation Agreement dated January 23, 1999?

❑ YES ❑ NO

Don't Throw Your Ballot Away. It Could Be Worth $1,000.

You get a lot of mail every day. Some of it is important; some is not.

As a member of the cooperative, you will receive a ballot envelope with the question above in the mail soon.

Don't throw it away. It's worth a 4 percent rate reduction, and you could win $1,000 just for mailing it back to us.

Henderson Union Electric and Green River Electric board of directors have agreed to consolidate. The ballot is your chance to vote on the consolidation as a member-owner.

Return it quickly to your cooperative with a YES vote for consolidation.

Think about it. Just by returning the ballot you're automatically eligible for a $1,000 cash drawing.

The consolidation will mean a 4 percent rate reduction on your monthly electric bill, better service, and a locally controlled, member-owned and community-oriented cooperative responding to your needs.

Returning the ballot makes sense.

Your vote could be worth $1,000.

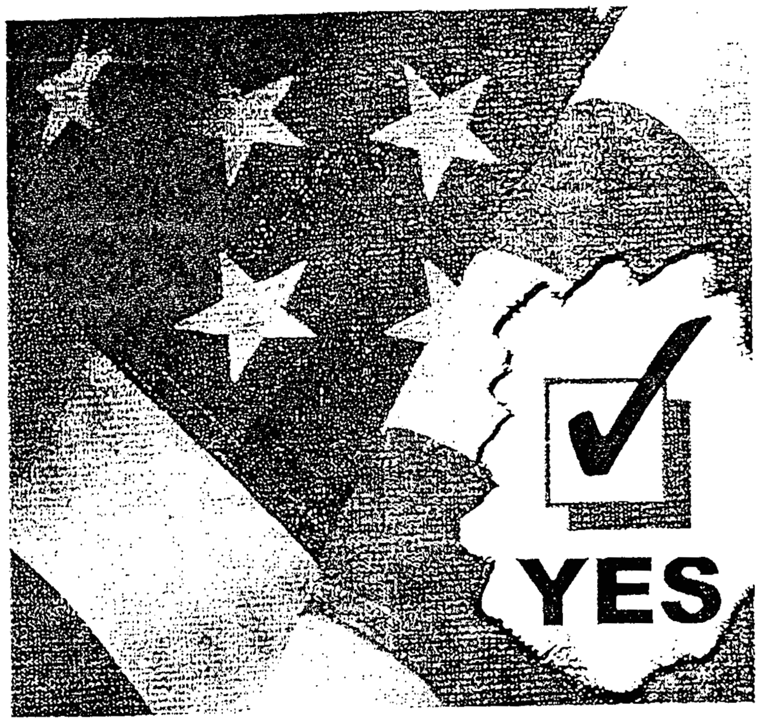
And consolidation will put money in your pocket every month in the form of a 4 percent rate reduction.

Consolidation.

Rate Reduction.

Two thumbs up! Vote Yes!

Vote YES for 4% Rate Decrease. Vote YES for Consolidation.



Election Time is Here

April is election time for member-owners of Henderson Union Electric and Green River Electric. But this vote isn't for a candidate. It's for consolidation.

And it's a vote that will affect your family significantly through:

- An annual savings of $1.75 million to $2.5 million for the cooperative— savings that will be passed on to customers;
- A 4 percent rate reduction;
- More value-added services;
- No job loss as a result of the consolidation; and
- A chance to win $1,000.

Ballots were mailed to cooperative members on March 29.

To be valid and counted, the ballot must be received by the cooperative by 4:30 p.m. Tuesday, April 13.

Each member-owner returning a valid ballot by the April 13 deadline will be eligible to win $1,000 from the cooperative in a drawing.

So remember:

Vote YES for consolidation.

Consolidation.

Rate Reduction.

Two thumbs up! Vote Yes!

Vote Yes for 4% Rate Decrease. Vote Yes for Consolidation.

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

April 15, 1999

Contacts: Dean Stanley
GREC President & CEO
926-4141

John West
HUEC President & CEO
826-3991

NEWS RELEASE

Consolidation approved for cooperatives

Customers of Green River Electric Corporation and Henderson Union Electric Cooperative have approved the consolidation of the two utilities.

The action means that with Kentucky Public Service Commission (KPSC) approval the neighboring electric distribution cooperatives will become Kenergy Corp. on July 1. At the same time, subject to KPSC approval, electric rates will be reduced by 4 percent for the combined new cooperative's 49,000 customers in 14 western Kentucky counties.

With 51 percent of Green River Electric's (GREC) customers casting ballots, consolidation carried by a 9 to 1 margin. The vote was 11,346 to 1,283. In Henderson Union Electric's (HUEC) service territory, where there was organized opposition to the consolidation, customers voted 4,478 to 3,182 for the measure. Fifty-five percent of HUEC's customers voted.

The Boards of Directors of the two member-owned utilities entered into a consolidation agreement in late January, subject to approval by a majority vote of the member-owners of each cooperative voting and by the KPSC. Mail-in ballots were issued March 26. The deadline for returning ballots was April 13.

"I'm very, very pleased at the outcome and looking forward to an exciting future with Kenergy," said GREC President and CEO Dean Stanley, who will hold the same position at the new consolidated cooperative. "I'm also extremely pleased with the support received from board members, employees and those on the

MORE

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

cooperative's Member Resource Committee, as well as with the very solid participation of our member-owners."

"I am delighted with the efforts of management and the majority of our board members to communicate the impending need for change to better prepare us for the electric utility industry of the future" said John West, HUEC president and CEO, who planned to retire in 1998, but will stay for one year in an advisory capacity.

GREC and HUEC jointly will file with the KPSC an application for approval of the consolidation within the next few days. The state regulatory commission also must approve separately the proposed rate reduction. The cooperatives already have filed with the KPSC a notice of intent to lower rates by 4 percent, effective with the July 1 consolidation.

The rate decrease does not apply to the cooperatives' direct-served large industrial customers. Rates for these customers are set by contract.

The primary objective for consolidating was to lower costs to be in a better position to compete when the electric utility industry is eventually restructured. Both CEOs have repeatedly stated that restructuring of the industry is not a matter of if, but when, and that HUEC and GREC already were facing some competition.

"In fact," said Stanley, "Kenergy will continue to investigate any and all opportunities that would bring value to the customer and make the cooperative stronger. It's in the best interest of customers and the organization to keep rates low, while maintaining a high level of customer service. This will ensure that Kenergy can meet the challenges and be prepared for whatever changes occur within the industry in the future."

As a result of the efficiencies to be gained by combining the cooperatives, annual cost savings of from $1.75 million to $2.5 million are expected. Much of the savings will come through economies of scale, the elimination of duplicate efforts and from avoided costs by sharing resources. Among utilities which have consolidated in recent years, savings in excess of projections have been experienced.

No employees will lose their jobs as a result of the consolidation. The boards of both cooperatives early in the consolidation talks, voted unanimously and signed a resolution guaranteeing no job loss. While is it anticipated that reductions in staffing will occur over time, no one will be forced out of a job and any reductions will be solely from voluntary retirements and normal attrition.

Through the combining of staffs, Kenergy will have the personnel to improve service and offered more and

MORE

varied programs to all customers, such as telephone and internet services. The consolidation also means that around-the-clock dispatching service which for years has been offered by GREC will be expanded into HUEC's service territory. This will result in a quicker response time when problems arise.

Kenergy will be headquartered in HUEC's present office facilities on Old Corydon Road in Henderson; however, the current headquarters of GREC in Owensboro will remain open and staffed, as will service centers in Hanson, Hartford, Hanson, Marion and Sturgis to ensure responsive service thoughout the larger service area.

"While we'll be Kenergy on July 1, integration of the two cooperatives won't be an overnight thing," said Stanley. "The Consolidation Agreement calls for this to take place during a three-year transition period; however, we've made some progress already," he said.

In the next few weeks, the GREC and HUEC boards of directors will hold a planning session for the new Kenergy Board. Earlier this month, it was announced to the cooperatives' employees who would head the new organization's various departments.

During the transition period, HUEC's current nine board members and GREC's seven, along with its present director representing large industries, will serve on the Kenergy Board. After three years, redistricting will occur and result in an 11-member board, including an industrial director.

Serving under President and CEO Stanley as vice presidents of Kenergy's five departments will be Ted Crabtree, operations; John Newland, engineering; Ed Sheriff, marketing and ecomonic development; Steve Thompson, finance and accounting, and John Warren, administrative services.

Kenergy, which will be the third largest electric distribution cooperative in the state in terms of accounts served, will distribute power in Breckinridge, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union and Webster counties. Of these 14 counties, HUEC currently serves eight and GREC nine, including three -- Henderson, Hopkins and Wester -- in which both cooperatives have customers.

In terms of electricity sales, no distribution cooperative in the United States, will top Kenergy. GREC for years has sold more electricity than any other like cooperative in the nation. Add the sales of HUEC -- which ranks No. 3 in the U.S. -- and Kenergy will have sales in excess of 7.4 billion kilowatt-hours. This is the result of the number of large industries served by the two cooperatives.

#

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

June 21, 1999

NEWS RELEASE

Contact: Dean Stanley
President and CEO
Green River Electric
(270) 926-4141 • (800) 844-4732

Consolidation approval granted cooperatives by PSC

Approval to consolidate on July 1 has been granted Green River Electric Corporation and Henderson Union Electric Cooperative Corp. by the Kentucky Public Service Commission (KPSC).

The Owensboro- and Henderson-based electric distribution cooperatives sought KPSC approval after their customers overwhelmingly voted in favor of the consolidation in April. The new consolidated cooperative will be known as Kenergy.

In giving its approval, the KPSC commended the cooperatives "for seriously considering consolidation and then pursuing it once the benefits became apparent" and wrote in its order 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" and that "the consolidated organization, Kenergy, will have the financial, technical and managerial abilities to provide reasonable service to its member-consumers" and "should be able to provide electric service at a total cost that is lower than otherwise achievable without a consolidation."

The cooperatives have filed with the KPSC an application to reduce rates by 4 percent, effective with the July 1 consolidation.

Kenergy will serve in excess of 48,000 households, businesses and industries along more than 6,500 miles of primary line in 14 western Kentucky counties -- Breckinridge, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union and Webster.

Kenergy will be headquartered in Henderson and have staffed service centers in Owensboro, Hanson, Hartford, Hawesville and Marion.

Dean Stanley, who has headed Green River Electric as President and Chief Executive Officer for 18 years, will hold the same position with Kenergy. President and CEO of Henderson Union Electric, John West, will serve as adviser to the board and management of Kenergy for one year. He had announced plans to retire prior to the cooperatives' boards of directors agreeing in 1998 to a consolidation.

Henderson Union Electric Cooperative
6402 Old Corydon Road P.O. Box 18, Henderson, KY 42420-0018
(502) 826-3991 Toll Free in KY 1-800-844-4832

HENDERSON UNION EC

January 25, 1999

NEWS RELEASE

FOR RELEASE: After 6 a.m. Tuesday, January 26

Contact: John West, President & CEO

HENDERSON UNION, GREEN RIVER MOVE FORWARD ON CONSOLIDATION

Henderson, KY - Seeking lower rates which will represent millions of dollars in savings to customers, two Western Kentucky electric distribution cooperatives have agreed to consolidate.

The boards of directors of Green River Electric Corporation and Henderson Union Electric Cooperative voted January 23 to seek a member-owner vote in April on consolidation.

"A consolidation of our two cooperatives will result in a 4 percent reduction in customer rates, improve reliability and enhance customer service," said Dean Stanley, president and CEO of Green River Electric. "This move makes good sense. It's good for our customers. It's good for the future of our region."

John West, president and CEO of Henderson Union Electric, said the time is right for a consolidation because of the increasing pressures of deregulation in the electric utility industry and the ever-changing needs of customers.

"Deregulation and competition are not a matter of if, but when," West said. "In fact, we already are facing some competition. We have to be poised to meet the challenge. This consolidation will help us do that. Customers continually want, and deserve, better service and more program offerings. The strength of our combined cooperatives will provide that higher level of service."

MORE

The consolidation will need the approval of both cooperatives' member-owners. A vote, by mail, is scheduled for April. If approved, the cooperatives will immediately seek permission for the consolidation from the state Public Service Commission, which since 1997 has enthusiastically supported the plan.

The Commission, at that time, said the consolidation would "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."

The new cooperative, which would be named Kenergy, would immediately request approval from the Commission for a rate reduction.

"The consolidation will lower consumer rates," said Stanley. "It will make us more competitive, which will help us compete for economic development and jobs. It will make us a better company. This is one of those instances where everyone wins."

Other key aspects of the proposed consolidation include:

* Annual cost savings of between $1.75 and $2.5 million will be realized after all efficiencies of the consolidation are in place;

* No job loss because any staff reduction will occur through voluntary retirement and attrition;

* All service centers and facilities will remain open throughout the combined service territory;

* Increased reliability and quicker response time during emergencies by combining personnel and equipment; and

* Continued member ownership of the new cooperative. The current directors of both cooperatives, along with one industrial director, would serve during a transition period for the new company.

Later, a redistricting plan would be crafted to reduce the board to 11 members.

"Keep in mind, this is not new," Stanley said. "Cooperative consolidations are occurring throughout the country. They're occurring because of the need to be competitive in a rapidly changing industry. This move by our cooperatives simply reflects that trend."

#

The Connector

SUE MAYS, EDITOR

PUBLICATION FOR HENDERSON UNION ELECTRIC COOPERATIVE MEMBER-OWNERS


Dr. H.M. "Bo" Smith
Board Chairman


John West
President and CEO

Consolidation means lower rates, improved service for member-owners

A 4 percent rate reduction.

Improved service.

Millions of dollars in savings for customers.

Sounds good, doesn't it?

All of those benefits will be the result of a consolidation between Green River Electric Corporation and Henderson Union Electric Cooperative.

You can make it happen.

As a member-owner of your cooperative, you will have the chance to vote for the consolidation in April.

The new cooperative that emerges, Kenergy, will have a renewed commitment—a commitment to better and more efficient service, a commitment to lower rates, and a commitment to saving money.

That's always been important to us. As a member-owned business, our primary concern always has been for our member-owners. This consolidation will enhance the benefits you've long enjoyed from your cooperative.

We'll remain member-owned with staffed service centers in Henderson, Owensboro, Marion, Hanson, Hartford, Sturgis, and Hawesville to maintain the close, reliable service you depend on.

A financial analysis revealed that consolidation would generate significant savings each year through the efficiencies of putting the two cooperatives together. Current employees won't lose their jobs. Over time, we'll reduce staff size through retirements and normal attrition.

Perhaps most important, though, is what those savings will allow us to do with rates. Our studies indicate that we will be able to lower rates by 4 percent as soon as possible after the consolidation becomes a reality.

Our rates already are among the lowest in the country. Providing still lower rates is good for customers. It's good for economic development. And it's good for our cooperative as the electric industry becomes increasingly competitive.

But to make all of these benefits a reality, we'll need your help.

We'll mail a ballot to your home in April. We urge you to return it with a yes vote for consolidation.

Remember: consolidation, rate reduction—two thumbs up.

Top 10 reasons for consolidation include rate reduction, improved service

The proposed consolidation of Green River Electric and Henderson Union Electric will produce numerous benefits for the member-owners of the two cooperatives. There are too many reasons to print here. So, we've narrowed the list down for you.

Below are your top 10 reasons to vote for consolidation.

1 **Rates, rates, rates:** An independent study shows that consolidation will result in lower rates. After consolidation approval, we will take a request to lower rates by 4 percent to the state Public Service Commission.

2 **Less is more:** The combined companies will generate significant annual savings. The savings will be created through the efficiencies generated by putting the companies together.

3 **No job loss:** Jobs will be maintained. No one will lose a job as a result of the consolidation. Any reductions will be handled through retirements and normal attrition.

4 **More services:** Your wants and needs will be met more effectively through improved customer service, more available resources, and additional programs.

5 **Member-owned, member-controlled:** The new cooperative created by consolidation, Kenergy, will remain member-owned and controlled. All cooperative facilities will remain open and staffed in Henderson, Owensboro, Marion, Hawesville, Hanson, Sturgis, and Hartford.

6 **We're there when you call:** Because the cooperatives are pooling their resources and combining personnel and equipment, you will receive improved services, 24-hour dispatching throughout the region, and a quicker response time.

7 **Ready to compete:** A larger, yet more efficient, co-op will be prepared to compete in a deregulated electric utility environment. Kenergy will be the second largest distribution cooperative in Kentucky and will sell more electricity than any other cooperative in the nation.

8 **Oh, by the way, did we mention rates:** The new co-op, Kenergy, will lower rates by 4 percent.

9 **Looking out for you:** The state Public Service Commission, which regulates utilities on behalf of consumers, said in 1997 that 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."

10 **Working hard for the community:** Already, both cooperatives have had great success in attracting industry and jobs to the region. The combined, new cooperative will be better positioned to continue important economic development efforts in the region.

Consolidation efforts under way between Green River and Henderson Union

The consolidation of Green River Electric Corporation (GREC) and Henderson Union Electric Cooperative (HUEC) would enhance system reliability, improve customer service, and save millions of dollars. That's why the two distribution cooperatives plan to consolidate this year.

The consolidation also will strengthen the cooperatives and better position them for a deregulated electric environment, according to Board Chairmen Richard Wilson of GREC and Dr. H.M. Smith of HUEC.

Both cooperatives' boards of directors have voted to move ahead with the consolidation process. Member-owners will vote in April.

According to independent studies and the Public Service Commission (PSC), the consolidation would benefit customers in several ways. The PSC, which is the state agency that regulates utilities, concluded in 1997 that "the proposed 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."

Components of consolidation

Key aspects of the consolidated company, which would be named Kenergy Corp., include:

- A 4 percent rate reduction;
- Significant annual savings of between $1.75 million and $2.5 million will be realized after all the efficiencies of consolidation are in place;
- By combining personnel and equipment, reliability will be enhanced;
- Improved customer service will occur as a result of more available resources and additional services;
- No job loss because reductions will occur through voluntary retirement and attrition;
- Staffed service centers will be located in Henderson, Owensboro, Marion, Hawesville, Hanson, Sturgis, and Hartford; and
- The current directors of both cooperatives, along with one industrial director, will serve during the transition.

Consolidations are not new. Several co-ops around the country have consolidated recently to make them more competitive in a deregulated environment. Even Henderson Union itself is the product of a consolidation that took place 60 years ago.

What's next

The member-owners of both cooperatives will vote in April 1999. The combined cooperative would distribute electricity to 49,000 customer accounts in 14 western Kentucky counties—Breckinridge, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union, and Webster.

For a number of years, GREC has been No. 1 in energy sales among the nation's 1,000 co-ops. Henderson Union currently ranks third in the nation in power sales. The new cooperative would be the second largest in the state in terms of customers.

The PSC also said "the evidence conclusively demonstrates that the consolidated organization, Kenergy, will have the financial, technical, and managerial abilities to provide reliable service to its members."

HENDERSON UNION ELECTRIC COOPERATIVE

6402 Old Corydon Road (42420)
P.O. Box 18
Henderson, Kentucky 42419

OFFICE HOURS:
Monday – Friday
7:30 a.m. – 4:30 p.m. (Central)

HENDERSON
(502) 826-3991

MARION
(502) 965-3186

TOLL-FREE
1-800-844-4832

John F. West,
President and CEO

BOARD OF DIRECTORS
Dr. H.M. Smith (Chairman)
Ben Shouse (Vice Chairman)
William Denton
(Secretary-Treasurer)

Randolph Powell
Orlin Long
Christopher Mitchell
Glenn E. Cox
James E. Long
Vickie A. Davis

Consolidation, rate reduction. Two thumbs up!

The consolidation of Green River Electric and Henderson Union Electric is a win-win for everyone.

First, and foremost, consumers will win because the new cooperative—**Kenergy**—will be in a position to lower rates by 4 percent as soon as the state Public Service Commission approves it.

Consumers also win because services will be enhanced.

Employees win because there will be no job loss unlike many mergers you read about.

And the community will be an economic development magnet throughout our combined service areas.

Consumers will make the decision in April 1999. Vote for lower rates. Vote for improved services.

Vote yes for consolidation

Henderson Union Electric Cooperative
6402 Old Corydon Road P.O. Box 18, Henderson, KY 42420-0018
(502) 826-3991 Toll Free in KY 1-800-844-4832

HENDERSON UNION EC

February 23, 1999

Contact: John West or Sue Mays
502-826-3991
1-800-844-4832

NEWS RELEASE
FOR IMMEDIATE RELEASE

Consumers strongly support proposed consolidation of Green River Electric and Henderson Union Electric

HENDERSON, KY - Member-owners of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation strongly support the proposed consolidation once they learned the details of the agreement, according to a recent study.

After being informed of what the consolidation of the two cooperatives would mean, 90 percent of the survey respondents said they favored consolidation.

"Kenergy will be a larger, stronger company that will be better positioned to offer new value-added services and to improve existing ones," said Dean Stanley, president and CEO of Green River Electric. "We're proud that we can offer savings and better services, while at the same time ensure that no job loss will occur as a result of the consolidation and that all service centers will remain open."

Survey respondents were told of the key benefits of the consolidation:

- Annual savings generated from the consolidation would be $1.75 million to $2.5 million;
- Upon approval, the new cooperative would ask the Kentucky Public Service Commission for an immediate 4 percent rate decrease for customers, and
- No job loss would occur as a result of the consolidation.

The survey results were based on interviews with 375 member-owners.

In January, a Consolidation Agreement was signed at a joint meeting of the boards of directors. The agreement outlines the terms of the consolidation and of the proposed cooperative, Kenergy. Member-owners will vote on consolidation in April.

Official ballots will be mailed to each cooperatives' members on March 29. The ballot mailer also contains information about the Consolidation Agreement.

To be valid and counted, the ballot must be received by the cooperative by 4:30 p.m. Tuesday, April 13.

"The consolidation will prepare the new cooperative to compete in a changing electric utility environment by making it financially stronger," said John West, president and CEO of Henderson Union Electric. "A stable and strong company is good for the region in other ways as well. Kenergy will focus on economic development with a commitment that only a local company will have."

(MORE)

The combined cooperative would distribute electricity to 48,650 customer accounts in 14 western Kentucky counties -- Breckinridge, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union and Webster.

For a number of years, Green River Electric has been No. 1 in energy sales among the nation's 1,000 electric cooperatives. Henderson Union Electric currently ranks third in the nation for kilowatt-hours sold.

Kenergy will be the second largest cooperative in terms of customers accounts in the state and will sell significantly more electricity than any distribution cooperative in the nation.

The survey was conducted from February 2 to February 17 by Preston-Osborne Research of Lexington. Interviews were distributed equally between members of the cooperatives. The same size of 375 results in a margin of error of plus or minus 5.1 percentage points at the 95 percent confidence level.

-30-

◆ According to independent studies and the Kentucky Public Service Commission (PSC), the consolidation will benefit customers in several ways.

The PSC -- the state regulatory agency for electric cooperatives and other utilities -- has concluded that ***"the proposed 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 consolidation."***

For additional information, call:

Dr. H.M. Smith
Chairman
Morganfield - 389-1559

Ben A. Shouse
Vice Chairman
Morganfield - 333-2530

Will C. Denton
Secretary-Treasurer
Henderson - 546-7517

Glenn Cox
Fredonia - 545-3212

Vickie A. Davis
[Stur]gis - 333-6817

will strengthen the cooperative's financial position and workforce characteristics, improve operating performance and offer improved and more varied services for all customers. Much of the savings will come through economies of scale, increased efficiency and the elimination of duplicate efforts and from avoided costs by sharing resources. Consolidation is a "natural fit" for the neighboring cooperatives since both are strong financially and share many similarities, including enviable customer growth, solid equity positions and upgraded physical plants.

VOTE YES FOR CONSOLIDATION!

Henderson Union Electric
P.O. Box 18 | Henderson, KY 42419
(502) 826-3991 | 1-800-844-4832

http://www.kenergycorp.com

The sole objective for consolidating Henderson Union Electric and Green River Electric is lowering costs to be in a better position to compete.

We want rates to be as low as possible, while maintaining a high level of customer service. Consolidation ensures the combined new cooperative -- Kenergy -- can meet these challenges and be better prepared for whatever changes occur within the electric industry in the future.

-- Joint statement of a majority of the directors: Glenn Cox, William Denton, Vickie Davis, Ben Shouse and Dr. H.M. Smith

VOTE YES for Consolidation

Why Consolidation is Right

- The consolidation of Henderson Union Electric and Green River Electric means a ***4 percent rate decrease***. Henderson Union's financial forecast projects a 6.61 percent increase in electric rates will be needed to maintain its current financial position. ***With consolidation, the increase will not be necessary***. This will result in a net savings of 10.61 percent over the next five years.

- Savings in the millions of dollars consistently have been projected. Two studies by independent consultants indicate savings of $2.5 million to $3 million annually. The staffs of Henderson Union Electric and Green River Electric jointly project annual cost savings of $1.7 million to $2.5 million. Savings in excess of projections actually are being experienced by those cooperatives across the nation which recently have consolidated.

- No employees will lose their jobs as a result of the consolidation. The boards of both cooperatives voted unanimously and signed a resolution guaranteeing no job loss. While it is anticipated that reductions in staffing will occur over time, no one will be forced out of a job and any reductions will be solely from voluntary retirements and normal attrition. In fact, within five years, 30-plus current employees from both cooperatives will be eligible for retirement. These would be mostly duplicate positions and would not affect service.

- The high quality electric service you've come to expect will be even better. To further enhance service, a Dispatch Center will be manned 24 hours a day, every day, resulting in quicker response time when problems arise.

- The boards and management of the two cooperatives have an obligation to be prudent in their decisions and to keep you -- as a member-owner -- informed on the issues being considered. Therefore, the boards jointly approved a budget to study the feasibility of consolidation and to prepare and distribute information so that member-owners can make an informed decision when voting. Ballots will be mailed March 29 and must be returned by 4:30 p.m. April 13.

- The most qualified individuals have been selected as the management team for the new combined cooperative -- Kenergy. With the exception of one individual, all other department heads at Henderson Union have expressed their intentions to retire within the next year.

- Consolidation will enhance economic development. Henderson Union Electric, like Green River Electric, provides support to local economic development organizations for the location of new industry and for the expansion of existing businesses and industries. In fact, Kenergy will have the combined resources to increase these efforts. The new Four Star Industrial Park -- the first of its kind in Kentucky -- is an example of economic development cooperation and support provided by personnel from both cooperatives.

Consolidation Deserves Your Support!

A *YES* Vote means:

- **4 percent rate decrease**
- **$2.5 million annual savings**
- **Improved service**
- **24-hour dispatching**
- **Capital credits will be preserved**
- **No job loss**

VOTE YES

- The Kenergy Board initially will consist of the 17 Henderson Union Electric and Green River Electric directors who are in office on the date of the consolidation. Following a three-year transition period, redistricting will occur, resulting in an 11-member board of directors and signficant savings. Any changes must be approved by the board.

- The headquarters of the new cooperative will be in Henderson. All facilities in Marion, Sturgis, Hanson, Hartford, Hawesville and Owensboro will remain open and staffed to ensure responsive service throughout the area. Any changes must be approved by the Kenergy Board.

- Customers have indicated they desire additional non-electric services. Through consolidation, value-added services offered by each cooperative -- home security systems, internet and telephone services, etc. -- will become available to all customers of Kenergy.

- Consolidation is a good business decision as it

(Continued on back panel.)

The Connector

SUE MAYS, EDITOR

PUBLICATION FOR HENDERSON UNION ELECTRIC COOPERATIVE MEMBER-OWNERS

Kenergy will stay local

Change is inevitable in business. An increasingly competitive economy often dictates that consolidations are necessary to make companies stronger. That usually means an impersonal, out-of-state corporate giant coming in, downsizing through employee layoffs, and attempting to take care of the needs of people they don't know and don't understand.

Henderson Union Electric Board Chairman Dr. H.M. Smith joins Green River Electric Chairman Richard Wilson in signing the Consolidation Agreement at a January 23 joint board meeting. As a result, member-owners will vote in April on consolidating the two cooperatives, which will decrease rates by 4 percent.

The opposite is true with the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative. It means your friends and neighbors will continue meeting your electric needs at service centers throughout the area. And any job reduction will occur only through voluntary retirements and attrition. It also means a **4 percent rate reduction** and more value-added services.

We're proud to be part of a change that is positive. It's a consolidation of two neighboring companies, doing what is best for our customers.

Our commitment to the area is reflected in the name selected for the proposed new cooperative—Kenergy.

The "K" in Kenergy stands for Kentucky. It's an important symbol to us because other utilities around the state are often headquartered in cities halfway across the country.

Your consolidated cooperative will remain local and strong.

The rest of the name, obviously, is the word "energy." It's what we provide, and it's what we bring to the job. We aren't just satisfied providing low-cost, reliable electricity. Our business is dynamic and constantly changing. We are always looking for ways to make your lives easier and to save you money.

We're proud to be a Kentucky company providing energy and solutions for our neighbors. We're proud of what Kenergy stands for. We're proud to be serving you.

Consolidation deserves your support. Vote YES.

Attachment 4
Page 50 of 67

Vote YES for consolidation!

Richard Wilson
Board Chairman

Dr. H.M. "Bo" Smith
Board Chairman

We're excited about what consolidation can mean for you, for our employees, and for the region we serve. And that's why we're so enthusiastic about urging you to vote for consolidation in April.

Green River Electric and Henderson Union Electric are striving to be more competitive, to provide lower rates, and offer more and better services.

Throughout these pages are details about the benefits of consolidation and procedures for voting. We urge you to vote YES for consolidation. It will mean lower rates and better service, while maintaining our longstanding commitment to remain member-owned and community-centered.

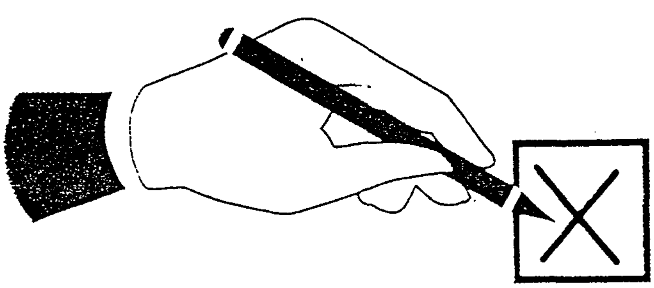
Consolidated, we will be a stronger, more responsive organization.

Remember, a YES vote for consolidation means a 4 **percent reduction** in electric rates.

Two thumbs up for consolidation. It's a winning combination for all.

Richard H. Wilson
Board Chairman, Green River Electric

Dr. H.M. Smith
Board Chairman, Henderson Union Electric



YES!

Attachment 4
Page 51 of 67

Win $1,000

Your vote counts

A 4 percent rate reduction.

A $1,000 cash drawing.

More value-added services.

Voting is important. The election to consolidate Green River Electric and Henderson Union Electric Cooperative will benefit your family—**if you vote YES.**

Watch for your ballot

As a member-owner, you will have the opportunity to vote on the consolidation. Ballots will be mailed to each cooperative member on March 29. To be valid and counted, the ballot must be received by the cooperative before 4:30 p.m., Tuesday, April 13.

The ballot question reads: *Are you in favor of the consolidation of Henderson Union Electric Cooperative Corp. and Green River Electric Corporation as set out in the Consolidation Agreement dated January 23, 1999?*

The official ballot mailer will contain information about the Consolidation Agreement.

Each member-owner who returns a valid ballot will be eligible to win $1,000 from the cooperative in an April 15 drawing. To ensure secret balloting, a member-comprised Credentials and Election Committee will count the ballots.

Consolidation will benefit customers

Lower rates and better service. As a customer, you demand them. As a member-owner, you can make them a reality.

In April, you will have the opportunity to vote for the consolidation of Green River Electric and Henderson Union Electric.

Here's what consolidation will mean for you:

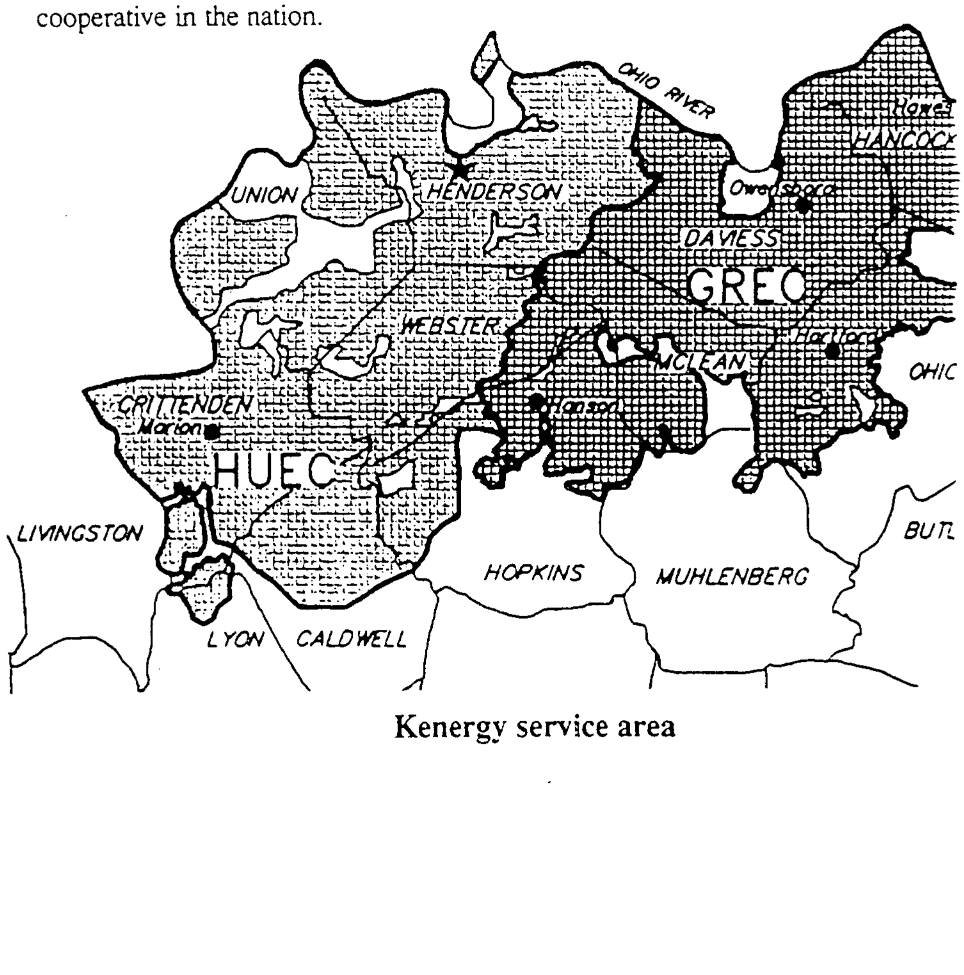
- **Saving you money:** The consolidated cooperative, Kenergy, will seek approval for an immediate **4 percent rate reduction**. Through greater efficiencies, the new company will save $1.75 million to $2.5 million each year. Those savings will be passed on to you.

In addition, all capital credits that you have earned as a member-owner of either cooperative will be preserved.

- **Better service**: The larger cooperative will offer additional value-added services to members. Meanwhile, the reliable electric service you expect will continue.. All cooperative facilities will remain open and staffed. In addition, around-the-clock dispatching services, which already are available to Green River Electric customers, will be expanded to the entire Kenergy region.

These improvements will occur without job loss. Both cooperatives' boards of directors have adopted a resolution ensuring that no employees will lose jobs because of consolidation. Any reductions will occur through voluntary retirement and normal attrition.

Consolidation also is a good business decision because it will strengthen the cooperative's financial position, which will help it compete in a restructured electric utility environment. Kenergy will be the second largest cooperative in the state and will sell significantly more electricity than any distribution cooperative in the nation.



Kenergy service area

Consolidation, rate reduction. It's a winner for families.

We're all working harder to make our money stretch farther. Pay bills. Save for college tuition. Challenges all families face.

It's nice to get a break every once in a while. Now is the time for the customers of Henderson Union Electric and Green River Electric to get one—it's only a vote away.

As a member-owner, you can make a rate reduction happen.

Consolidation between Henderson Union and Green River will result in a **4 percent** rate reduction, which represents millions of dollars in savings. That's money in the pockets of working families.

Vote yes for consolidation.

HENDERSON UNION ELECTRIC COOPERATIVE

6402 Old Corydon Road (42420)
P.O. Box 18
Henderson, Kentucky 42419

OFFICE HOURS:
Monday – Friday
7:30 a.m. – 4:30 p.m. (Central)

HENDERSON
(502) 826-3991

MARION
(502) 965-3186

TOLL-FREE
1-800-844-4832

John F. West,
President and CEO

Co-op to offer $4,000 in Scholarships

Henderson Union Electric Cooperative has established a scholarship program to assist in the financing of higher education. Awards are given without regard to race, creed, religion, sex, handicap, or national origin.

The cooperative is seeking applicants who do not have full scholarship awards, who can identify a need, and meet other requirements as set out below.

ELIGIBILITY

➔ The applicants or the parent(s) or legal guardian(s) of the applicants must be a member of and receive electricity from Henderson Union Electric Cooperative Corp.

➔ Applicants must be a high school senior to age 22 with plans to enroll or is currently enrolled in a full-time course of study of no less than 12 hours per semester at a post-secondary accredited degree-granting institution, Kentucky TECH School, or proprietary trade school. The 22nd birthday of the applicant must not be prior to the contest deadline.

➔ Applicants must not be a member of the immediate family of a Henderson Union Electric Cooperative director.

➔ Applicants must not have a full scholarship award for the semester and must be able to identify a need for this offer to further their education.

➔ Applicants shall not be a previous winner of the Henderson Union Electric Cooperative Scholarship Program.

➔ Winners must permit Henderson Union Electric Cooperative to use their name, parents' name, county of residence, and photograph to advertise the scholarship program in the newspaper, the *Connector* section of *Kentucky Living* magazine, and other co-op publications.

➔ Winners will be asked to attend the co-op's annual meeting for recognition.

SCHOLARSHIPS

➔ Henderson Union Electric will award four (4) scholarships in the amount of $1,000 each to four (4) individuals. Each scholarship is a one-time award of $1,000.

➔ Scholarships can be used for tuition, books, housing, lab fees, or other costs directly related to education. Scholarships will be paid directly to the qualifying school upon proof of enrollment by the student or to reimburse the student, if a receipt showing proof of payment of allowable expenses is approved.

➔ Should the costs for the semester be less than the $1.000 award, payment will be made according to the amount required, and the balance of the award will be paid the following semester.

➔ Scholarship winners will be selected and notified by May 15 of each year. The scholarship will be awarded at the beginning of the fall semester of the year it is awarded. The scholarship must be used within one year of the award or it will be forfeited.

(Should the student be unable to use the scholarship within one year, Henderson Union Electric Cooperative may consider extending the award for an additional year, if the student presents satisfactory proof of the extenuating circumstances that prevented the timely enrollment.)

SELECTION PROCESS

√ Application deadline is April 15, 1999.

√ Applicants must complete an application provided by Henderson Union Electric Cooperative along with a transcript of the last semester of school attended.

√ Applicants must write an essay of no less than 750

continued on page 6A

Attachment 4
Page 54 of 67

continued from page 1A
words nor more than 1,000 words on a topic about electricity that is selected by the co-op. The essay will be scored on its originality and creativity, knowledge of the topic, grammar and spelling, neatness and presentation, and overall content.

Other selection factors provided with the application will include financial need, extracurricular activities, community involvement, unique endeavors, leadership, and obstacles overcome. Applicant must provide a written recommendation form by their guidance counselor and English teacher and others deemed appropriate.

√ A Scholarship Committee will review the applications and interview the applicants for final selection of the four winners.

Revisions: The general conditions and procedures under which scholarships are made are subject to periodic review by Henderson Union Electric Cooperative. Any previously approved scholarship will not be affected by new conditions, procedures, or discontinuance of the program.

Kentucky Wire Scholarship

The Kentucky Women in Rural Electrification (KY WIRE) will award two (2) $750 scholarships this year to Kentucky college students.

The award is open to any eligible student whose immediate family receives electric service from a Kentucky college or university by the start of the fall 1999 term.

Relatives of co-op employees are not eligible.

All applications will be reviewed by a committee of the KY WIRE.

You can obtain an application from Henderson Union's office in Henderson or Marion or from Jackie Hill, KAEC, P. O. Box 32170, Louisville, KY 40232.

Deadline to submit the application is May 29, 1999.

Washington Youth Tour Contest

Each year Henderson Union sends two high school juniors for a FREE weeklong trip to Washington, D. C., in June.

Rated as one of the greatest trips of their lifetime, students rave about the trip on their return.

The trip includes visits to the nation's Capitol, famous monuments, the Vietnam Memorial, the Holocaust museum, and other interesting sites.

To be eligible, a student must be a junior, live with their parents or guardians who purchase electricity from Henderson Union, and write an essay not to exceed 500 words.

The essay topic is "Why I Should Be Henderson Union's Delegate."

The essay may be typed, on computer, or handwritten in legible writing.

All entries must be submitted to Sue Mays, Henderson Union EC, P.O. Box 18, Henderson, KY 42420 by April 1.

Don't miss out on this wonderful opportunity. Send your essay today.

Low Interest Loans Available

Loans are available to install a geothermal heating and cooling system or an electric heat pump to replace an existing heating and cooling system and for insulation. (This program is not available for new home construction.)

You may qualify for as much as $6,000 at 5% interest with up to five years to repay.

Loans must be approved in advance and prior to installation of a new system.

Call for an application to learn if you qualify.

Children & Electricity

Curious little fingers and electricity can spell trouble. Here are some things you can do to childproof your home.

Store cookies and other goodies far away from your electric stove. Unsuspecting children might just walk on a hot burner to retrieve a sugary treat.

Cook on back burners whenever possible; turn pot handles to the center of the stove.

Keep children away from the stove or oven while cooking and teach them not to touch them.

Lock the trash compactor.

Unplug small appliances when you're not using them.

Load and unload the dishwasher when the kids aren't around.

Install a nightlight in the bathroom. Buy one that has an enclosed bulb so a child can't remove it.

Lock the door to the laundry room; kids love to play hide-and-seek in washers and dryers.

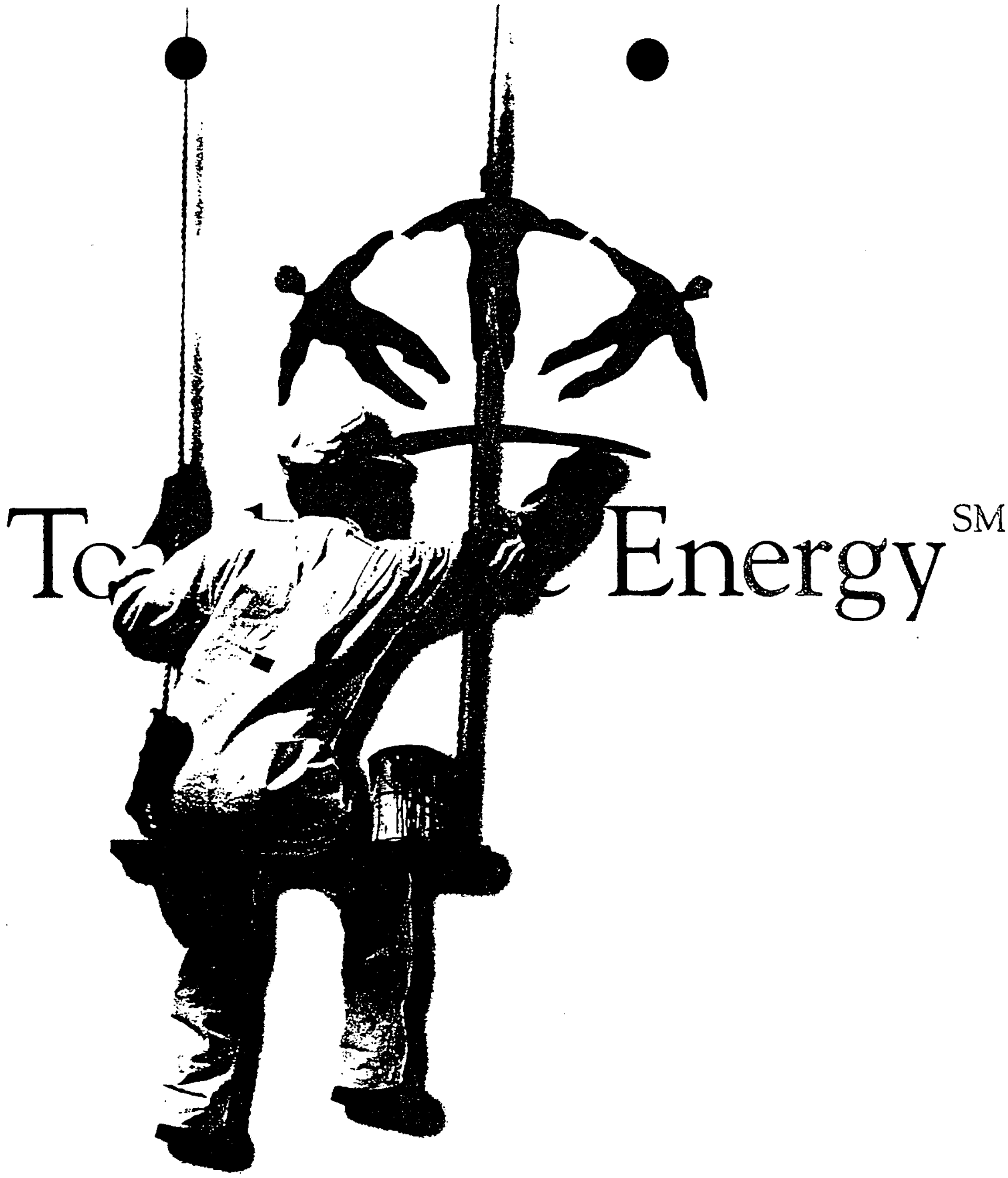
Unplug all power tools when they're not in use. Remove bits and blades before storing them.

Tell children about the dangers of mixing electricity and water.

If you normally leave your iron and ironing board up, take them down when the kids are around.

Place wall-mounted garage door opener switches well out of reach.

Lock the doors on any unused refrigerators and freezers.



We're adding the finishing touches to the power of the future.

There's a lot more to Touchstone Energy℠ than simply a new name and some window dressing to repackage your electric cooperative. It's more than 470 electric co-ops from across the country joining together to provide our member/owners with the state-of-the-art service they'll need in the new millennium. Needless to say, we're ready to paint the town.

HENDERSON UNION EC

A Touchstone Energy℠ Partner

The power of human connections

www.touchstoneenergy.com

Attachment 4
Page 56 of 67

HENDERSON UNION
ELECTRIC COOPERATIVE

HENDERSON UNION EC

6402 Old Corydon Road
P.O. Box 18,
Henderson, Kentucky 42420

OFFICE HOURS:
Monday – Friday
7:30 a.m. – 4:30 p.m. (Central)

HENDERSON
(502) 826-3991
MARION
(502) 965-3186

TOLL-FREE 1-800-844-4832

John F. West,
President and CEO

BOARD OF DIRECTORS

Dr. H.M. Smith (Chairman)

Ben Shouse (Vice Chairman)

William Denton
(Secretary-Treasurer)

Randolph Powell

Orlin Long

Christopher Mitchell

Glenn E. Cox

James E. Long

Vickie A. Davis

Vote YES for consolidation and receive a 4% reduction in rates. VOTE YES!

Summary of bylaws for annual meeting and election of directors

Under Section 1 and 2 of Article I of Henderson Union Electric Cooperative's bylaws, each purchaser of electric energy from the Cooperative becomes a member by paying a membership fee and agreeing to be bound by the Articles of Incorporation, rules, and regulations of the Cooperative and acceptance by the board of directors.

By virtue of Section 1 of Article II of the bylaws, the board of directors of the Cooperative shall fix the date and place for the annual membership meeting.

For 1999, the directors set the date of May 27, 1999, for the meeting to be held at the Henderson Fine Arts Center, 2660 South Green Street, Henderson, KY.

Article III of the bylaws provides the Cooperative shall have nine (9) directors: three (3) from District I (Henderson County); three (3) from District II (Union County); and three (3) from the remaining territory served by the Cooperative.

One (1) director shall be elected from each district annually for a three (3) year term.

Each director must be a member of the Cooperative and a resident of the district from which he or she is elected. No employee of the Cooperative shall be a director and no member of the immediate family of an employee of the Cooperative shall serve as a director.

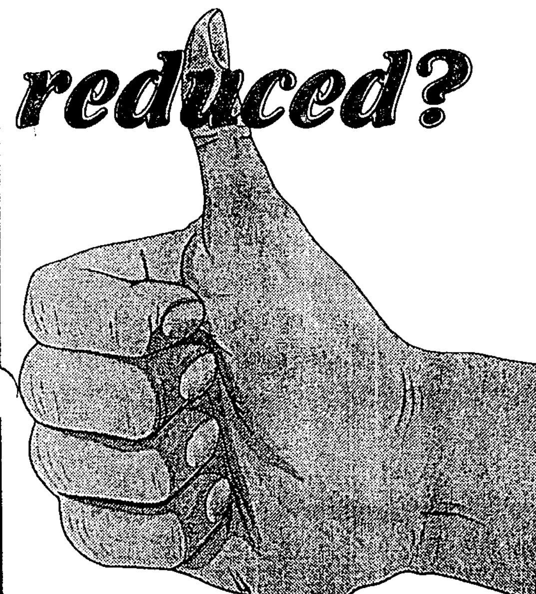
All of the members shall be entitled to vote for all of the directors to be elected. However, a joint membership shall be entitled to one (1) vote. If a husband and wife do not have a joint membership, the non-member spouse may not vote for the member spouse.

Pursuant to Section 3 of Article III, nominations for the office of director shall be made only by petition. The nomination of an eligible member for director shall be made by written petition signed by 15 or more members not more than 120 days and not less than eighty-five (85) days prior to the annual meeting. The secretary shall post at the principal office of the Cooperative a list of nominations for directors.

A complete copy of the bylaws is available from the Cooperative's offices in Henderson and Marion, and at the collection office in Dixon. If you are unable to stop by one of the offices, please call and we will mail you a copy.

Bylaws amended October 26, 1998

Do you want your rates reduced?



Green River Electric
P.O. Box 1389 • Owensboro, KY 42302
(502) 926-4141 • 1-800-844-4732

Henderson Union Electric
P.O. Box 18 • Henderson, KY 42419
(502) 826-3991 • 1-800-844-4832

READ THE FOLLOWING TO FIND OUT HOW.

Green River Electric and Henderson Union Electric have agreed to consolidate. The savings generated by a consolidation would allow the proposed new cooperative -- **Kenergy** – to seek approval from the Kentucky Public Service Commission for an immediate **4 percent rate reduction.**

As a member-owner, you will have the opportunity to vote on the consolidation in April. Reduced rates. Better service. A better cooperative. That's what consolidation will mean.

Here are other details about the consolidation:

Significant annual savings of $1.75 million to $2.5 million will be realized as a result of consolidation. The efficiencies to be gained by combining the cooperatives will maximize our ability to serve you in the most cost-effective manner possible.

Service to you will be improved.

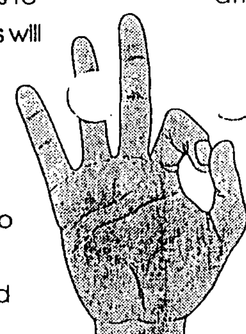
1) More resources will be available to offer additional value-added services to members. For example, Internet, local and long-distance telephone services, along with home security systems, will be offered to all members.

2) All service centers will be maintained, which demonstrates our continued commitment to you.

3) System-wide, 24-hour central dispatching will improve our response time.

Capital credits will be preserved. All capital credits that have been earned by the members will be preserved.

No jobs will be lost as a result of consolidation. Both cooperatives' boards of directors have adopted a resolution ensuring that no employee will lose a job because of consolidation. Any workforce reductions will occur through voluntary retirement and normal attrition.



Lower rates.
Better service.
Consolidation deserves your support.

If you have questions, please don't hesitate to call the cooperative or go online at http://www.kenergycorp.com.

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

March 24, 1999

Dear Member-Owner:

As board members of Henderson Union Electric Cooperative, we know the challenges of providing reliable, low-cost electric service in a competitive marketplace. These challenges are increasing through national efforts to restructure the electric utility industry.

To better position the cooperative for competition, the board has agreed to consolidate Henderson Union Electric and Green River Electric as a means of lowering costs, while keeping rates as low as possible and maintaining a high level of customer service.

Consolidation will ensure that the proposed combined cooperative -- Kenergy -- can meet these challenges and be better prepared for whatever changes occur within the electric industry in the future.

The attached leaflet provides information on the consolidation and explains that, upon approval, the new cooperative immediately will seek a 4 percent reduction in rates. This will be possible because the efficiencies to be gained through a larger, stronger company will result in cost savings of $1.7 million to $2.5 million *annually*. These savings will be passed on to customers.

You, as a member-owner, not only have a stake in but also an opportunity to ensure that the cooperative has a sound future and the financial resources to compete. Now it's up to you. In the next few days, you will receive a ballot on which to cast your vote on the consolidation.

We are aware and appreciative of your past support of Henderson Union Electric through participation in director elections and attendance at annual meetings. Please continue this support by voting YES for consolidation.

Dr. H. M. Smith-Chairman
Union County

Ben H. Shouse-Vice Chairman
Union County

Bill Denton-Secretary
Henderson County

Vickie A. Davis
Union County

Glenn Cox
Caldwell County

Henderson Union Electric Cooperative
6402 Old Corydon Road P.O. Box 18, Henderson, KY 42420-0018
(502) 826-3991 Toll Free in KY 1-800-844-4832

HENDERSON UNION EC

March 24, 1999

NEWS RELEASE

Contact: John West
Sue Mays
502-826-3991

Consolidation ballots to be mailed Friday

Ballots for the proposed consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative will be mailed Friday (March 26) to the two utilities' 48,000-plus customers in 14 area counties.

The boards of the two neighboring cooperatives agreed in January to consolidate, subject to a vote of their member-owners. If approved, the combined new cooperative -- which will be named Kenergy -- will immediately seek permission from the Kentucky Public Service Commission for a 4 percent reduction in electric rates.

As an incentive to return the ballots, both Green River Electric and Henderson Union Electric will conduct a $1,000 drawing from among those customers returning ballots by the 4:30 p.m. April 13 deadline. To be valid and counted, the ballot must be returned in the official envelope provided in the ballot mailer.

The consolidation, which would become effective on July 1, will need the approval of both cooperatives' member-owners.

"The sole objective for consolidating Henderson Union Electric and Green River Electric is lowering costs to be in a better position to compete," said Dean Stanley, president and CEO of Green River Electric. "We want rates to be as low as possible, while maintaining a high level of customer service. Consolidation ensures the combined new cooperative can meet these challenges and be better prepared for whatever changes occur within the electric industry in the future."

John West, president and CEO of Henderson Union Electric, said "the time is right for a consolidation because of the increasing pressures of deregulation in the electric utility industry and the ever-changing needs of customers.

"Deregulation and competition are not a matter of if, but when," said West. "We already are facing some competition. We have to be poised to meet the challenge. This consolidation will help us do that. Customers continually want and deserve better service and more program offerings. The strength of our combined cooperatives will provide that higher level of service."

The Public Service Commission, the agency that regulates utilities in the state, has concluded that the consolidation would "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."

MORE

In addition to the 4 percent rate reduction, other key aspects of the proposed consolidation include:

* Annual cost savings of between $1.75 million and $2.5 million as a result of the efficiencies to be gained by combining the two cooperatives.

* All service centers and facilities in Owensboro, Henderson, Hanson, Hartford, Hawesville, Marion and Sturgis will remain open and staffed.

* Increased reliability and quicker response time by combining personnel and equipment.

* No job loss. Any staff reduction will occur through early voluntary retirements and normal attrition.

-30-

The Connector

SUE MAYS, EDITOR

PUBLICATION FOR HENDERSON UNION ELECTRIC COOPERATIVE MEMBER-OWNERS

Vote YES for lower rates

It's time to vote on the consolidation of Green River Electric and Henderson Union Electric.

You've heard what consolidation will mean. A 4 percent rate reduction. Better and more enhanced services. No job loss.

Henderson Union Electric Board Chairman Dr. H.M. Smith joins Green River Electric Chairman Richard Wilson in signing the Consolidation Agreement at a January 23 joint board meeting. As a result, member-owners will vote this month on consolidating the two cooperatives, which will decrease rates by 4 percent.

These pledges have been put in writing.

The boards of directors and management of the two cooperatives believe so strongly in the consolidation that these benefits have been made a part of the Consolidation Agreement, which was approved at a recent joint board meeting.

We're committed to providing low-cost, reliable electricity. We're committed to serving you better, including providing new value-added services that will make your lives easier. And we're committed to making this region an even better place to live—through enhanced economic development efforts that provide good-paying jobs.

You should have received your ballot, which was mailed March 29, along with information about the consolidation.

Looking through that information, you'll discover some interesting facts.

For example, through efficiencies of consolidation, the new company, Kenergy, will save $1.75 million to $2.5 million each year—savings we'll all share. The new cooperative would immediately apply to the Kentucky Public Service Commission for a **4 percent rate reduction.**

In addition, all cooperative facilities will remain open and staffed. Around-the-clock dispatching services, which already are available to Green River Electric customers, will be expanded to the entire Kenergy region.

Consolidation is a winning combination that deserves your support. Vote YES and return your ballot by April 13.

Consolidation means lower rates, better service

Lower rates. Millions of dollars in savings. Better service. That's what a **YES** vote for consolidating Green River Electric and Henderson Union Electric will mean.

"The customers of both cooperatives will enjoy several benefits from the consolidation," said Dean Stanley, president and CEO of Green River Electric. "The region itself also will benefit by retaining a locally owned company that is committed to economic development."

This month, member-owners of both cooperatives will vote by a mail-in ballot on the consolidation. The Consolidation Agreement, which was signed jointly by the boards of directors, contains the terms of the consolidation. Here are some of the highlights:

- Through greater efficiencies, the new company will save \$1.75 million to \$2.5 million each year. Savings will be passed on to customers;
- The new cooperative, Kenergy, will immediately apply to the Kentucky Public Service Commission for a **4 percent rate reduction**;
- There will be no job loss as a result of the consolidation. Any reductions will occur through retirement and normal attrition;
- The headquarters will be located in Henderson. In addition, Green River Electric's office in Owensboro and other service centers in Hanson, Hartford, Hawesville, Sturgis, and Marion will remain open;
- Kenergy's board of directors initially will consist of all Green River and Henderson Union board members who are in office on the date of the consolidation. One industrial director also will serve. Following a three-year transition period, the board will be reduced to 11 members, including an industrial director; and
- Capital credits that have been earned by the members of each cooperative will be preserved after the consolidation. They will continue to exist as credits to a capital account of each member of Kenergy.

With member-owner and Public Service Commission approval, the consolidation will take effect July 1.

"As the electric industry changes, we want rates to be as low as possible while maintaining a high level of customer service," said John West, president and CEO of Henderson Union Electric. "This consolidation ensures that we will be better prepared for whatever changes the industry brings."

Vote now, vote YES

For lower rates, better service, and the chance to win \$1,000, return your consolidation ballot to your local electric cooperative by April 13.

During the next couple of weeks, you'll have the opportunity to vote on the consolidation of Green River Electric and Henderson Union Electric.

Official ballots were mailed to each cooperative member on March 29. After you vote, simply drop the ballot in the mail. The cooperative will pay the postage.

The ballot question reads: "***Are you in favor of the consolidation of Henderson Union Electric Cooperative Corp. and Green River Electric Corporation as set forth in the Consolidation Agreement dated January 23, 1999?***"

The official ballot mailer contains information about the Consolidation Agreement.

To be valid and counted, the ballot must be received by the cooperative by 4:30 p.m. Tuesday, April 13.

Each member-owner returning a valid ballot by the April 13 deadline will be eligible to win \$1,000 from the cooperative. To ensure secret balloting, a member-comprised Credentials and Election Committee will count the ballots.

Vote **YES** for consolidation today. It will mean lower rates, better service, and more value-added programs in the future.

Sample of Consolidation Ballot

Are you in favor of the consolidation of Henderson Union Electric Cooperative Corp. and Green River Electric Corporation as set forth in the Consolidation Agreement dated January 23, 1999?

❑ YES ❑ NO

Don't Throw Your Ballot Away. It Could Be Worth $1,000.

You get a lot of mail every day. Some of it is important; some is not.

As a member of the cooperative, you will receive a ballot envelope with the question above in the mail soon.

Don't throw it away. It's worth a 4 **percent rate reduction**, and you could win $1,000 just for mailing it back to us.

Henderson Union Electric and Green River Electric boards of directors have agreed to consolidate. The ballot is your chance to vote on the consolidation as a member-owner.

Return it quickly to your cooperative with a YES vote for consolidation.

Think about it. Just by returning the ballot you're automatically eligible for a $1,000 cash drawing.

The consolidation will mean a **4 percent rate reduction** on your monthly electric bill, better service, and a locally controlled, member-owned, and community-oriented cooperative responding to your needs.

Returning the ballot makes sense.

Your vote could be worth $1,000.

And consolidation will put money in your pocket every month in the form of **a 4 percent rate reduction.**

Consolidation.

Rate Reduction.

Two thumbs up! Vote Yes!

Vote YES for 4% Rate Decrease. Vote YES for Consolidation.

HENDERSON UNION ELECTRIC COOPERATIVE
6402 Old Corydon Road (42420)
P.O. Box 18
Henderson, Kentucky 42419

OFFICE HOURS:
Monday – Friday
7:30 a.m. – 4:30 p.m. (Central)

HENDERSON
(502) 826-3991

MARION
(502) 965-3186

TOLL-FREE
1-800-844-4832

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

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.

(KENERGY LETTERHEAD)

July ______, 1999

Open Letter to Member-Customers

On May 20, 1999, an application was filed with the Kentucky Public Service Commission (PSC) requesting approval of a rate reduction for Kenergy customers, effective July 1, 1999. The application sought a 4% rate reduction for five (5) years for all customers except 21 large industrial customers. Large industrial customers consume large quantities of power and pay lower rates. They are served under special contracts. The application was filed under a new law which provides for a streamline procedure for obtaining a rate reduction, and recognizes that certain special contract customers may be excluded.

As you undoubtedly know, the PSC issued an order last week denying the requested rate reduction. The Commission ruled that this new law does not permit Kenergy's type of special contract customers to be excluded from an across-the-board rate reduction. However, the PSC did recognize that Kenergy's two (2) smelter customers, Alcan and Southwire, both of which have special contracts, could be excluded from the rate reduction.

Kenergy cannot offer the 4% rate reduction to the large industrial customers. The lower rates paid by the large industrial customers mean that Kenergy's margins (profits) are much lower. Offering the 4% rate reduction to the large industrial customers would result in an annual operating loss to Kenergy in excess of $4,000,000.00.

Kenergy's management and board of directors are studying the options available. We intend to pursue all reasonable means to effectuate this rate reduction. When it becomes effective, it will run for the full five (5) year term.

Kenergy Board and Management

TOTAL P.03

Public reporting burden for this collection of information is estimated to average 17 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Department of Agriculture, Clearance Officer, OIRM, AG Box 7630, Washington, DC 20250; and to the Office of Management and Budget, Paperwork Reduction Project (OMB #0572-0032), Washington, DC 20503. OMB FORM NO. 0572-0032, Expires 06/30/98.

This data will be used by RUS to review your financial situation. Your response is required (7 U.S.C.901 et seq.) and is not confidential.

USDA-RUS	BORROWER DESIGNATION	
	KY033	
FINANCIAL AND STATISTICAL REPORT	BORROWER NAME AND ADDRESS GREEN RIVER ELECTRIC CORP P O BOX 1389 OWENSBORO, KY 42302-1389	
INSTRUCTIONS - *Submit an original and two copies to RUS. Round all amounts to nearest dollar. For detailed instructions, see RUS Bulletin 1717B-2*	PERIOD ENDED 1997 Annual	RUS USE ONLY

CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.

John B. Warren II — SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT — DATE 3/24/98

Dean Stanley — SIGNATURE OF MANAGER — DATE 3/24/98

PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE LAST YEAR (a)	YEAR-TO-DATE THIS YEAR (b)	YEAR-TO-DATE BUDGET (c)	THIS MONTH (d)
1. Operating Revenue and Patronage Capital	145,266,952	143,851,556	157,862,700	12,116,927
2. Power Production Expense	0	0	0	0
3. Cost of Purchased Power	131,674,969	130,017,420	144,309,500	10,636,990
4. Transmission Expense	0	0	0	0
5. Distribution Expense - Operation	1,090,099	1,023,414	1,157,843	112,538
6. Distribution Expense - Maintenance	2,410,333	1,625,265	1,995,008	162,328
7. Consumer Accounts Expense	815,860	879,320	751,558	78,003
8. Customer Service and Informational Expense	225,842	205,771	256,907	17,404
9. Sales Expense	8,264	8,235	0	639
10. Administrative and General Expense	2,548,321	2,768,336	2,747,244	357,926
11. Total Operation & Maintenance Expense *(2 thru 10)*	138,773,688	136,527,761	151,218,060	11,365,828
12. Depreciation and Amortization Expense	2,021,258	2,145,262	2,120,150	183,510
13. Tax Expense - Property & Gross Receipts	443,086	454,762	435,600	42,276
14. Tax Expense - Other	376,828	378,031	374,250	34,932
15. Interest on Long-Term Debt	1,997,940	1,960,800	2,024,300	145,858
16. Interest Charged to Construction - Credit	0	0	0	0
17. Interest Expense - Other	30,683	37,875	30,000	3,311
18. Other Deductions	36,494	39,372	36,390	3,685
19. Total Cost of Electric Service *(11 thru 18)*	143,679,977	141,543,863	156,238,750	11,779,400
20. Patronage Capital & Operating Margins *(1 minus 19)*	1,586,975	2,307,693	1,623,950	337,527
21. Non Operating Margins - Interest	560,128	545,452	440,700	143,558
22. Allowance for Funds Used During Construction	0	0	0	0
23. Income (Loss) from Equity Investments	(21,111)	(10,000)	0	(10,000)
24. Non Operating Margins - Other	52,655	16,979	27,270	(7,881)
25. Generation and Transmission Capital Credits	0	0	0	0
26. Other Capital Credits and Patronage Dividends	66,580	34,495	74,000	47,000
27. Extraordinary Items	0	0	0	0
28. Patronage Capital or Margins *(20 thru 27)*	2,245,227	2,894,619	2,165,920	510,204

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE LAST YEAR (a)	YEAR-TO-DATE THIS YEAR (b)	ITEM	YEAR-TO-DATE LAST YEAR (a)	YEAR-TO-DATE THIS YEAR (b)
1. New Services Connected	1,062	1,064	5. Miles Transmission	0.00	0.00
2. Services Retired	271	184	6. Miles Distribution - Overhead	3,036.00	3,058.00
3. Total Services in Place	30,353	31,233	7. Miles Distribution - Underground	335.00	361.00
4. Idle Services (Exclude Seasonal)	1,413	1,545	8. Total Miles Energized (5 + 6 +7)	3,371.00	3,419.00

USDA-RUS FINANCIAL AND STATISTICAL REPORT	BORROWER DESIGNATION KY033	
	PERIOD ENDED 1997 Annual	RUS USE ONLY
INSTRUCTIONS - *See RUS Bulletin 1717B - 2*		

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	70,030,645	30. Memberships	131,095
2. Construction Work in Progress	756,556	31. Patronage Capital	50,256,675
3. Total Utility Plant *(1+2)*	70,787,201	32. Operating Margins - Prior Years	78,651
4. Accum. Provision for Depreciation and Amort.	14,971,629	33. Operating Margins - Current Year	0
5. Net Utility Plant *(3-4)*	55,815,572	34. Non-Operating Margins	338
6. Non-Utility Property (Net)	5,421	35. Other Margins and Equities	1,024,349
7. Investments in Subsidiary Companies	32,773	36. Total Margins & Equities *(30 thru 35)*	51,491,108
8. Invest. In Assoc. Org. - Patronage Capital	23,490,515	37. Long-Term Debt - RUS - Econ. Devel. (Net)	28,406,531
9. Invest. In Assoc. Org. - Other - General Funds	0	(Payments-Unapplied $ 520,924)	
10. Invest. In Assoc. Org. - Oth. - Nongen. Funds	2,303,112	38. Long-Term Debt - RUS - Econ. Devel. (Net)	225,925
11. Investments in Economic Development Projects	270,370	39. Long-Term Debt - Other - REA Guaranteed	0
12. Other Investments	102,251	40. Long-Term Debt - Other (Net)	8,663,643
13. Special Funds	1,370,634	41. Total Long-Term Debt *(37 thru 40)*	37,296,099
14. Total Other Property and Investments *(6 thru 13)*	27,575,076	42. Obligations Under Capital Leases - Noncurrent	0
15. Cash - General Funds	284,871	43. Accumulated Operating Provisions	1,639,331
16. Cash - Construction Funds - Trustee	0	44. Total Other Noncurrent Liabilities *(42+43)*	1,639,331
17. Special Deposits	0	45. Notes Payable	1,226,123
18. Temporary Investments	5,134,000	46. Accounts Payable	11,814,914
19. Notes Receivable (Net)	0	47. Consumers Deposits	668,630
20. Accounts Receivable - Sales of Energy (Net)	10,624,600	48. Other Current and Accrued Liabilities	659,960
21. Accounts Receivable - Other (Net)	160,040	49. Total Current & Accrued Liabilities *(45 thru 48)*	14,369,627
		50. Deferred Credits	320,159
22. Materials and Supplies - Electric and Other	597,026	51. Accumulated Deferred Income Taxes	0
23. Prepayments	1,430,513	52. Total Liabilities and Other Credits	
24. Other Current and Accrued Assets	3,422,561	*(36+41+49 thru 51)*	105,116,324
25. Total Current and Accrued Assets *(15 thru 24)*	21,653,611	**ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION**	
26. Regulatory Assets	0		
27. Other Deferred Debits	72,065	53. Balance Beginning of Year	2,596,995
28. Accumulated Deferred Income Taxes	0	54. Amounts Received This Year (Net)	241,004
29. Total Assets and Other Debits *(5+14+25 thru 28)*	105,116,324	55. Total Contributions in Aid of Construction	2,837,999

PART D. NOTES TO FINANCIAL STATEMENTS

THIS SPACE IS PROVIDED FOR IMPORTANT DISCLOSURE NOTES TO THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT. REPORT ITEMS CONTAINED IN THE INSTRUCTIONS AND ADDITIONAL MATERIAL ITEMS.

(A SEPERATE SHEET MAY BE USED IF ADDITIONAL SPACE IS NEEDED.)

Cash Received From Patronage Capital Refunds: 24083

Part C, Line 24
Unbilled revenue totaling $3,404,434 is included in Line 24.

Attachment 5

This data will be used by RUS to review your financial situation. Your response is required (7 U.S.C. 901 et seq.) and is not confidential.

USDA-RUS

FINANCIAL AND STATISTICAL REPORT

BORROWER DESIGNATION
KY055

BORROWER NAME AND ADDRESS
HENDERSON UNION ELEC COOP CORP
P O DRAWER 18
HENDERSON, KY 42419-0000

INSTRUCTIONS - *Submit an original and two copies to RUS. Round all amounts to nearest dollar. For detailed instructions, see RUS Bulletin 1717B-2*

PERIOD ENDED
1997 Annual

RUS USE ONLY

CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.

Mary Pinkston
SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT

MARCH 23, 1998
DATE

John West
SIGNATURE OF MANAGER

MARCH 23, 1998
DATE

PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	THIS MONTH (d)
1. Operating Revenue and Patronage Capital	91,087,806	84,379,240	95,148,500	6,904,661
2. Power Production Expense	0	0	0	0
3. Cost of Purchased Power	81,675,374	75,143,096	85,996,928	6,272,452
4. Transmission Expense	0	0	0	0
5. Distribution Expense - Operation	918,614	946,916	825,721	85,927
6. Distribution Expense - Maintenance	1,531,260	1,367,723	1,409,689	152,749
7. Consumer Accounts Expense	594,588	632,623	626,899	61,271
8. Customer Service and Informational Expense	94,688	87,254	95,702	8,839
9. Sales Expense	53,194	75,663	64,783	5,952
10. Administrative and General Expense	1,745,950	1,895,195	1,980,580	160,687
11. Total Operation & Maintenance Expense *(2 thru 10)*	86,613,668	80,148,470	91,000,302	6,747,877
12. Depreciation and Amortization Expense	1,514,015	1,644,568	1,642,380	140,436
13. Tax Expense - Property & Gross Receipts	366,000	360,486	348,000	41,486
14. Tax Expense - Other	255,603	263,460	266,845	23,342
15. Interest on Long-Term Debt	1,072,452	1,145,642	1,146,384	95,513
16. Interest Charged to Construction - Credit	0	0	0	0
17. Interest Expense - Other	12,865	13,380	11,400	2,310
18. Other Deductions	24,577	20,920	19,727	8,167
19. Total Cost of Electric Service *(11 thru 18)*	89,859,180	83,596,926	94,435,038	7,059,131
20. Patronage Capital & Operating Margins *(1 minus 19)*	1,228,626	782,314	713,462	(154,470)
21. Non Operating Margins - Interest	165,100	148,180	141,000	7,204
22. Allowance for Funds Used During Construction	0	0	0	0
23. Income (Loss) from Equity Investments	(9,448)	(45,475)	0	(45,475)
24. Non Operating Margins - Other	84,695	(4,576)	0	(4,952)
25. Generation and Transmission Capital Credits	0	0	0	0
26. Other Capital Credits and Patronage Dividends	53,697	54,540	0	0
27. Extraordinary Items	0	0	0	0
28. Patronage Capital or Margins *(20 thru 27)*	1,522,670	934,983	854,462	(197,693)

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE LAST YEAR (a)	THIS YEAR (b)	ITEM	YEAR-TO-DATE LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	469	478	5. Miles Transmission	0.00	0.00
2. Services Retired	139	246	6. Miles Distribution - Overhead	2,921.47	2,933.72
3. Total Services In Place	20,255	20,487	7. Miles Distribution - Underground	77.25	81.17
4. Idle Services (Exclude Seasonal)	2,465	2,495	8. Total Miles Energized (5 + 6 + 7)	2,998.72	3,014.89

This data will be used by RUS to review your financial situation. Your response is required (7 U.S.C. 901 et seq.) and is not confidential.

USDA-RUS	BORROWER DESIGNATION KY055	
FINANCIAL AND STATISTICAL REPORT	PERIOD ENDED 1997 Annual	RUS USE ONLY
INSTRUCTIONS - See RUS Bulletin 1717B - 2		

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	54,910,273	30. Memberships	292,430
2. Construction Work in Progress	236,214	31. Patronage Capital	37,704,554
3. Total Utility Plant *(1+2)*	55,146,487	32. Operating Margins - Prior Years	0
4. Accum. Provision for Depreciation and Amort.	12,330,151	33. Operating Margins - Current Year	836,854
5. Net Utility Plant *(3-4)*	42,816,336	34. Non-Operating Margins	98,129
6. Non-Utility Property (Net)	2,868	35. Other Margins and Equities	27,873
7. Investments in Subsidiary Companies	0	36. Total Margins & Equities *(30 thru 35)*	38,959,840
8. Invest. In Assoc. Org. - Patronage Capital	16,734,844	37. Long-Term Debt - RUS - Econ. Devel. (Net)	14,930,320
9. Invest. In Assoc. Org. - Other - General Funds	5,000	(Payments-Unapplied $ 0)	
10. Invest. In Assoc. Org. - Oth. - Nongen. Funds	1,255,926	38. Long-Term Debt - RUS - Econ. Devel. (Net)	400,000
11. Investments in Economic Development Projects	400,000	39. Long-Term Debt - Other - REA Guaranteed	0
12. Other Investments	81,261	40. Long-Term Debt - Other (Net)	6,207,121
13. Special Funds	0	41. Total Long-Term Debt *(37 thru 40)*	21,537,441
14. Total Other Property and Investments *(6 thru 13)*	18,479,899	42. Obligations Under Capital Leases - Noncurrent	0
15. Cash - General Funds	167,713	43. Accumulated Operating Provisions	416,197
16. Cash - Construction Funds - Trustee	0	44. Total Other Noncurrent Liabilities *(42+43)*	416,197
17. Special Deposits	0	45. Notes Payable	565,998
18. Temporary Investments	795,000	46. Accounts Payable	6,587,326
19. Notes Receivable (Net)	0	47. Consumers Deposits	947,139
20. Accounts Receivable - Sales of Energy (Net)	6,469,435	48. Other Current and Accrued Liabilities	1,501,994
21. Accounts Receivable - Other (Net)	162,835	49. Total Current & Accrued Liabilities *(45 thru 48)*	9,602,457
		50. Deferred Credits	236,917
22. Materials and Supplies - Electric and Other	975,168	51. Accumulated Deferred Income Taxes	0
23. Prepayments	218,496	52. Total Liabilities and Other Credits	
24. Other Current and Accrued Assets	54,787	*(36+41+49 thru 51)*	70,752,852
25. Total Current and Accrued Assets *(15 thru 24)*	8,843,434	**ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION**	
26. Regulatory Assets	0		
27. Other Deferred Debits	613,183	53. Balance Beginning of Year	858,300
28. Accumulated Deferred Income Taxes	0	54. Amounts Received This Year (Net)	83,579
29. Total Assets and Other Debits *(5+14+25 thru 28)*	70,752,852	55. Total Contributions in Aid of Construction	941,879

PART D. NOTES TO FINANCIAL STATEMENTS

THIS SPACE IS PROVIDED FOR IMPORTANT DISCLOSURE NOTES TO THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT. REPORT ITEMS CONTAINED IN THE INSTRUCTIONS AND ADDITIONAL MATERIAL ITEMS.

(A SEPERATE SHEET MAY BE USED IF ADDITIONAL SPACE IS NEEDED.)

Cash Received From Patronage Capital Refunds: 53767

Part E: Microwave and Scada included in Station Equipment. Depreciation rate for Microwave 5%, Scada 10%

USDA-REA

FINANCIAL AND STATISTICAL REPORT

BORROWER DESIGNATION
KENTUCKY 55

Borrower Name and Address
HENDERSON UNION ELECTRIC COOPERATIVE CORPORATION
P. O. BOX 18
HENDERSON, KY 42420

INSTRUCTIONS - Submit an original and two copies to REA. Round all amounts to nearest dollar. For detailed instructions, see REA Bulletin 1717B-2

Period Ended
December 31,1998

REA USE ONLY

CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, REA, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES

Mary Pinkston
Signature of Director of Accounting

January 20, 1999
Date

John West
Signature of President & CEO

January 20, 1999
Date

PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE LAST YEAR (a)	YEAR-TO-DATE THIS YEAR (b)	YEAR-TO-DATE BUDGET (c)	THIS MONTH (d)
1. Operating Revenue and Patronage Capital	84,379,240	83,339,510	83,007,190	6,846,972
2. Power Production Expense				
3. Cost of Purchased Power	75,143,096	73,423,965	73,017,164	6,393,802
4. Transmission Expense				
5. Distribution Expense - Operation	946,916	1,612,996	1,669,883	160,730
6. Distribution Expense - Maintenance	1,367,723	1,975,439	1,950,690	171,282
7. Customer Accounts Expense	632,623	865,544	781,638	84,549
8. Customer Service and Informational Expense	87,254	114,136	125,783	7,106
9. Sales Expense	75,663	80,397	91,555	12,086
10. Administrative and General Expense	1,895,195	1,228,695	1,256,128	111,535
11. Total Operation & Maintenance Expense (2 thru 10)	80,148,470	79,301,172	78,892,841	6,941,090
12. Depreciation and Amortization Expense	1,644,568	1,747,759	1,752,373	149,450
13. Tax Expense - Property & Gross Receipts	360,486	0	0	0
14. Tax Expense - Other	263,460	80,164	72,000	6,000
15. Interest on Long-Term Debt	1,145,642	1,200,181	1,250,223	119,337
16. Interest Charged to Construction - Credit	0	0		0
17. Interest Expense - Other	13,380	52,370	24,155	888
18. Other Deductions	20,920	31,240	28,300	5,923
19. Total Cost of Electric Service (11 thru 18)	83,596,926	82,412,886	82,019,892	7,222,688
20. Patronage Capital & Operating Margins (1 minus 19)	782,314	926,624	987,298	(375,716)
21. Non-Operating Margins - Interest	148,180	99,913	149,793	11,153
22. Allowance for Funds Used During Construction				
23. Income (Loss) from Equity Investments	(45,475)			
24. Non-Operating Margins - Other	(4,576)	13,131		9,093
25. Generation and Transmission Capital Credits				
26. Other Capital Credits & Patronage Dividends	54,540	67,624		
27. Extraordinary Items		(16,343,066)		
28. Patronage Capital or Margins (20 thru 27)	934,983	(15,235,774)	1,137,091	(355,470)

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE LAST YEAR (a)	YEAR-TO-DATE THIS YEAR (b)	ITEM	YEAR-TO-DATE LAST YEAR (a)	YEAR-TO-DATE THIS YEAR (b)
1. New Services Connected	478	464	5. Miles Transmission	0	0
2. Services Retired	246	260	6. Miles Distribution Overhead	2,933.72	2,939.30
3. Total Services in Place	20,487	20,691	7. Miles Distribution Underground	81.17	85.10
4. Idle Services (exclude seasonal)	2,495	2,423	8. Total Miles Energized (5+6+7)	3,014.89	3,024.40

REA Form 7 (Rev.12-93)

This data will be used by RUS to review your financial situation. Your response is required (7 U.S.901 et seq.) and is not confidential

USDA-REA	BORROWER DESIGNATION	
FINANCIAL AND STATISTICAL REPORT	KY055	
	PERIOD ENDED	REA USE ONLY
INSTRUCTIONS - See REA Bulletin 1717B-2	1998 Annual	

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	58,387,707	30. Memberships	297,185
2. Construction Work in Progress	689,851	31. Patronage Capital	21,414,367
3. Total Utility Plant (1+2)	59,077,558	32. Operating Margins - Prior Years	0
4. Accum. Provision for Depreciation and Amort.	12,505,311	33. Operating Margins - Current Year	994,248
5. Net Utility Plant (3-4)	46,572,247	34. Non Operating Margins	113,044
6. Non-Utility Property(Net)	7,971	35. Other Margins and Equities	28,092
7. Investments in Subsidiary Companies	0	36. Total Margins & Equities (30 thru 35)	22,846,936
8. Invest. In Assoc.Org.-Patronage Capital	398,603	37. Long-Term Debt - REA(Net)	16,949,105
9. Invest. In Assoc.Org-Other-General Funds	5,000	(Payments-Unapplied $)	0
10. Invest. In Assoc.Org.-Other-Nongeneral Funds	1,254,807	38. Long-Term Debt-REA-Econ.Devel.(Net)	800,000
11. Investments in Economic Development Projects	800,000	39. Long-Term Debt Other - REA Guaranteed	0
12. Other Investments	59,234	40. Long-Term Debt Other (Net)	8,165,362
13. Special Funds	0	41. Total Long-Term Debt(37 thru 40)	25,914,467
14. Total Other Property and Investments (6 thru 13)	2,525,615	42. Obligations Under Capital Leases	0
15. Cash - General Funds	135,871	43. Accumulated Operating Provisions	501,289
16. Cash - Construction Funds - Trustee	0	44. Total Other Noncurrent Liabilities(42 + 43)	501,289
17. Special Deposits	0	45. Notes Payable	0
18. Temporary Investments	1,710,000	46. Accounts Payable	6,911,808
19. Notes Receivable (Net)	0	47. Consumers Deposits	875,657
20. Accounts Receivable - Sales of Energy(Net)	6,570,367	48. Other Current and Accrued Liabilities	2,291,964
21. Accounts Receivable - Other(Net)	203,499	49. Total Current & Accrued Liabilities (45 thru 48)	10,079,429
22. Materials and Supplies - Electric and Other	1,119,748	50. Deferred Credits	268,333
23. Prepayments	195,049	51. Accumulated Deferred Income Taxes	0
24. Other Current and Accrued Assets	21,510	52. Total Liabilities and Other Credits	
25. Total Current and Accrued Assets (15 thru 24)	9,956,044	(36 + 41 + 44 +49 thru 51)	59,610,454
26. Regulatory Assets	0	ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION	
27. Other Deferred Debits	556,548	53. Balance Beginning of Year	858,300
28. Accumulated Deferred Income Taxes	0	54. Amount Received This Year(Net)	103,880
29. Total Assets and Other Debits (5+14+25 thru 28)	59,610,454	55. Total Contributions in Aid of Construction	962,180

PART D. NOTES TO FINANCIAL STATEMENTS

THIS SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT.
(IF ADDITIONAL SPACE IS NEEDED, USE SEPARATE SHEET.)

Balance sheet resubmitted May 14, 1999, to reclassify write-off of power supplier (Big Rivers) capital credits. As a part of bankruptcy, Big Rivers Electric reduced to zero all patronage allocations on its books effective July 1998. Subsequently, Henderson Union also wrote off all Big Rivers patronage allocations carried on its books as an investment .

Statement of Operations:
1997 Column (a) has not been adjusted to conform with the change to functional accounting effective January 1, 1998, whereby overheads, property taxes, and insurance are charged to the functional account rather than accounts 924 and 926.

USDA–RUS	BORROWER DESIGNATION
	Kentucky 33 Daviess
FINANCIAL AND STATISTICAL REPORT	BORROWER NAME AND ADDRESS Green River Electric Corporation 3111 Fairview Drive Owensboro, KY 42303
INSTRUCTIONS – Submit an original and two copies to RUS. Round all amounts to nearest dollar. For detailed instructions, see RUS Bulletin 1717B–2.	PERIOD ENDED December 31, 1998 — RUS USE ONLY

CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES

SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT — 4/29/99 DATE

SIGNATURE OF MANAGER — 4/29/99 DATE

PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE LAST YEAR (a)	YEAR-TO-DATE THIS YEAR (b)	YEAR-TO-DATE BUDGET (c)	THIS MONTH (d)
1. Operating Revenue and Patronage Capital	143,851,556	146,666,916	145,478,700	12,888,992
2. Power Production Expense				
3. Cost of Purchased Power	130,017,420	131,732,330	131,339,500	11,544,568
4. Transmission Expense				
5. Distribution Expense – Operation	1,023,414	1,955,965	1,973,552	409,591
6. Distribution Expense – Maintenance	1,625,265	2,172,545	2,344,866	223,011
7. Consumer Accounts Expense	879,320	1,053,551	972,127	98,711
8. Customer Service and Informational Expense	205,771	205,687	290,800	12,716
9. Sales Expense	8,235	54,328		9,332
10. Administrative and General Expense	2,768,336	2,219,195	2,081,405	250,690
11. Total Operation & Maintenance Expense (2 thru 10)	136,527,761	139,393,601	139,002,250	12,548,619
12. Depreciation and Amortization Expense	2,145,262	2,249,477	2,309,500	193,860
13. Tax Expense – Property & Gross Receipts	454,762			
14. Tax Expense – Other	378,031	124,524	125,000	235
15. Interest on Long-Term Debt	1,960,800	2,166,713	2,194,500	168,097
16. Interest Charged to Construction – Credit	( )	( )		
17. Interest Expense – Other	37,875	41,165	40,000	3,571
18. Other Deductions	39,372	33,117	37,150	3,324
19. Total Cost of Electric Service (11 thru 18)	141,543,863	144,008,597	143,708,400	12,917,706
20. Patronage Capital & Operating Margins (1 minus 19)	2,307,693	2,658,319	1,770,300	(28,714)
21. Non-Operating Margins – Interest	545,452	805,403	395,000	132,976
22. Allowance for Funds Used During Construction				
23. Income (Loss) from Equity Investments	(10,000)	(38,079)		(14,656)
24. Non-Operating Margins – Other	16,979	14,087	4,700	8,732
25. Generation and Transmission Capital Credits				
26. Other Capital Credits & Patronage Dividends	34,495	67,853	60,000	52,601
27. Extraordinary Items....(See Page 2, Part D)		(23,346,133)		(23,346,133)
28. Patronage Capital or Margins (20 thru 26)	2,894,619	(19,838,550)	2,230,000	(23,195,194)

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE LAST YEAR (a)	YEAR-TO-DATE THIS YEAR (b)	ITEM	YEAR-TO-DATE LAST YEAR (a)	YEAR-TO-DATE THIS YEAR (b)
1. New Services Connected	1064	1135	5. Miles Transmission		
2. Services Retired	184	150	6. Miles Distribution–Overhead	3,058	3,082
3. Total Services in Place	31,233	32,218	7. Miles Distribution–Underground	361	390
4. Idle Services (Exclude Seasonal)	1,545	1,840	8. Total Miles Energized (5+6+7)	3,419	3,472

RUS Form 7 (Rev.6-94)

USDA-RUS FINANCIAL AND STATISTICAL REPORT	BORROWER DESIGNATION KY033	
	PERIOD ENDED 1998 Annual	RUS USE ONLY
INSTRUCTIONS - See RUS Bulletin 1717B - 2		

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	75,161,754	30. Memberships	125,080
2. Construction Work in Progress	1,471,181	31. Patronage Capital	27,801,833
3. Total Utility Plant (1+2)	76,632,935	32. Operating Margins - Prior Years	78,651
4. Accum. Provision for Depreciation and Amort.	15,899,433	33. Operating Margins - Current Year	0
5. Net Utility Plant (3-4)	60,733,502	34. Non-Operating Margins	338
6. Non-Utility Property (Net)	8,126	35. Other Margins and Equities	1,413,037
7. Investments in Subsidiary Companies	0	36. Total Margins & Equities (30 thru 35)	29,418,939
8. Invest. In Assoc. Org. - Patronage Capital	156,011	37. Long-Term Debt - RUS (Net)	29,472,148
9. Invest. In Assoc. Org. - Other - General Funds	0	(Payments-Unapplied $ 547,380)	
10. Invest. In Assoc. Org. - Oth. - Nongen. Funds	2,359,336	38. Long-Term Debt - RUS - Econ. Devel. (Net)	0
11. Investments in Economic Development Projects	0	39. Long-Term Debt - Other - REA Guaranteed	0
12. Other Investments	84,003	40. Long-Term Debt - Other (Net)	10,099,397
13. Special Funds	1,726,567	41. Total Long-Term Debt (37 thru 40)	39,571,545
14. Total Other Property and Investments (6 thru 13)	4,334,043	42. Obligations Under Capital Leases - Noncurrent	0
15. Cash - General Funds	124,912	43. Accumulated Operating Provisions	2,059,867
16. Cash - Construction Funds - Trustee	0	44. Total Other Noncurrent Liabilities (42+43)	2,059,867
17. Special Deposits	0	45. Notes Payable	1,187,270
18. Temporary Investments	4,395,000	46. Accounts Payable	12,470,648
19. Notes Receivable (Net)	0	47. Consumers Deposits	714,927
20. Accounts Receivable - Sales of Energy (Net)	10,979,646	48. Other Current and Accrued Liabilities	908,334
21. Accounts Receivable - Other (Net)	127,531	49. Total Current & Accrued Liabilities (45 thru 48)	15,281,179
		50. Deferred Credits	345,708
22. Materials and Supplies - Electric and Other	1,059,990	51. Accumulated Deferred Income Taxes	0
23. Prepayments	1,632,308	52. Total Liabilities and Other Credits	
24. Other Current and Accrued Assets	3,225,420	(36+41+44+49 thru 51)	86,677,238
25. Total Current and Accrued Assets (15 thru 24)	21,544,807	ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION	
26. Regulatory Assets	0		
27. Other Deferred Debits	64,886	53. Balance Beginning of Year	2,837,999
28. Accumulated Deferred Income Taxes	0	54. Amounts Received This Year (Net)	177,319
29. Total Assets and Other Debits (5+14+25 thru 28)	86,677,238	55. Total Contributions in Aid of Construction	3,015,318

PART D. NOTES TO FINANCIAL STATEMENTS

THIS SPACE IS PROVIDED FOR IMPORTANT DISCLOSURE NOTES TO THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT. REPORT ITEMS CONTAINED IN THE INSTRUCTIONS AND ADDITIONAL MATERIAL ITEMS.

(A SEPERATE SHEET MAY BE USED IF ADDITIONAL SPACE IS NEEDED.)

Cash Received From Patronage Capital Refunds: 24603

Part A. Statement of Operations-Column (a)

Last year amounts for Lines 5-10 and Line 13 have not been reclassified to conform to the accounting change made effective January 1, 1998 whereby payroll related overheads, property insurance and property taxes are charged to the appropriate function account vs. accounts 924-926.

Part A. Statement of Operations-Line 27(b)

Section 4.2.10 of Big Rivers Electric first amended plan of reorganization approved in the Chapter 11 Bankruptcy Case No. 96-41168 provides that as of the effective date (July 17, 1998), patronage capital claims shall be extinguished, released and discharged. Accordingly, all Big Rivers Electric patronage capital recorded as an investment by Green River Electric shall be reduced to zero.

Part C. Line 24

Unbilled revenue totaling $3,213,813 is included in Line 24.

"PRELIMINARY - SUBJECT TO CHANGE AFTER AUDIT"

USDA-RUS FINANCIAL AND STATISTICAL REPORT	BORROWER DESIGNATION KENTUCKY 65	
	BORROWER NAME AND ADDRESS KENERGY P.O. BOX 18 HENDERSON, KY 42420	
INSTRUCTIONS – Submit an original and two copies to RUS. Round all amounts to nearest dollar. For detailed instructions, see RUS Bulletin 1717B-2.	PERIOD ENDED DECEMBER 31, 1999	RUS USE ONLY

CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES

Steve Thompson
SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT

1/26/00
DATE

SIGNATURE OF MANAGER

DATE

PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	THIS MONTH (d)
1. Operating Revenue and Patronage Capital	230,006,426	243,351,286	236,259,203	21,929,282
2. Power Production Expense				
3. Cost of Purchased Power	205,156,295	217,957,051	210,967,311	19,445,929
4. Transmission Expense				
5. Distribution Expense-Operation	3,568,961	3,752,972	3,727,455	636,905
6. Distribution Expense-Maintenance	4,147,984	4,605,214	4,465,014	728,339
7. Consumer Accounts Expense	1,919,095	2,229,987	1,766,633	403,615
8. Customer Service and Informational Expense	319,823	425,741	314,801	204,927
9. Sales Expense	134,725	178,706	141,701	22,200
10. Administrative and General Expense	3,447,890	4,772,197	3,585,659	1,240,529
11. Total Operation & Maintenance Expense (2 thru 10)	218,694,773	233,921,868	224,968,574	22,682,444
12. Depreciation and Amortization Expense	3,997,236	4,271,152	4,329,078	508,716
13. Tax Expense-Property & Gross Receipts				
14. Tax Expense-Other	204,688	70,221	244,000	(132,095)
15. Interest on Long-Term Debt	3,366,894	3,526,244	3,522,099	291,326
16. Interest Charged to Construction-Credit	( )			
17. Interest Expense-Other	93,535	68,183	108,300	11,368
18. Other Deductions	64,357	57,630	68,095	3,093
19. Total Cost of Electric Service (11 thru 18)	226,421,483	241,915,298	233,240,146	23,364,852
20. Patronage Capital & Operating Margins (1 minus 19)	3,584,943	1,435,988	3,019,057	(1,435,570)
21. Non-Operating Margins-Interest	905,316	493,523	396,300	(33,085)
22. Allowance for Funds Used During Construction				
23. Income (Loss) from Equity Investments	(38,079)	10,967		
24. Non-Operating Margins-Other	27,218	(238,536)	(152,056)	(47,163)
25. Generation and Transmission Capital Credits				
26. Other Capital Credits & Patronage Dividends	135,477	186,184	57,250	57,130
27. Extraordinary Items....(See Page 2, Part D)	(39,689,199)			
28. Patronage Capital or Margins (20 thru 26)	(35,074,324)	1,888,126	3,320,551	(1,458,688)

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE LAST YEAR (a)	THIS YEAR (b)	ITEM	YEAR-TO-DATE LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	1599	1450	5. Miles Transmission		
2. Services Retired	410	338	6. Miles Distribution-Overhead	6,021	6,049
3. Total Services in Place	52,909	54,021	7. Miles Distribution-Underground	475	507
4. Idle Services (Exclude Seasonal)	4,263	4,350	8. Total Miles Energized (5+6+7)	6,496	6,556

RUS Form 7 (Rev.6-94)

Attachment 6
Page 1 of 2

USDA-RUS	BORROWER DESIGNATION	
FINANCIAL AND STATISTICAL REPORT	KENERGY	
	PERIOD ENDED	RUS USE ONLY
INSTRUCTIONS - See RUS Bulletin 1717B-2	DECEMBER 31, 1999	

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	144,032,015	30. Memberships	406,700
2. Construction Work in Progress	2,475,041	31. Patronage Capital	52,073,675
3. Total Utility Plant (1+2)	146,507,056	32. Operating Margins - Prior Years	78,651
4. Accum. Provision for Depreciation and Amort.	29,253,581	33. Operating Margins - Current Years	
5. Net Utility Plant (3-4)	117,253,475	34. Non-Operating Margins	338
6. Non-Utility Property (Net)	18,048	35. Other Margins and Equities	1,568,853
7. Investments in Subsidiary Companies		36. Total Margins & Equities (30 thru 35)	54,128,217
8. Invest. In Assoc.Org.-Patronage Capital	616,410	37. Long-Term Debt - RUS (Net)	46,719,200
9. Invest. In Assoc.Org-Other-General Funds	5,000	(Payments-Unapplied $575,163)	
10. Invest. In Assoc.Org.-Other-Nongeneral Funds	3,671,629	38. Long-Term Debt - RUS - Econ. Devel. (Net)	787,500
11. Investments in Economic Development Projects	791,795	39. Long-Term Debt Other - REA Guaranteed	
12. Other Investments	89,525	40. Long-Term Debt - Other (Net)	17,510,019
13. Special Funds	2,004,501	41. Total Long-Term Debt (37 thru 40)	65,016,719
14. Total Other Property and Investments (6 thru 13)	7,196,908	42. Obligations Under Capital Leases	
15. Cash - General Funds	363,977	43. Accumulated Operating Provisions	2,943,913
16. Cash - Construction Funds - Trustee		44. Total Other Noncurrent Liabilites (42 + 43)	2,943,913
17. Special Deposits		45. Notes Payable	5,157,178
18. Temporary Investments	848,500	46. Accounts Payable	21,226,400
19. Notes Receivable (Net)		47. Consumer Deposits	935,491
20. Accounts Receivable - Sales of Energy (Net)	19,018,458	48. Other Current and Accrued Liabilities	2,634,504
21. Accounts Receivable - Other (Net)	427,225	49. Total Current & Accrued Liabilities (45 thru 48)	29,953,573
22. Materials and Supplies - Electric and Other	2,866,717	50. Deferred Credits	619,495
23. Prepayments	911,824	51. Accumulated Deferred Income Taxes	
24. Other Current and Accrued Assets	3,691,789	52. Total Liabilities and Other Credits	
25. Total Current and Accrued Assets (15 thru 24)	28,128,490	(36 + 41 + 44 + 49 thru 51)	152,661,917
26. Regulatory Assets		ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION	
27. Other Deferred Debits	83,044	53. Balance Beginning of Year	
28. Accumulated Deferred Income Taxes		54. Amount Received This Year(Net)	
29. Total Assets and Other Debits (5+14+25 thru 28)	152,661,917	55. Total Contributions in Aid of Construction	

PART D. NOTES TO FINANCIAL STATEMENTS

THIS SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT.
(IF ADDITIONAL SPACE IS NEEDED, USE SEPARATE SHEET.)

Note 1-Consolidation
On July 1, 1999, Kenergy became the successor corporation to Green River Electric Corporation and Henderson Union Electric Corporation. The amounts shown in Part A. Statement of Operations represent the sum of both predecessor corporations for the period January 1,1999 through June 30, 1999 and the Kenergy amounts for the period July 1, 1999 through December 31, 1999.

Note 2-One-Time Adjustments
Various one-time accounting adjustments were recorded in 1999 totaling $1,484,000 (net). The majority of these adjustments were related to a special Early Retirement Plan which included Post Retirement Health benefits and changes to accounting practices for consistency between consolidated entities.

Note 3-Extraordinary Items
Section 4.2.10 of Big Rivers first amended plan of reorganization approved in the Chapter 11 Bankruptcy case No. 96-41168 provides that as of the effective date (July 17, 1998), patronage capital claims shall be extinguished, released and discharged. Accordingly, all Big Rivers patronage capital recorded as an investment by Green River Electric and Henderson Union Electric were reduced to zero.

Note 4-Other Current and Accrued Assets
Unbilled revenue totaling $3,667,000 is included on Line 24.

Item 7
KIUC's Requests for Information
Megawatt-Hour Sales
Kenergy Corp. and Predecessors

	1997 (MWh)	% of Total	1998 (MWh)	% of Total	1999 (MWh)	% of Total
Alcan Aluminum Corporation	2,018,538	28	2,012,457	27	2,008,005	25
Commonwealth Industries, Inc.	267,629	4	245,023	3	249,842	3
Kimberly-Clark Corporation	216,450	3	244,523	3	259,291	3
Southwire Company [NSA Smelter and Rod Mill]	3,091,426	43	3,130,317	42	3,598,174	45
All Other Direct Serve Industrial Customers	720,508	10	881,478	12	989,063	12
All Rural Customers Served from Distribution Delivery End Points	850,064	12	909,022	13	944,532	12
TOTAL	7,164,615	100	7,422,820	100	8,048,907	100

Item 8
KIUC's Requests for Information
1998 Revenue
Predecessors to Kenergy Corp.

	(1) Total Revenue	(2) Directly Related Purchase Power Expense	(3) Distribution Revenue [(1)-(2)]	(4) Allocation of Patronage Capital
Alcan Aluminum Corporation	51,054,426	50,853,181	201,245	23,350
Commonwealth Industries, Inc.	7,746,678	7,673,172	73,507	54,254
Kimberly-Clark Corporation	6,731,440	6,595,459	135,981	109,548
Southwire Company {NSA Smelter and Rod Mill}	77,387,186	77,074,155	313,032	192,904
All Other Direct Serve Industrial Customers - GREC	18,431,985	18,076,941	355,043	287,632
All Other Direct Serve Industrial Customers - HUEC	10,472,264	9,155,419	1,316,845	152,792
All Rural Customers Served from Distribution Delivery End Points - GREC	36,032,330	22,312,603	13,719,727	2,863,246
All Rural Customers Served from Distribution Delivery End Points - HUEC	21,437,181	13,415,365	8,021,816	931,149
TOTAL	229,293,490	205,156,295	24,137,195	4,614,875

Item 8
KIUC's Requests for Information
1997 Revenue
Predecessors to Kenergy Corp.

	(1) Total Revenue	(2) Directly Related Purchase Power Expense	(3) Distribution Revenue [(1)-(2)]	(4) Allocation of Patronage Capital
Alcan Aluminum Corporation	51,850,542	51,654,231	196,311	20,681
Commonwealth Industries, Inc.	8,722,935	8,642,647	80,288	57,331
Kimberly-Clark Corporation	6,154,666	6,033,905	120,761	96,595
Southwire Company [NSA Smelter and Rod Mill]	78,708,905	78,378,867	330,038	203,113
All Other Direct Serve Industrial Customers - GREC	14,344,847	14,050,841	294,006	222,328
All Other Direct Serve Industrial Customers - HUEC	11,522,386	9,901,263	1,021,123	170,781
All Rural Customers Served from Distribution Delivery End Points - GREC	35,598,031	22,911,160	12,686,871	2,315,252
All Rural Customers Served from Distribution Delivery End Points - HUEC	20,639,959	13,587,602	7,052,357	743,521
TOTAL	227,542,271	205,160,516	22,381,755	3,829,602

Item 8
KIUC's Requests for Information
1999 Revenue
Kenergy Corp. and Predecessors

	(1) Total Revenue	(2) Directly Related Purchase Power Expense	(3) Distribution Revenue [(1)-(2)]
Alcan Aluminum Corporation	50,831,505	50,630,701	200,804
Commonwealth Industries, Inc.	8,115,701	8,040,749	74,952
Kimberly-Clark Corporation	7,055,242	6,909,076	146,166
Southwire Company [NSA Smelter and Rod Mill]	86,804,783	86,444,965	359,818
All Other Direct Serve Industrial Customers	31,843,619	30,109,761	1,733,858
All Rural Customers Served from Distribution Delivery End Points	58,019,770	35,821,799	22,197,971
TOTAL	242,670,620	217,957,051	24,713,569

Green River Electric Corporation

Memorandum

Date: 04/30/99

TO: Dean Stanley

FROM: John Warren

RE: **Capital Credit Allocations**

Attached summary schedules contain capital credit allocation details for 1998. After your review and approval, we will make the detailed allocation to the regular tariff customers. Please advise by May 15 if possible.

Regular Tariff Capital Credits	$2,863,245.10
Special Contract Capital Credits	$644,337.11
Total Capital Credits	$3,507,582.21

SPECIAL CONTRACT MARGINS
1998

SPECIAL CONTRACT	REVENUE	POWER COST	NET REVENUE	PSC	A&G	MARGINS
WILLAMETTE	$16,615,188.00	$16,444,593.14	$170,594.86	$11,606.36	$25,935.18	$133,053.32
COMMONWEALTH	$7,746,678.46	$7,673,171.71	$73,506.75	$8,079.16	$11,175.08	$54,252.51
SOUTHWIRE	$77,387,186.25	$77,074,154.56	$313,031.69	$72,538.00	$47,589.55	$192,904.14
A-CMI	$587,745.43	$537,989.37	$49,756.06	$378.21	$7,564.31	$41,813.54
ALCOA	$119,113.38	$79,820.76	$39,292.62	$136.52	$5,973.57	$33,182.53
ROD & CABLE	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WORLD SOURCE	$1,109,937.50	$1,014,538.13	$95,399.37	$1,313.72	$14,503.36	$79,582.29
SCOTT PAPER	$6,731,439.82	$6,595,458.87	$135,980.95	$5,759.27	$20,672.90	$109,548.78
TOTAL	$110,297,288.84	$109,419,726.54	$877,562.30	$99,811.24	$133,413.94	$644,337.11
RURAL SYSTEM	$36,032,329.72	$22,312,603.01	$13,719,726.71	$44,313.48	$2,085,781.06	
TOTAL	$146,329,618.56	$131,732,329.55	$14,597,289.01	$144,124.72	$2,219,195.00	

ALLOCATION OF PSC ASSESSMENT
BASED ON REVENUE LESS 1/2 OF POWER COSTS

SPECIAL CONTRACT	1997 REVENUE	POWER COST	POWER COST * 1/2	ASSESSABLE REVENUE	RATE	1998 PSC ASSESSMENT
REG. TARIFF SYSTEM	$35,598,031.04	$22,911,160.23	$11,455,580.12	$24,142,450.93	0.001836	$44,313.48
WILLAMETTE	$12,521,771.00	$12,397,002.00	$6,198,501.00	$6,323,270.00	0.001836	$11,606.36
COMMONWEALTH	$8,722,935.18	$8,642,646.51	$4,321,323.26	$4,401,611.93	0.001836	$8,079.16
NSA***	$78,708,904.69	$78,378,867.22	$39,189,433.61	$39,519,471.08	0.001836	$72,538.00
A-CMI	$380,839.31	$349,569.66	$174,784.83	$206,054.48	0.001836	$378.21
ALCOA	$112,075.17	$75,400.67	$37,700.34	$74,374.84	0.001836	$136.52
	$0.00	$0.00	$0.00	$0.00	0.001836	$0.00
WORLDSOURCE	$1,330,161.65	$1,228,868.59	$614,434.30	$715,727.36	0.001836	$1,313.72
SCOTT PAPER	$6,154,665.68	$6,033,905.41	$3,016,952.71	$3,137,712.98	0.001836	$5,759.27
TOTAL	$143,529,383.72	$130,017,420.29	$65,008,710.15	$78,520,673.58		$144,124.72

ALLOCATION OF ADMINISTRATIVE & GENERAL EXPENSES

SPECIAL CONTRACT	YTD REVENUE	YTD POWER COST	NET REVENUE	PERCENT TO TOTAL	1998 ALLOCATION A&G
WILLAMETTE	$16,615,188.00	$16,444,593.14	$170,594.86	1.1687%	$25,935.18
COMMONWEALTH	$7,746,678.46	$7,673,171.71	$73,506.75	0.5036%	$11,175.08
SOUTHWIRE	$77,387,186.25	$77,074,154.56	$313,031.69	2.1445%	$47,589.55
A-CMI	$587,745.43	$537,989.37	$49,756.06	0.3409%	$7,564.31
ALCOA	$119,113.38	$79,820.76	$39,292.62	0.2692%	$5,973.57
WORLD SOURCE	$1,109,937.50	$1,014,538.13	$95,399.37	0.6535%	$14,503.36
SCOTT PAPER	$6,731,439.82	$6,595,458.87	$135,980.95	0.9315%	$20,672.90
	$110,297,288.84	$109,419,726.54	$877,562.30	6.0118%	$133,413.94
RURAL SYSTEM	$36,032,329.72	$22,312,603.01	$13,719,726.71	93.9882%	$2,085,781.06
	$146,329,618.56	$131,732,329.55	$14,597,289.01	100.0000%	$2,219,195.00

GREEN RIVER ELECTRIC CORPORATION
ALLOCATION OF CAPTIAL CREDITS
1998

SALES ANAYLSIS

CLASS	DESCRIPTION	ACCT NO#	REVENUE	KWH SOLD	POWER COST ALLOCATED PER KWH SOLD	NET REVENUE
1	RESIDENTIAL - FARM	440.1	$21,142,832.84	336,412,893	$13,092,454.45	$8,050,378.39
2	RESIDENTIAL - TOWNS	440.3	$2,462,384.39	37,551,127	$1,524,803.02	$937,581.37
3	SMALL COMMERCIAL	442,442.1	$4,154,944.24	65,926,204	$2,572,901.12	$1,582,043.12
4	LARGE COMMERCIAL	442.2	$5,735,768.69	97,246,680	$3,551,808.35	$2,183,960.34
5	PUBLIC STREET LIGHTING	444	$154,606.26	1,419,252	$95,738.14	$58,868.12
6	PUBLIC BUILDINGS	445.1,445	$2,381,793.30	37,402,291	$1,474,897.93	$906,895.37
	TOTAL		$36,032,329.72	575,958,447	$22,312,603.01	$13,719,726.71

CLASS	DESCRIPTION	ACCT NO#	% OF NET REVENUE TO TOTAL NET REV.	GREC MARGINS (REG TARIFF)	RATE TO BE APPLIED (USING DOLLARS BILLED)
1	RESIDENTIAL - FARM	440.1	58.6774%	$1,680,077.67	0.078723
2	RESIDENTIAL - TOWNS	440.3	6.8338%	$195,669.00	0.078760
3	SMALL COMMERCIAL	442,442.1	11.5312%	$330,165.27	0.079401
4	LARGE COMMERCIAL	442.2	15.9184%	$455,782.67	0.079821
5	PUBLIC STREET LIGHTING	444	0.4291%	$12,285.51	0.077381
6	PUBLIC BUILDINGS	445.1,445	6.6102%	$189,264.98	0.079508
	TOTAL		100.0000%	$2,863,245.10	

Green River Electric Corporation

Memorandum

Date: 07/13/98

TO: Dean Stanley

FROM: John Warren

RE: Capital Credit Allocations

Attached summary schedules contain capital credit allocation details for 1997. After your review and approval, we will make the detailed allocation to the regular tariff customers. Please advise by August 1 if possible..

Regular Tariff Capital Credits	$2,315,251.30
Special Contract Capital Credits	$579,366.50
Total Capital Credits	$2,894,617.80

SPECIAL CONTRACT MARGINS
1997

SPECIAL CONTRACT	REVENUE	POWER COST	NET REVENUE	PSC	A&G	MARGINS
WILLAMETTE	$12,521,771.00	$12,397,002.00	$124,769.00	$8,946.57	$24,967.41	$90,855.03
COMMONWEALTH	$8,722,935.18	$8,642,646.51	$80,288.67	$6,891.15	$16,066.49	$57,331.03
NSA	$77,918,140.18	$77,648,997.05	$269,143.13	$59,723.78	$53,857.98	$155,561.37
A-CMI	$380,839.31	$349,569.66	$31,269.65	0	$6,257.34	$24,665.69
ALCOA	$112,075.17	$75,400.67	$36,674.50	$346.62	$7,338.90	$28,365.86
SOUTHWIRE R/C	$790,764.51	$729,870.17	$60,894.34	$969.74	$12,185.51	$47,551.31
WORLD SOURCE	$1,330,161.65	$1,228,868.59	$101,293.06	$1,157.52	$20,269.66	$78,441.16
SCOTT PAPER	$6,154,665.68	$6,033,905.41	$120,760.27	$2,582.25	$24,165.22	$96,595.05
TOTAL	$107,931,352.68	$107,106,260.06	$825,092.62	$80,617.61	$165,108.51	$579,366.50
RURAL SYSTEM	$35,920,204.04	$22,911,160.23	$13,009,043.81	$36,302.57	$2,603,227.49	
TOTAL	$143,851,556.72	$130,017,420.29	$13,834,136.43	$116,920.18	$2,768,336.00	

ALLOCATION OF PSC ASSESSMENT
BASED ON REVENUE LESS 1/2 OF POWER COSTS

SPECIAL CONTRACT	1996 REVENUE	POWER COST	POWER COST * 1/2	ASSESSABLE REVENUE	RATE	1997 PSC ASSESSMENT
REG. TARIFF SYSTEM	$36,551,925.01	$23,779,709.55	$11,889,854.78	$24,662,070.24	0.001472	$36,302.57
WILLAMETTE	$12,041,473.00	$11,927,287.00	$5,963,643.50	$6,077,829.50	0.001472	$8,946.57
COMMONWEALTH	$9,284,267.43	$9,205,560.98	$4,602,780.49	$4,681,486.94	0.001472	$6,891.15
NSA	$80,902,818.44	$80,659,203.32	$40,329,601.66	$40,573,216.78	0.001472	$59,723.78
ALCOA	$352,905.00	$234,862.94	$117,431.47	$235,473.53	0.001472	$346.62
SOUTHWIRE R/C	$1,219,807.61	$1,122,033.24	$561,016.62	$658,790.99	0.001472	$969.74
WORLD SOURCE	$1,471,994.65	$1,371,275.86	$685,637.93	$786,356.72	0.001472	$1,157.52
SCOTT PAPER	$3,441,760.69	$3,375,035.78	$1,687,517.89	$1,754,242.80	0.001472	$2,582.25
TOTAL	$145,266,951.83	$131,674,968.67	$65,837,484.34	$79,429,467.50		$116,920.18

ALLOCATION OF ADMINISTRATIVE & GENERAL EXPENSES

SPECIAL CONTRACT	YTD REVENUE	YTD POWER COST	NET REVENUE	PERCENT TO TOTAL	1997 ALLOCATION A&G
WILLAMETTE	$12,521,771.00	$12,397,002.00	$124,769.00	0.9019%	$24,967.41
COMMONWEALTH	$8,722,935.18	$8,642,646.51	$80,288.67	0.5804%	$16,066.49
NSA	$77,918,140.18	$77,648,997.05	$269,143.13	1.9455%	$53,857.98
A-CMI	$380,839.31	$349,569.66	$31,269.65	0.2260%	$6,257.34
ALCOA	$112,075.17	$75,400.67	$36,674.50	0.2651%	$7,338.90
SOUTHWIRE R/C	$790,764.51	$729,870.17	$60,894.34	0.4402%	$12,185.51
WORLD SOURCE	$1,330,161.65	$1,228,868.59	$101,293.06	0.7322%	$20,269.66
SCOTT PAPER	$6,154,665.68	$6,033,905.41	$120,760.27	0.8729%	$24,165.22
	$107,931,352.68	$107,106,260.06	$825,092.62	5.9642%	$165,108.51
RURAL SYSTEM	$35,920,204.04	$22,911,160.23	$13,009,043.81	94.0358%	$2,603,227.49
	$143,851,556.72	$130,017,420.29	$13,834,136.43	100.0000%	$2,768,336.00

PATRONAGE CAPITAL ALLOCATION 1998

CLASS	GROSS BILLING (excluding taxes)	COST OF POWER	NET BILLING	PERCENT OF NET BILLING	MARGINS ALLOCATED	RATE OF RETURN ON NET BILLING	RETURN PER DOLLAR OF GROSS BILLING
(1) RESIDENTIAL	$15,044,720.20	$9,170,906.38	$5,873,813.82	61.55%	$681,533.59	11.60%	$0.0453005
(2) PUBLIC BUILDINGS	132,036.20	80,127.02	51,909.18	0.54%	6,022.98	11.60%	$0.0456161
(3) COMMERCIAL B	1,016,416.99	581,518.73	434,898.26	4.56%	50,460.87	11.60%	$0.0496458
(4) COMMERICAL B	473,715.67	266,262.53	207,453.14	2.17%	24,070.61	11.60%	$0.0508124
(5) LARGE POWER B-1	243,756.91	146,163.02	97,593.89	1.02%	11,323.74	11.60%	$0.0464550
(6) LARGE POWER B-1	2,598,263.26	1,654,599.94	943,663.32	9.89%	109,492.45	11.60%	$0.0421406
(7) LARGE POWER LP-3	839,109.85	742,746.94	96,362.91	1.01%	11,180.91	11.60%	$0.0133247
(0) LARGE POWER LP-3	1,858,377.97	1,478,627.84	379,750.13	3.98%	44,062.08	11.60%	$0.0237100
(8) LARGE POWER LP-4	9,633,154.54	8,412,672.48	1,220,482.06	12.79%	141,611.49	11.60%	$0.0147004
ALCAN	51,054,426.38	50,853,180.66	201,245.72	2.11%	23,350.37	11.60%	$0.0004574
(G) GRAIN BINS	68,933.45	34,209.91	34,723.54	0.36%	4,028.94	11.60%	$0.0584468
PSHLS	4,272.75	2,949.31	1,323.44	0.01%	153.56	11.60%	$0.0359388
TOTALS	$82,967,184.17	$73,423,964.76	$9,543,219.41	100.00%	$1,107,291.58		

PATRONAGE CAPITAL ALLOCATION 1997

CLASS	GROSS BILLING (excluding taxes)	COST OF POWER	NET BILLING	PERCENT OF NET BILLING	MARGINS ALLOCATED	RATE OF RETURN ON NET BILLING	RETURN PER DOLLAR OF GROSS BILLING
(1) RESIDENTIAL	$14,715,626.36	$9,642,279.32	$5,073,347.04	57.16%	$534,464.20	10.53%	$0.0363195
(2) PUBLIC BUILDINGS	138,050.93	89,039.12	49,011.81	0.55%	5,163.27	10.53%	$0.0374012
(3) COMMERCIAL B	1,021,574.00	605,227.83	416,346.17	4.69%	43,861.01	10.53%	$0.0429347
(4) COMMERICAL B	460,184.10	280,365.36	179,818.74	2.03%	18,943.45	10.53%	$0.0411649
(5) LARGE POWER B-1	84,144.40	31,294.83	52,849.57	0.60%	5,567.57	10.53%	$0.0661668
(6) LARGE POWER B-1	2,779,102.82	1,794,029.15	985,073.67	11.10%	103,775.00	10.53%	$0.0373412
(7) LARGE POWER LP-3	1,194,829.24	1,031,184.68	163,644.56	1.84%	17,239.54	10.53%	$0.0144285
(0) LARGE POWER LP-3	1,383,151.02	1,108,915.54	274,235.48	3.09%	28,890.01	10.53%	$0.0208871
(8) LARGE POWER LP-4	10,327,556.62	8,870,077.91	1,457,478.71	16.42%	153,541.67	10.53%	$0.0148672
ALCAN	51,850,542.31	51,654,231.26	196,311.05	2.21%	20,680.87	10.53%	$0.0003989
(G) GRAIN BINS	59,012.21	33,201.02	25,811.19	0.29%	2,719.14	10.53%	$0.0460776
PSHLS	4,552.16	3,250.01	1,302.15	0.01%	137.18	10.53%	$0.0301347
TOTALS	$84,018,326.17	$75,143,096.03	$8,875,230.14	100.00%	$934,982.91		

HENDERSON UNION ELECTRIC COOPERATIVE CORP.

	(1997)	(1998)	(1999)[1]
Administrative and General Salaries	340,313	450,900	
Office Supplies and Expense	84,985	91,259	
Outside Services	135,238	106,461	
Property and Casualty Insurance	159,865	1,066	
Pension and Benefits	725,249	16,167	
Regulatory Commission Expense	46,723	49,922	
Miscellaneous General Expense	205,632	272,960	
Directors	135,969	135,081	
Annual Meeting Expense	24,067	55,524	
Maintenance General Plant	37,153	49,356	
Total Administrative & General Expense	1,895,195	1,228,694	

GREEN RIVER ELECTRIC CORPORATION

			KENERGY[1]
Administrative and General Salaries	753,540	951,707	2,281,977
Office Supplies and Expense	185,096	214,132	317,606
Outside Services	180,134	119,523	267,044
Property and Casualty Insurance	234,518	7,783	8,032
Pension and Benefits	744,089	50,171	147,676
Franchise	665	873	5,708
Regulatory Commission Expense	41,607	85,031	38,283
Miscellaneous General Expense	215,011	341,137	912,537
Directors	79,953	91,197	337,708
Dues	88,879	92,597	102,027
Annual Meeting Expense	36,400	36,638	68,092
Maintenance General Plant	208,444	228,406	384,868
Total Administrative & General Expense	2,768,336	2,219,195	4,871,558

[1]See Attachment 6, page 2, notes 1 and 2 to financial statements relating to consolidation and one-time adjustments.

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

January 20, 2000

To: All parties of record

RE: Case No. 1999-162

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

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/sa
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 RATE DECREASE FOR KENERGY CORP., CONSOLIDATION SUCCESSOR	)))))	CASE NO. 99-162

ORDER

Kenergy Corp. ("Kenergy") has moved for an extension of time in which to file and serve responses to pending requests for information. No party has opposed this motion. Having considered the motion and finding good cause exists to grant the motion, the Commission HEREBY ORDERS that:

1. Kenergy's Motion for Extension of Time is granted.

2. Kenergy shall have until January 31, 2000 in which to respond to opposing parties' requests for information and to the Commission's Order of January 10, 2000.

3. All provisions of the Commission's Order of December 14, 1999 that do not conflict with this Order continue in effect.

Done at Frankfort, Kentucky, this 20th day of January, 2000.

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

January 14, 2000

PRIORITY MAIL

RECEIVED
JAN 18 2000
PUBLIC SERVICE
COMMISSION

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

Re: Case No. 99-162

Dear Mr. Huelsmann:

We enclose herewith for filing motion for extension of time to file and serve responses to pending requests for information. Please note that counsel for the intervenor has no objection to the motion and, except for the requested extension, the procedural schedule will not otherwise be altered.

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. Gerald Wuetcher
Mr. Michael L. Kurtz

RECEIVED

JAN 18 2000

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

MOTION FOR EXTENSION OF TIME

Kenergy Corp. ("Kenergy"), moves for an extension of time of seven (7) days in which to file and serve responses to pending requests for information. As grounds for this motion Kenergy states that previously scheduled commitments of key Kenergy personnel and a death in the family of Kenergy's president and CEO require that additional time be obtained to file and serve said responses.

Counsel for intervenor Kentucky Industrial Utility Customers, Inc. has authorized the undersigned to inform the Commission that he has no objection to this motion and that he will not need additional time to comply with the procedural step due by February 11, 2000. Therefore, the existing procedural schedule will not otherwise be altered.

WHEREFORE, Kenergy moves that it be allowed to and including January 31, 2000, in which to file and serve responses to pending requests for information and that it be afforded all proper relief.

DORSEY, KING, GRAY & NORMENT
318 Second Street
Henderson, Kentucky 42420
(270) 826-3965 Telephone
(270) 816-6672 Telefax
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 14th day of January, 2000.

Frank N. King
Frank N. King, Jr.

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

TELECOPIER (513) 421-2764

RECEIVED
JAN 11 2000
PUBLIC SERVICE COMMISSION

__Via Overnight Mail__

January 10, 2000

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

Re: __**In The Matter Of: Notice of Intent of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation to File Joint application for Rate Reduction, Case No. 99-162.**__

Dear Ms. Helton:

Please find enclosed the original and ten copies each of the First Set of Data Requests 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

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 10th day of January, 2000.

Honorable Frank N. King
Attorney at Law
Dorsey, King, Gray & Norment
318 Second Street
Henderson, KY. 42420
(Via Telefax Transmission and Overnight Mail)

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

Michael L. Kurtz, Esq.

RECEIVED
JAN 11 2000
PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: Notice of Intent of Green River Electric	:	Case No. 99-162
Corporation and Henderson Union Electric Cooperative	:	
Corporation to File Joint Application for Rate Reduction	:	

FIRST SET OF DATA REQUESTS OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Dated: **January 10, 2000**

DEFINITIONS

1. "Document" means the original and all copies (regardless of origin and whether or not including additional writing thereon or attached thereto) of memoranda, reports, books, manuals, instructions, directives, records, forms, notes, letters, notices, confirmations, telegrams, pamphlets, notations of any sort concerning conversations, telephone calls, meetings or other communications, bulletins, transcripts, diaries, analyses, summaries, correspondence investigations, questionnaires, surveys, worksheets, and all drafts, preliminary versions, alterations, modifications, revisions, changes, amendments and written comments concerning the foregoing, in whatever form, stored or contained in or on whatever medium, including computerized memory or magnetic media.

2. "Study" means any written, recorded, transcribed, taped, filmed, or graphic matter, however produced or reproduced, either formally or informally, a particular issue or situation, in whatever detail, whether or not the consideration of the issue or situation is in a preliminary stage, and whether or not the consideration was discontinued prior to completion.

3. "Person" means any natural person, corporation, professional corporation, partnership, association, joint venture, proprietorship, firm, or the other business enterprise or legal entity.

4. A request to identify a natural person means to state his or her full name and residence address, his or her present last known position and business affiliation at the time in question.

5. A request to identify a document means to state the date or dates, author or originator, subject matter, all addressees and recipients, type of document (e.g., letter, memorandum, telegram, chart, etc.), number of code number thereof or other means of identifying it, and its present location and custodian. If any such document was, but is no longer in the Company's possession or subject to its control, state what disposition was made of it.

6. A request to identify a person other than a natural person means to state its full name, the address of its principal office, and the type of entity.

7. "And" and "or" should be considered to be both conjunctive and disjunctive, unless specifically stated otherwise.

8. "Each" and "any" should be considered to be both singular and plural, unless specifically stated otherwise.

9. Words in the past tense should be considered to include the present, and words in the present tense include the past, unless specifically stated otherwise.

10. "You" or "your" means the person whose filed testimony is the subject of these interrogatories and, to the extent relevant and necessary to provide full and complete answers to any request, "you" or "your" may be deemed to include any person with information relevant to any interrogatory who is or was employed by or otherwise

associated with the witness or who assisted, in any way, in the preparation of the witness' testimony.

11. "Kenergy" means Kenergy Corp and/or any of their officers, directors, employees, or agents who may have knowledge of the particular matter addressed.

12. "BREC" means Big Rivers Electric Corporation and/or any of their officers, directors, employees, or agents who may have knowledge of the particular matter addressed.

13. GREC means Green River Electric Corporation and/or any of their officers, directors, employees, or agents who may have knowledge of the particular matter addressed.

14. HUEC means Henderson Union Electric Cooperative Corporation and/or any of their officers, directors, employees, or agents who may have knowledge of the particular matter addressed.

INSTRUCTIONS

1. If any matter is evidenced by, referenced to, reflected by, represented by, or recorded in any document, please identify and produce for discovery and inspection each such document.

2. These interrogatories are continuing in nature, and information which the responding party later becomes aware of, or has access to, and which is responsive to any request is to be made available to Kentucky Industrial Utility Customers. Any studies, documents, or other subject matter not yet completed that will be relied upon during the course of this case should be so identified and provided as soon as they are completed. The Respondent is obliged to change, supplement and correct all answers to interrogatories to conform to available information, including such information as it first becomes available to the Respondent after the answers hereto are served.

3. Unless otherwise expressly provided, each interrogatory should be construed independently and not with reference to any other interrogatory herein for purpose of limitation.

4. The answers provided should first restate the question asked and also identify the person(s) supplying the information.

5. Please answer each designated part of each information request separately. If you do not have complete information with respect to any interrogatory, so state and give as much information as you do have with respect to the matter inquired about, and identify each person whom you believe may have additional information with respect thereto.

6. In the case of multiple witnesses, each interrogatory should be considered to apply to each witness who will testify to the information requested. Where copies of testimony, transcripts or depositions are requested, each witness should respond individually to the information request.

7. The interrogatories are to be answered under oath by the witness(es) responsible for the answer.

8. Responses to requests for revenue, expense and rate base data should provide data on the basis of Total company as well as Intrastate data, unless otherwise requested.

KIUC FIRST SET OF DATA REQUESTS TO KENERGY
PSC CASE NO 99-162

1. Reference the Green River Electric Corporation ("GREC") and Henderson Union Electric Cooperative ("HUEC") Consolidation Study Issued October 1996 and Revised and Updated January 1999 (the "Consolidation Study) prepared by the National Rural Electric Cooperative Association ("NRECA"). On Page 77 of the Consolidation Study, Part A under Scenario 1 states in part: "Total ten-year reduction in O&M, A&G and customer account expense of $21,981,000."

   a. Please provide copies of all studies, evaluations, analyses, spreadsheets, calculations or other similar data that underlie or support the estimated annual or total amount of the expected expense reduction.

   b. Please provide copies of all studies, evaluations, analyses, spreadsheets, calculations or other similar data that reflects the allocations of the estimated annual or total amount of the expected expense reduction into components for O&M, A&G, and Customer Accounting.

   c. Please provide copies of all letters, memoranda, or other communications between or among GREC, HUEC, NRECA, and/or the Rural Utilities Service ("RUS") that references, discusses or provides information regarding expense reductions that are expected or estimated to arise from the merger of GREC and HUEC.

   d. Please provide copies of all letters, memoranda, or other communications between or among GREC, HUEC, NRECA, and/or RUS that reference or discuss the possible applications of the additional cash flow expected to arise from expense reductions related to the merger of GREC and HUEC.

2. On Page 82 of the Consolidation Study, the NRECA states that "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 customers."

   a. Please identify the NRECA representative who is responsible for this recommendation, and indicate whether that person will be available for cross-examination at the Public Hearing in this matter.

   b. Please explain why NRECA would make a recommendation regarding the disposition of the merger savings when NRECA did not make any recommendation on this issue in its earlier report of October 1996.

   c. Please provide copies of all letters, memoranda, or other communications between or among GREC, HUEC, NRECA, and/or RUS that references or discusses the use of merger savings for a rate decrease, the total amount of any proposed rate decrease, the proposed allocation of any rate decrease, and/or the rationale for NRECA's recommendation that the entire rate decrease be directed to rural customers.

d. Please provide copies of any studies, evaluations, or analyses, performed by GREC, HUEC, Kenergy, NRECA, or by a third party on behalf of any of the foregoing, that shows the electric rates to all customer classes would continue to be fair, just, and reasonable following a 4% rate reduction to the rural ratepayers and no rate reduction to any other class of ratepayers.

3. Please provide a copy of the Consolidation Agreement that was presented to and approved by the Board of Directors of each of GREC and HUEC prior to presenting the merger question to a vote of the membership of the two cooperatives.

4. Please provide a copy of all information, including all promotional materials, that was disseminated to the membership of the two cooperatives to explain the purposes of the proposed merger and to solicit the support of the membership.

5. Please provide copies of the RUS Form 7 (or any other substantially similar information filed with the RUS) for 1997 and 1998 filed by each of GREC and HUEC.

6. Please provide a copy of the RUS Form 7 (or any other substantially similar information filed with the RUS) for 1999 filed by Kenergy. If Kenergy's final RUS Form 7 for 1999 is not yet available, please provide the preliminary filing of that form. If the preliminary filing is not available, please provide Kenergy's RUS Form 7 for the eleven months ended November 30, 1999. If Kenergy cannot yet provide the final RUS Form 7, please indicate when that document will be available.

7. Please complete the attached form showing the total megawatt hour sales of Kenergy and its predecessors for 1997, 1998, and 1999, divided into sales to each specified industrial ratepayer or group of industrial or rural ratepayers.

8. Please complete the attached forms for 1997, 1998, and 1999, for Kenergy and its predecessors, showing for each specified industrial ratepayer or group of industrial or rural ratepayers, the annual revenue to the cooperative, the directly related purchased power expense, and the distribution revenue (revenue in excess of purchased power expense). Please also complete the attached forms to reflect total patronage capital and allocations thereof to each specified ratepayer or ratepayer group in 1997 and 1998.

9. Please provide copies of the calculations performed by GREC and HUEC to determine the allocations of patronage capital to each specified ratepayer or ratepayer group, as set forth on the forms related to Item 8 of KIUC's Requests for Information.

10. With respect to the retail electric service provided by Kenergy to each of Alcan Aluminum Corporation ("Alcan"), Commonwealth Industries, Inc. ("Commonwealth"), Kimberly-Clark Corporation ("Kimberly-Clark"), and Southwire Company ("Southwire"), please indicate:

a. Kenergy's net capital investment in electric facilities or equipment, if any, devoted to providing electric service to each of the four ratepayers named above.

b. Kenergy's annual operations and maintenance costs related to electric facilities and equipment devoted to providing electric service to each of the four ratepayers named above.

11. With respect to the retail electric service provided by Kenergy to each of Commonwealth and Kimberly-Clark, please answer the following:

a. Does Kenergy read the meters on a monthly basis? Does Kenergy test the meters? If not, who reads and tests the meters? If performed by a third party, what compensation does Kenergy pay to the third party reading and testing the meters?

b. Does Kenergy calculate the monthly electric bill? Does Kenergy prepare and render the monthly bill? If either of these functions is performed by a third party, what compensation does Kenergy pay to the third party for such services?

c. Explain the relationship between changes in Kenergy's customer accounting costs and changes in the energy consumption of Commonwealth and Kimberly-Clark.

d. Explain the relationship between changes in Kenergy's customer accounting costs and changes in the monthly kW demand of Kimberly-Clark and Commonwealth.

e. Explain how the amount of customer accounting costs incurred by Kenergy in providing electric service to each of Commonwealth and Kimberly-Clark is distinguishable from the amount of customer accounting costs incurred by Kenergy in providing electric service to a rural residential customer.

12. With respect to retail electric service provided by Kenergy to each of Alcan and Southwire, please answer the following:

a. Does Kenergy read the meters on a monthly basis? Does Kenergy test the meters? If not, who reads and tests the meters? If performed by a third party, what compensation does Kenergy pay to the third party reading and testing the meters?

b. Does Kenergy calculate the monthly electric bill? Does Kenergy prepare and render the monthly bill? If either of these functions is performed by a third party, what compensation does Kenergy pay to the third party for such services?

c. Does Kenergy collect and process the monthly payments from Alcan and Southwire? If not, what compensation does Kenergy pay to any third party for such services?

d. Explain the relationship between changes in Kenergy's customer accounting costs and changes in the energy consumption of Alcan and Southwire.

e. Describe the liability borne by Kenergy in the event that either Alcan or Southwire should fail to pay its monthly invoice for electric power service.

f. Describe the liability borne by Kenergy in the event that any wholesale supplier providing power to Kenergy for resale to either Alcan or Southwire should fail to deliver all or any portion of the power requirements of Alcan or Southwire.

13. For GREC and HUEC for 1997 and 1998, and for Kenergy in 1999, please provide a schedule showing total Administrative and General ("A&G") Expenses for each year, with a breakdown of the annual A&G expenses into major functions or components.

14. Please provide a description of Kenergy's A&G expenses that are directly attributable to providing service to Alcan, Commonwealth, Kimberly-Clark and Southwire. For each directly attributable component of A&G expense, please describe which expenses are directly related to kWh consumption, which are directly related to kW demand, and which are not directly related to either kWh consumption or kW demand.

15. Please provide a narrative that addresses which of Kenergy's A&G expenses that are not directly attributable to providing service (as set forth in Item 14 above) are indirectly attributable (where the expenses should be allocated in part) to providing service to Alcan, Commonwealth, Kimberly-Clark and Southwire. For each allocable component of A&G expense, please describe which expenses are directly related to kWh consumption, which are directly related to kW demand, and which are not directly related to either kWh consumption or kW demand.

16. Please describe in detail how the expenses incurred by Kenergy in providing electric service to Southwire increased upon the construction and operation of Southwire's fifth pot line.

17. Please describe in detail how the expenses incurred by Kenergy in providing electric service to Alcan would increase (a) if Alcan were to place its idle third pot line back into service, or (b) if Alcan were to construct and operate a fourth pot line. Also, please describe in detail how the expenses incurred by Kenergy in providing electric service to Alcan would decrease if (a) Alcan were to take a second pot line out of service, or (b) if Alcan were to take both active pot lines out of service.

18. Does Kenergy agree that all of its rates in effect prior to the Commission's approval of the 4% rural rate reduction were "fair, just and reasonable"? Please explain.

Item 7
KIUC's Requests for Information
Megawatt-Hour Sales
Kenergy Corp. and Predecessors

	1997 (MWh)	% of Total	1998 (MWh)	% of Total	1999 (MWh)	% of Total
Alcan Aluminum Corporation						
Commonwealth Industries, Inc.						
Kimberly-Clark Corporation						
Southwire Company [NSA Smelter and Rod Mill]						
All Other Direct Serve Industrial Customers						
All Rural Customers Served from Distribution Delivery End Points						
TOTAL						

Item 8
KIUC's Requests for Information
1998 Revenue
Predecessors to Kenergy Corp.

	(1) Total Revenue	(2) Directly Related Purchase Power Expense	(3) Distribution Revenue [(1)-(2)]	(4) Allocation of Patronage Capital
Alcan Aluminum Corporation				
Commonwealth Industries, Inc.				
Kimberly-Clark Corporation				
Southwire Company [NSA Smelter and Rod Mill]				
All Other Direct Serve Industrial Customers - GREC				
All Other Direct Serve Industrial Customers - HUEC				
All Rural Customers Served from Distribution Delivery End Points - GREC				
All Rural Customers Served from Distribution Delivery End Points - HUEC				
TOTAL				

Item 8
KIUC's Requests for Information
1997 Revenue
Predecessors to Kenergy Corp.

	(1) Total Revenue	(2) Directly Related Purchase Power Expense	(3) Distribution Revenue [(1)-(2)]	(4) Allocation of Patronage Capital
Alcan Aluminum Corporation				
Commonwealth Industries, Inc.				
Kimberly-Clark Corporation				
Southwire Company [NSA Smelter and Rod Mill]				
All Other Direct Serve Industrial Customers - GREC				
All Other Direct Serve Industrial Customers - HUEC				
All Rural Customers Served from Distribution Delivery End Points - GREC				
All Rural Customers Served from Distribution Delivery End Points - HUEC				
TOTAL				

Item 9
KIUC's Requests for Information
1999 Revenue
Kenergy Corp. and Predecessors

	(1) Total Revenue	(2) Directly Related Purchase Power Expense	(3) Distribution Revenue [(1)-(2)]
Alcan Aluminum Corporation			
Commonwealth Industries, Inc.			
Kimberly-Clark Corporation			
Southwire Company [NSA Smelter and Rod Mill]			
All Other Direct Serve Industrial Customers			
All Rural Customers Served from Distribution Delivery End Points			
TOTAL			

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

January 10, 2000

To: All parties of record

RE: Case No. 1999-162

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

ORDER

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

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

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

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

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

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

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

---

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

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

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

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

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

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

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

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

(1) Green River.

(2) Henderson Union.

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

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

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

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

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

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

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

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

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

(2) If yes,

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

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

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

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

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

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

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

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

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

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

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

Done at Frankfort, Kentucky, this 10th day of January, 2000.

By the Commission

ATTEST:

Helen C Helton

Executive Director

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

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

December 14, 1999

To: All parties of record

RE: Case No. 1999-162

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

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

99-162

09/10/99

Dear Sir:

In regards to the rate decrease before the PSC in Kentucky filed by Kenergy Corporation, (Kenergy, being the merger of Greenriver Electric and Henderson Union RECC), I wish to comment and have it included in the official record for this case. As a member of the former Greenriver Electric Coop, I was asked to vote for the merger of the two electric utilities twice, the first time being rejected and the second time being approved by the membership; as were the members of Henderson Union RECC. The enticement for the merger in both instances was lower electric bills due to increased efficiency if the merger was approved. The merger was approved by the membership of both coop's; and according to information I have received from the new company , A request for an immediate rate decrease for residential and small business customers was immediately applied for as per the promise that was put forth if the merger was approved. At this point I am told that the rate decrease was held up by LARGE INDUSTRIAL CUSTOMERS that filed suit to stop any rate decrease unless they were included equally.

I feel that the LARGE INDUSTRIAL CUSTOMERS with their army of lawyers on retainer, should be ignored in this matter, as they already receive preferential rates because of the legal muscle that they can afford to bring to bear on every rate case that they do not approve of. Even if it was feasible to include them in a rate decrease, (which it is not) their share would be so large as to make any decrease for the small rate payer minuscule. As a private citizen I feel I speak for the masses when I say, IF ANYTHING, RAISE THE RATES ON THE LARGE INDUSTRIAL CUSTOMERS AND MAKE THEM PAY THE SAME RATES AS THE SMALLEST CUSTOMER IN THE COOP; AND IF ANY EXCESS FEES ARE RECEIVED BY THE COOP, REFUND THE EXTRA TO **RESIDENTIAL CUSTOMERS ON TOP OF ANY RATE DECREASE THAT KENERGY MAY HAVE APPLIED FOR.** If this sounds radical, it is only because of the injustice that special interest groups such as LARGE INDUSTRIAL CUSTOMERS have managed to inflict on the rest of the rate payers over many years. It is high time that the injustice be rectified on the side of the masses. The LARGE INDUSTRIAL CUSTOMERS only intend to increase their profits and pass it on to shareholders. The rest of the rate payers only want equity and a fair electric bill that has been denied to us all these years because of the greed and influence LARGE CORPORATIONS have managed to wield over many years.

I ask you to approve any rate decrease applied for and more in the interest of fairness.

Respectfully
Harry T Eich
Harry T. Eich
6514 Harmony Drive
Utica, KY, 42376
(270) 729-4499

RECEIVED
SEP 13 1999
PUBLIC SERVICE
COMMISSION

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) 564-1582

Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

November 5, 1999

Mr. Harry T. Eich
6514 Harmony Dr.
Utica, KY 42376

Re: Case Number 99-162

Dear Mr. Eich:

The Commission has received your letter dated September 13, 1999 concerning the above case. Your letter will be placed in the main case file. The Commission will analyze this case and give careful consideration to proposed rate reductions before rendering its decision.

Please be advised that the Attorney General represents residential rate payers. You may wish to contact the Attorney General's office at 502-696-5300 and request that his office represent you in this matter.

Thank you for your interest and concern in this matter.

Sincerely,

Stephanie J. Bell

Stephanie Bell
Secretary to the Commission

SB/lc

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 99-162 DATED 12/14/99

All requests for information to Kenergy shall be served upon Kenergy no later than 01/10/2000

Kenergy shall file with the Commission and serve upon all parties of record its responses to the requests for information no later than.......... 01/24/2000

Any supplemental requests for information shall be served upon Kenergy no later than.......... 02/11/2000

Kenergy shall file with the Commission and serve upon all parties of record its responses to all supplemental requests for information no later than.......... 02/25/2000

Intervenor testimony, if any, shall be filed with the Commission and served upon all parties of record in verified prepared form no later than.......... 03/10/2000

All requests for information to Intervenors shall be served no later than.......... 03/24/2000

Intervenors shall file with the Commission and serve upon all parties of record its responses to requests for information no later than.......... 04/07/2000

Kenergy shall file with the Commission and serve upon all parties of record any rebuttal testimony in verified prepared form no later than 04/21/2000

Public Hearing is to begin at 9:00 a.m., Eastern Daylight Time, in the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses.......... 04/25/2000

Parties may file with the Commission and shall serve upon all parties of record written briefs no later than 05/22/2000

4. All documents that this Order requires to be filed with the Commission shall be served upon all parties of record.

5. Parties shall file the original and 10 copies of all testimony. The original and at least 4 copies of the testimony shall be filed:

a. With a cover letter listing each witness presenting testimony.

b. Bound in 3-ring binders or with any other fastener that readily opens and closes to faciliate photocopying.

c. With witness's testimony tabbed.

d. With every exhibit to each witness's testimony appropriately marked.

6. 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.

7. 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.

8. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

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

By the Commission

ATTEST:

Helen Helton

Executive Director

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

On August 31, 1999, the Commission granted Kenergy Corp. ("Kenergy") a deviation from Administrative Regulation 807 KAR 5:001, Section 10(6)(u), that requires the submission of a cost-of-service study with its application for rate adjustment. We expressly deferred ruling upon whether a cost-of-service study should be required until Kenergy had the opportunity to respond to the arguments of the Kentucky Industrial Utility Customers ("KIUC"). Having now reviewed the parties' arguments, we find that Kenergy should not be required to submit a cost-of-service study.

Kenergy advances two arguments for foregoing a cost-of-service study in this proceeding. First, such study is not timely. Kenergy has been in operation only since July 1, 1999. It asserts that the savings produced from the consolidation of its two predecessors will not be known until after at least 12 months of consolidated operations. Kenergy also argues that no cost-of-service methodology currently exists to allocate costs to special contract customers. It points to two prior Commission proceedings in which the Commission accepted cost-of-service studies that did not quantify various costs to special contract customers.[1]

[1] Case No. 90-152, Green River Electric Corporation Notice of Increase in Rates for Retail Electric Service (Dec. 21, 1990); Case No. 10275, Green River Electric Corporation Notice of Increase in Rates for Retail Electric Service (Dec. 27, 1988).

KIUC argues that a cost-of-service study is of paramount importance. It asserts that a valid cost-of-service study for Kenergy can be prepared using the operations of Kenergy's predecessors.[2] It notes that Kenergy has been able to prepare a consolidated income statement despite Kenergy's relatively short existence.

Having carefully considered the arguments of both parties, the Commission finds that this proceeding should go forward without Kenergy's submission of a cost-of-service study. Given the relative short period in which Kenergy has operated as a consolidated entity and given the Commission's past practice of not requiring a cost-of-service study from Green River Electric Corporation that considers the full cost of serving special contract customers, the Commission finds that a cost-of-service study is likely to be of limited value in this proceeding. While not requiring the submission of a cost-of-service study, we caution Kenergy that it continues to bear the burden of proof to show that the proposed reduction is "just and reasonable" and will not result in unreasonable discrimination toward any class of utility ratepayer. See KRS 278.190(4).

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A to this Order shall be followed.

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

3. 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.

---

[2] Green River Electric Corporation and Henderson Union Electric Cooperative Corporation were consolidated on July 1, 1999 to form Kenergy.

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

September 15, 1999

RECEIVED
SEP 1 6 1999
PUBLIC SERVICE
COMMISSION

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

Re: Case No. 99-162

Dear Ms. Helton:

We enclose herewith for filing in this case the following:

1. Notices which were published as required under 807 KAR 5:001, Section 10(4)(c)3, along with affidavits of publication

2. Revised tariff sheets required under Ordering paragraph 6 of the Commission's August 31, 1999, order

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. Dean Stanley
Copy/w/tariff sheets: Attorney General of Kentucky
Hon. Michael L. Kurtz

Attitudes	Eddyville United Methodist Church
Lyon Co[illegible]ns. Agency	Friendship United Method[illegible]hurch
Bremner	Glenn's Chapel Methodist [illegible]urch
Miss Neda's Donut Shop	St. Mark's Catholic Church
Civitas Bank	Community Based Services/ Protection & Permanancy and Family Support
Bank of Lyon County	

NOTICE TO THE PUBLIC OF A PROPOSED DECREASE IN RATES OF KENERGY CORP
PSC CASE 99-162

Kenergy Corp, 6402 Old Corydon Road, P.O. Box 18, Henderson, KY 42419 filed an application for a decrease in rates with the Kentucky Public Service Commission on August 16, 1999. The proposed decrease is designed to flow through to Kenergy's customers the reduction in expense, which will result from the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. There is no change proposed in the current base rates of each rate class. A 4% consolidation credit rider for each rate class (except direct-served) is being proposed for a period of five years.

THE AMOUNT AND PERCENT OF DECREASE BY RATE CLASS, BASED ON 1998 USAGE, ARE LISTED BELOW:

KENERGY EAST (former Green River Electric Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential and all other single phase	4%	$ 3.10
Commercial three-phase under 1,000 KW	4%	$ 47.11
Commercial three-phase over 1,000 KW	4%	$1,080.50
Direct-served industrial customers	0%	$ 0

KENERGY WEST (former Henderson Union Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential (single phase)	4%	$ 3.03
Farm, government or commercial (50 KVA or less)	4%	$ 4.15
Grain bins (51 to 500 KVA)	4%	$ 7.66
Farm or commercial (51 to 501 KVA)	4%	$ 57.07
Large power (501 to 2000 KVA) non-dedicated delivery	4%	$884.94
Direct-served industrial customers	0%	$ 0

Any customer, prospective customer or his agent desiring additional information regarding this proposed decrease in rates or regarding Kenergy's tariffs (present or proposed) may secure such information at Kenergy's office at the above stated address, or at one of its offices at P.O. Box 1389, 3111 Fairview Drive, Owensboro, KY 42302; P.O. Box 99, 315 Hawes Blvd., Hawesville, KY 42348; P.O. Box 268, 703 Main Street, Marion, KY 42064; P.O. Box 73, 1441 U.S. 231 North, Hartford, KY 42347, or P.O. Box 327, 2620 Brown Badgett Road, Hanson, KY 42413.

The rates contained in this notice are the rates proposed by Kenergy. However, the Kentucky Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for customers other than the rates in this notice.

Any corporation, association, body politic or person may, by motion, request leave to intervene in the proceeding before the Kentucky Public Service Commission. That motion must be submitted to the Kentucky Public Service Commission, 730 Schenkel Lane, P.O. Box 615, Frankfort, KY 40602, and shall set forth the grounds for the request, including the status and interest of the party. Intervenors may obtain copies of the application filed by contacting Kenergy at the address stated above. A copy of the application is available for public inspection at any of the Kenergy offices listed above.

Kenergy Corp
By: Dean Stanley, President & CEO

COUNTY OF Lyon 99-162

I, Cindy Riley, certify that I am General Manager of Herald Ledger, a newspaper having circulation in the area served by Kenergy Corp, and that the attached advertisement was published in said newspaper in the 8/18/99 8/25/99 9/8/99 edition.

IN TESTIMONY WHEREOF, affiant has executed this affidavit as of the 10 day of 9 1999.

Cindy Riley

SUBSCRIBED AND SWORN TO before me in Lyon County, Kentucky, on this 10 day of 9 1999.

My commission expires the 3 day of Feb, ~~19~~ 2002.

Notary Public, Belinda Jane Stone

COMMONWEALTH OF KENTUCKY 99-162

COUNTY OF Caldwell

I, Charity Alexander, certify that I am Regional Advertising Manager of The Times Leader, a newspaper having circulation in the area served by Kenergy Corp, and that the attached advertisement was published in said newspaper in the Wed. 8/18, Wed. 8/25, Wed. 9/1 & 1999. edition.

IN TESTIMONY WHEREOF, affiant has executed this affidavit as of the 25 day of August 1999.

Charity H. Alexander

SUBSCRIBED AND SWORN TO before me in Caldwell County, Kentucky, on this 25 day of August 1999.

My commission expires the 17 day of May, ~~19~~ 2000.

Hold for 3 runs - then send w/ T.S. & affidavits

18 - 25 - 1st

Jennifer Pryor
Notary Public, State at large, Ky

NOTICE TO THE PUBLIC OF A PROPOSED DECREASE IN RATES OF KENERGY CORP PSC CASE 99-162

Kenergy Corp, 6402 Old Corydon Road, P.O. Box 18, Henderson, KY 42419 filed an application for a decrease in rates with the Kentucky Public Service Commission on August 16, 1999. The proposed decrease is designed to flow through to Kenergy's customers the reduction in expense, which will result from the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. There is no change proposed in the current base rates of each rate class. A 4% consolidation credit rider for each rate class (except direct-served) is being proposed for a period of five years.

THE AMOUNT AND PERCENT OF DECREASE BY RATE CLASS, BASED ON 1998 USAGE, ARE LISTED BELOW:

KENERGY EAST (former Green River Electric Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential and all other single phase	4%	$ 3.10
Commercial three-phase under 1,000 KW	4%	$ 47.11
Commercial three-phase over 1,000 KW	4%	$1,080.50
Direct-served industrial customers	0%	$ 0

KENERGY WEST (former Henderson Union Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential (single phase)	4%	$ 3.03
Farm, government or commercial (50 KVA or less)	4%	$ 4.15
Grain bins (51 to 500 KVA)	4%	$ 7.66
Farm or commercial (51 to 501 KVA)	4%	$ 57.07
Large power (501 to 2000 KVA) non-dedicated delivery	4%	$884.94
Direct-served industrial customers	0%	$ 0

Any customer, prospective customer or his agent desiring additional information regarding this proposed decrease in rates or regarding Kenergy's tariffs (present or proposed) may secure such information at Kenergy's office at the above stated address, or at one of its offices at P.O. Box 1389, 3111 Fairview Drive, Owensboro, KY 42302; P.O. Box 99, 315 Hawes Blvd., Hawesville, KY 42348; P.O. Box 268, 703 Main Street, Marion, KY 42064; P.O. Box 73, 1441 U.S. 231 North, Hartford, KY 42347, or P.O. Box 327, 2620 Brown Badgett Road, Hanson, KY 42413.

The rates contained in this notice are the rates proposed by Kenergy. However, the

WEDNESDAY

6:00 P.M.	G.A.'s & MISSION FRIENDS- Every Week
	Acteens - R.A.'s - 1st, 2nd & 3rd
7:00 P.M.	MIDWEEK WORSHIP SERVICE

NOTICE TO THE PUBLIC OF A PROPOSED DECREASE IN RATES OF KENERGY CORP PSC CASE 99-162

Kenergy Corp, 6402 Old Corydon Road, P.O. Box 18, Henderson, KY 42419 filed an application for a decrease in rates with the Kentucky Public Service Commission on August 16, 1999. The proposed decrease is designed to flow through to Kenergy's customers the reduction in expense, which will result from the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. There is no change proposed in the current base rates of each rate class. A 4% consolidation credit rider for each rate class (except direct-served) is being proposed for a period of five years.

THE AMOUNT AND PERCENT OF DECREASE BY RATE CLASS, BASED ON 1998 USAGE, ARE LISTED BELOW:

KENERGY EAST (former Green River Electric Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential and all other single phase	4%	$ 3.10
Commercial three-phase under 1,000 KW	4%	$ 47.11
Commercial three-phase over 1,000 KW	4%	$1,080.50
Direct-served industrial customers	0%	$ 0

KENERGY WEST (former Henderson Union Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential (single phase)	4%	$ 3.03
Farm, government or commercial (50 KVA or less)	4%	$ 4.15
Grain bins (51 to 500 KVA)	4%	$ 7.66
Farm or commercial (51 to 501 KVA)	4%	$ 57.07
Large power (501 to 2000 KVA) non-dedicated delivery	4%	$884.94
Direct-served industrial customers	0%	$ 0

Any customer, prospective customer or his agent desiring additional information regarding this proposed decrease in rates or regarding Kenergy's tariffs (present or proposed) may secure such information at Kenergy's office at the above stated address, or at one of its offices at P.O. Box 1389, 3111 Fairview Drive, Owensboro, KY 42302; P.O. Box 99, 315 Hawes Blvd., Hawesville, KY 42348; P.O. Box 268, 703 Main Street, Marion, KY 42064; P.O. Box 73, 1441 U.S. 231 North, Hartford, KY 42347, or P.O. Box 327, 2620 Brown Badgett Road, Hanson, KY 42413.

The rates contained in this notice are the rates proposed by Kenergy. However, the

NOTICE TO THE PUBLIC OF A PROPOSED DECREASE IN RATES OF KENERGY CORP
PSC CASE 99-162

Kenergy Corp, 6402 Old Corydon Road, P.O. Box 18, Henderson, KY 42419 filed an application for a decrease in rates with the Kentucky Public Service Commission on August 16, 1999. The proposed decrease is designed to flow through to Kenergy's customers the reduction in expense, which will result from the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. There is no change proposed in the current base rates of each rate class. A 4% consolidation credit rider for each rate class (except direct-served) is being proposed for a period of five years.

THE AMOUNT AND PERCENT OF DECREASE BY RATE CLASS, BASED ON 1998 USAGE, ARE LISTED BELOW:

KENERGY EAST (former Green River Electric Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential and all other single phase	4%	$ 3.10
Commercial three-phase under 1,000 KW	4%	$ 47.11
Commercial three-phase over 1,000 KW	4%	$1,080.50
Direct-served industrial customers	0%	$ 0

KENERGY WEST (former Henderson Union Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential (single phase)	4%	$ 3.03
Farm, government or commercial (50 KVA or less)	4%	$ 4.15
Grain bins (51 to 500 KVA)	4%	$ 7.66
Farm or commercial (51 to 501 KVA)	4%	$ 57.07
Large power (501 to 2000 KVA) non-dedicated delivery	4%	$884.94
Direct-served industrial customers	0%	$ 0

Any customer, prospective customer or his agent desiring additional information regarding this proposed decrease in rates or regarding Kenergy's tariffs (present or proposed) may secure such information at Kenergy's office at the above stated address, or at one of its offices at P.O. Box 1389, 3111 Fairview Drive, Owensboro, KY 42302; P.O. Box 99, 315 Hawes Blvd., Hawesville, KY 42348; P.O. Box 268, 703 Main Street, Marion, KY 42064; P.O. Box 73, 1441 U.S. 231 North, Hartford, KY 42347, or P.O. Box 327, 2620 Brown Badgett Road, Hanson, KY 42413.

The rates contained in this notice are the rates proposed by Kenergy. However, the Kentucky Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for customers other than the rates in this notice.

Any corporation, association, body politic or person may, by motion, request leave to intervene in the proceeding before the Kentucky Public Service Commission. That motion must be submitted to the Kentucky Public Service Commission, 730 Schenkel Lane, P.O. Box 615, Frankfort, KY 40602, and shall set forth the grounds for the request, including the status and interest of the party. Intervenors may obtain copies of the application filed by contacting Kenergy at the address stated above. A copy of the application is available for public inspection at any of the Kenergy offices listed above.

Kenergy Corp
By: Dean Stanley, President & CEO

NOTICE TO THE PUBLIC OF A PROPOSED DECREASE IN RATES OF KENERGY CORP PSC CASE 99-162

Kenergy Corp, 6402 Old Corydon Road, P.O. Box 18, Henderson, KY 42419 filed an application for a decrease in rates with the Kentucky Public Service Commission on August 16, 1999. The proposed decrease is designed to flow through to Kenergy's customers the reduction in expense, which will result from the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. There is no change proposed in the current base rates of each rate class. A 4% consolidation credit rider for each rate class (except direct-served) is being proposed for a period of five years.

THE AMOUNT AND PERCENT OF DECREASE BY RATE CLASS, BASED ON 1998 USAGE, ARE LISTED BELOW:

KENERGY EAST (former Green River Electric Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential and all other single phase	4%	$ 3.10
Commercial three-phase under 1,000 KW	4%	$ 47.11
Commercial three-phase over 1,000 KW	4%	$1,080.50
Direct-served industrial customers	0%	$ 0

KENERGY WEST (former Henderson Union Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential (single phase)	4%	$ 3.03
Farm, government or commercial (50 KVA or less)	4%	$ 4.15
Grain bins (51 to 500 KVA)	4%	$ 7.66
Farm or commercial (51 to 501 KVA)	4%	$ 57.07
Large power (501 to 2000 KVA) non-dedicated delivery	4%	$884.94
Direct-served industrial customers	0%	$ 0

Any customer, prospective customer or his agent desiring additional information regarding this proposed decrease in rates or regarding Kenergy's tariffs (present or proposed) may secure such information at Kenergy's office at the above stated address, or at one of its offices at P.O. Box 1389, 3111 Fairview Drive, Owensboro, KY 42302; P.O. Box 99, 315 Hawes Blvd., Hawesville, KY 42348; P.O. Box 268, 703 Main Street, Marion, KY 42064; P.O. Box 73, 1441 U.S. 231 North, Hartford, KY 42347, or P.O. Box 327, 2620 Brown Badgett Road, Hanson, KY 42413.

The rates contained in this notice are the rates proposed by Kenergy. However, the Kentucky Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for customers other than the rates in this notice.

Any corporation, association, body politic or person may, by motion, request leave to intervene in the proceeding before the Kentucky Public Service Commission. That motion must be submitted to the Kentucky Public Service Commission, 730 Schenkel Lane, P.O. Box 615, Frankfort, KY 40602, and shall set forth the grounds for the request, including the status and interest of the party. Intervenors may obtain copies of the application filed by contacting Kenergy at the address stated above. A copy of the application is available for public inspection at any of the Kenergy offices listed above.

Kenergy Corp
By: Dean Stanley, President & CEO

NOTICE TO THE PUBLIC OF A PROPOSED DECREASE IN RATES OF KENERGY CORP
PSC CASE 99-162

Kenergy Corp, 6402 Old Corydon Road, P.O. Box 18, Henderson, KY 42419 filed an application for a decrease in rates with the Kentucky Public Service Commission on August 16, 1999. The proposed decrease is designed to flow through to Kenergy's customers the reduction in expense, which will result from the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. There is no change proposed in the current base rates of each rate class. A 4% consolidation credit rider for each rate class (except direct-served) is being proposed for a period of five years.

THE AMOUNT AND PERCENT OF DECREASE BY RATE CLASS, BASED ON 1998 USAGE, ARE LISTED BELOW:

KENERGY EAST (former Green River Electric Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential and all other single phase	4%	$ 3.10
Commercial three-phase under 1,000 KW	4%	$ 47.11
Commercial three-phase over 1,000 KW	4%	$1,080.50
Direct-served industrial customers	0%	$ 0

KENERGY WEST (former Henderson Union Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential (single phase)	4%	$ 3.03
Farm, government or commercial (50 KVA or less)	4%	$ 4.15
Grain bins (51 to 500 KVA)	4%	$ 7.66
Farm or commercial (51 to 501 KVA)	4%	$ 57.07
Large power (501 to 2000 KVA) non-dedicated delivery	4%	$884.94
Direct-served industrial customers	0%	$ 0

Any customer, prospective customer or his agent desiring additional information regarding this proposed decrease in rates or regarding Kenergy's tariffs (present or proposed) may secure such information at Kenergy's office at the above stated address, or at one of its offices at P.O. Box 1389, 3111 Fairview Drive, Owensboro, KY 42302; P.O. Box 99, 315 Hawes Blvd., Hawesville, KY 42348; P.O. Box 268, 703 Main Street, Marion, KY 42064; P.O. Box 73, 1441 U.S. 231 North, Hartford, KY 42347, or P.O. Box 327, 2620 Brown Badgett Road, Hanson, KY 42413.

The rates contained in this notice are the rates proposed by Kenergy. However, the Kentucky Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for customers other than the rates in this notice.

Any corporation, association, body politic or person may, by motion, request leave to intervene in the proceeding before the Kentucky Public Service Commission. That motion must be submitted to the Kentucky Public Service Commission, 730 Schenkel Lane, P.O. Box 615, Frankfort, KY 40602, and shall set forth the grounds for the request, including the status and interest of the party. Intervenors may obtain copies of the application filed by contacting Kenergy at the address stated above. A copy of the application is available for public inspection at any of the Kenergy offices listed above.

Kenergy Corp
By: Dean Stanley, President & CEO

99-162

COMMONWEALTH OF KENTUCKY

COUNTY OF Henderson

I, Sharon Alvey certify that I am Classified Sales Representative of The Gleaner, a newspaper having circulation in the area served by Kenergy Corp, and that the attached advertisement was published in said newspaper in the Aug. 18, 24, + 31st editions.

IN TESTIMONY WHEREOF, affiant has executed this affidavit as of the 31st day of August 1999.

Sharon Alvey

SUBSCRIBED AND SWORN TO before me in Henderson County, Kentucky, on this 31 day of ____________ August 1999.

My commission expires the 26th day of May, 2000

Karen B. Bryant

Notary Public, ____________

99-162

AFFIDAVIT OF PUBLICATION

Laurie White of Owensboro, Kentucky being first duly sworn, says that she is Credit Coordinator of the Owensboro Messenger-Inquirer, Inc. a newspaper printed and published in the State of Kentucky, County of Daviess, and that the advertisement is a true copy which has been published in the Messenger Inquirer on the following dates, viz: August 17th, 23rd & 30th 1999.

Laurie White

Laurie White

Subscribed and sworn to before me, a Notary Public within and for the State and County aforesaid, by Laurie White to me personally known, this 30th day of August, 1999. My commission expires the 28th day of February, 2001.

Ella Mae Peay

Ella Mae Peay

County of Daviess
Notary Public State of Kentucky

NOTICE TO THE PUBLIC OF A PROPOSED DECREASE IN RATES OF KENERGY CORP PSC CASE 99-162

Kenergy Corp, 6402 Old Corydon Road, P.O. Box 18, Henderson, KY 42419 filed an application for a decrease in rates with the Kentucky Public Service Commission on August 16, 1999. The proposed decrease is designed to flow through to Kenergy's customers the reduction in expense, which will result from the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. There is no change proposed in the current base rates of each rate class. A 4% consolidation credit rider for each rate class (except direct-served) is being proposed for a period of five years.

THE AMOUNT AND PERCENT OF DECREASE BY RATE CLASS, BASED ON 1998 USAGE, ARE LISTED BELOW:

KENERGY EAST (former Green River Electric Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential and all other single phase	4%	$ 3.10
Commercial three-phase under 1,000 KW	4%	$ 47.11
Commercial three-phase over 1,000 KW	4%	$1,080.50
Direct-served industrial customers	0%	$ 0

KENERGY WEST (former Henderson Union Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential (single phase)	4%	$ 3.03
Farm, government or commercial (50 KVA or less)	4%	$ 4.15
Grain bins (51 to 500 KVA)	4%	$ 7.66
Farm or commercial (51 to 501 KVA)	4%	$ 57.07
Large power (501 to 2000 KVA) non-dedicated delivery	4%	$884.94
Direct-served industrial customers	0%	$ - 0

Any customer, prospective customer or his agent desiring additional informatio regarding this proposed decrease in rates or regarding Kenergy's tariffs (present o proposed) may secure such information at Kenergy's office at the above state address, or at one of its offices at P.O. Box 1389, 3111 Fairview Drive, Owensborc KY 42302; P.O. Box 99, 315 Hawes Blvd., Hawesville, KY 42348; P.O. Box 26 703 Main Street, Marion, KY 42064; P.O. Box 73, 1441 U.S. 231 North, Hartforc KY 42347, or P.O. Box 327, 2620 Brown Badgett Road, Hanson, KY 42413.

The rates contained in this notice are the rates proposed by Kenergy. However, th Kentucky Public Service Commission may order rates to be charged that diff from these proposed rates. Such action may result in rates for customers other tha the rates in this notice.

Any corporation, association, body politic or person may, by motion, request leave intervene in the proceeding before the Kentucky Public Service Commission. Th motion must be submitted to the Kentucky Public Service Commission, 730 Schenk Lane, P.O. Box 615, Frankfort, KY 40602, and shall set forth the grounds for t request, including the status and interest of the party. Intervenors may obtain copi of the application filed by contacting Kenergy at the address stated above. A co of the application is available for public inspection at any of the Kenergy offic listed above.

Kenergy Corp
By: Dean Stanley, President & CEO

about 100 million

NOTICE TO THE PUBLIC OF A PROPOSED DECREASE IN RATES OF KENERGY CORP
PSC CASE 99-162

Kenergy Corp, 6402 Old Corydon Road, P.O. Box 18, Henderson, KY 42419 filed an application for a decrease in rates with the Kentucky Public Service Commission on August 16, 1999. The proposed decrease is designed to flow through to Kenergy's customers the reduction in expense, which will result from the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. There is no change proposed in the current base rates of each rate class. A 4% consolidation credit rider for each rate class (except direct-served) is being proposed for a period of five years.

THE AMOUNT AND PERCENT OF DECREASE BY RATE CLASS, BASED ON 1998 USAGE, ARE LISTED BELOW:

KENERGY EAST (former Green River Electric Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential and all other single phase	4%	$ 3.10
Commercial three-phase under 1,000 KW	4%	$ 47.11
Commercial three-phase over 1,000 KW	4%	$1,080.50
Direct-served industrial customers	0%	$ 0

KENERGY WEST (former Henderson Union Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential (single phase)	4%	$ 3.03
Farm, government or commercial (50 KVA or less)	4%	$ 4.15
Grain bins (51 to 500 KVA)	4%	$ 7.66
Farm or commercial (51 to 501 KVA)	4%	$ 57.07
Large power (501 to 2000 KVA) non-dedicated delivery	4%	$884.94
Direct-served industrial customers	0%	$ 0

Any customer, prospective customer or his agent desiring additional information regarding this proposed decrease in rates or regarding Kenergy's tariffs (present or proposed) may secure such information at Kenergy's office at the above stated address, or at one of its offices at P.O. Box 1389, 3111 Fairview Drive, Owensboro, KY 42302; P.O. Box 99, 315 Hawes Blvd., Hawesville, KY 42348; P.O. Box 268, 703 Main Street, Marion, KY 42064; P.O. Box 73, 1441 U.S. 231 North, Hartford, KY 42347, or P.O. Box 327, 2620 Brown Badgett Road, Hanson, KY 42413.

The rates contained in this notice are the rates proposed by Kenergy. However, the Kentucky Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for customers other than the rates in this notice.

Any corporation, association, body politic or person may, by motion, request leave to intervene in the proceeding before the Kentucky Public Service Commission. That motion must be submitted to the Kentucky Public Service Commission, 730 Schenkel Lane, P.O. Box 615, Frankfort, KY 40602, and shall set forth the grounds for the request, including the status and interest of the party. Intervenors may obtain copies of the application filed by contacting Kenergy at the address stated above. A copy of the application is available for public inspection at any of the Kenergy offices listed above.

Kenergy Corp
By: Dean Stanley, President & CEO

NOTICE TO THE PUBLIC OF A PROPOSED DECREASE IN RATES OF KENERGY CORP PSC CASE 99-162

Kenergy Corp, 6402 Old Corydon Road, P.O. Box 18, Henderson, KY 42419 filed an application for a decrease in rates with the Kentucky Public Service Commission on August 16, 1999. The proposed decrease is designed to flow through to Kenergy's customers the reduction in expense, which will result from the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. There is no change proposed in the current base rates of each rate class. A 4% consolidation credit rider for each rate class (except direct-served) is being proposed for a period of five years.

THE AMOUNT AND PERCENT OF DECREASE BY RATE CLASS, BASED ON 1998 USAGE, ARE LISTED BELOW:

KENERGY EAST (former Green River Electric Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential and all other single phase	4%	$ 3.10
Commercial three-phase under 1,000 KW	4%	$ 47.11
Commercial three-phase over 1,000 KW	4%	$1,080.50
Direct-served industrial customers	0%	$ 0

KENERGY WEST (former Henderson Union Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential (single phase)	4%	$ 3.03
Farm, government or commercial (50 KVA or less)	4%	$ 4.15
Grain bins (51 to 500 KVA)	4%	$ 7.66
Farm or commercial (51 to 501 KVA)	4%	$ 57.07
Large power (501 to 2000 KVA) non-dedicated delivery	4%	$884.94
Direct-served industrial customers	0%	$ 0

Any customer, prospective customer or his agent desiring additional information regarding this proposed decrease in rates or regarding Kenergy's tariffs (present or proposed) may secure such information at Kenergy's office at the above stated address, or at one of its offices at P.O. Box 1389, 3111 Fairview Drive, Owensboro, KY 42302; P.O. Box 99, 315 Hawes Blvd., Hawesville, KY 42348; P.O. Box 268, 703 Main Street, Marion, KY 42064; P.O. Box 73, 1441 U.S. 231 North, Hartford, KY 42347, or P.O. Box 327, 2620 Brown Badgett Road, Hanson, KY 42413.

The rates contained in this notice are the rates proposed by Kenergy. However, the Kentucky Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for customers other than the rates in this notice.

Any corporation, association, body politic or person may, by motion, request leave to intervene in the proceeding before the Kentucky Public Service Commission. That motion must be submitted to the Kentucky Public Service Commission, 730 Schenkel Lane, P.O. Box 615, Frankfort, KY 40602, and shall set forth the grounds for the request, including the status and interest of the party. Intervenors may obtain copies of the application filed by contacting Kenergy at the address stated above. A copy of the application is available for public inspection at any of the Kenergy offices listed above.

Kenergy Corp
By: Dean Stanley, President & CEO

NOTICE TO THE PUBLIC OF A PROPOSED DECREASE IN RATES OF KENERGY CORP PSC CASE 99-162

Kenergy Corp, 6402 Old Corydon Road, P.O. Box 18, Henderson, KY 42419 filed an application for a decrease in rates with the Kentucky Public Service Commission on August 16, 1999. The proposed decrease is designed to flow through to Kenergy's customers the reduction in expense, which will result from the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. There is no change proposed in the current base rates of each rate class. A 4% consolidation credit rider for each rate class (except direct-served) is being proposed for a period of five years.

THE AMOUNT AND PERCENT OF DECREASE BY RATE CLASS, BASED ON 1998 USAGE, ARE LISTED BELOW:

KENERGY EAST (former Green River Electric Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential and all other single phase	4%	$ 3.10
Commercial three-phase under 1,000 KW	4%	$ 47.11
Commercial three-phase over 1,000 KW	4%	$1,080.50
Direct-served industrial customers	0%	$ 0

KENERGY WEST (former Henderson Union Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential (single phase)	4%	$ 3.03
Farm, government or commercial (50 KVA or less)	4%	$ 4.15
Grain bins (51 to 500 KVA)	4%	$ 7.66
Farm or commercial (51 to 501 KVA)	4%	$ 57.07
Large power (501 to 2000 KVA) non-dedicated delivery	4%	$884.94
Direct-served industrial customers	0%	$ 0

Any customer, prospective customer or his agent desiring additional information regarding this proposed decrease in rates or regarding Kenergy's tariffs (present or proposed) may secure such information at Kenergy's office at the above stated address, or at one of its offices at P.O. Box 1389, 3111 Fairview Drive, Owensboro, KY 42302; P.O. Box 99, 315 Hawes Blvd., Hawesville, KY 42348; P.O. Box 268, 703 Main Street, Marion, KY 42064; P.O. Box 73, 1441 U.S. 231 North, Hartford, KY 42347, or P.O. Box 327, 2620 Brown Badgett Road, Hanson, KY 42413.

The rates contained in this notice are the rates proposed by Kenergy. However, the Kentucky Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for customers other than the rates in this notice.

Any corporation, association, body politic or person may, by motion, request leave to intervene in the proceeding before the Kentucky Public Service Commission. That motion must be submitted to the Kentucky Public Service Commission, 730 Schenkel Lane, P.O. Box 615, Frankfort, KY 40602, and shall set forth the grounds for the request, including the status and interest of the party. Intervenors may obtain copies of the application filed by contacting Kenergy at the address stated above. A copy of the application is available for public inspection at any of the Kenergy offices listed above.

Kenergy Corp
By: Dean Stanley, President & CEO

8-17

days.

NOTICE OF BOND RELEASE

In accordance with KRS 350.093, notice is hereby given that R.A. Alexander & Sons, Inc., 7120 U.S. HWY. 431, Owensboro, KY 42301 has applied for Phase III bond release on Increment No. 17 & 18 of permit number 830-0014 which was last issued on January 29, 1998. The application covers an area of approximately 23.0 acres on Increment No. 17 and 15.0 acres on Increment No. 18 and is located 1.0 miles west of Owensboro in Daviess County.

The permit area is approximately 0.2 miles west from Griffith Station Roads junction with KY HWY 331 and located 1.2 miles west of the Ohio River. The latitude is 37 deg. 47 min. 50 sec. The longitude is 87 deg. 10 min. 20 sec.

The bond now in effect for Increment No. 17 is with the KY bond pool for 7,100 dollars and Increment No. 18 is with the KY Bond Pool for 2,900 dollars. Approximately 10% of the original bond amount of 61,500 dollars for Increment No. 17 and 40,500 dollars for Increment No. 18 is included in this application for release.

Reclamation work performed includes:

Reclamation Phase I:

Backfilling, regrading, topsoil replacement, and drainage control including soil preparation, seeding, planting and mulching in accordance with the approved reclamation planned and a planting report for the area has been submitted to the Department.

Reclamation Phase II:

Revegetation has been established in accordance with the approved reclamation plan and the standards for the success of revegetation are met. The lands are not contributing suspended solids to stream flow or runoff outside of the permit area, or increment in excess of the requirements fo KRS 350.420, Tile 405, Chapter 16 or 18, or the permit. With respect to prime farmlands that may exist, soil productivity has been restored as required by 405 KAR 20:040E, Section 1(3) and the plan approved under 405 Kay 8:050E, Section 3; and the provisions of a plan approved by the Department for the sound future management of any permanent impoundments by the permittee or landowner have been implemented to the satisfaction of the Department.

Reclamation work was completed on August 25, 1994.

This is the final advertisement of the application. Written comments, objections and requests for a public hearing or informal conference must be filed with the Director, Division of Field Services, #2 Hudson Hollow Complex, Frankfort, KY 40601, by September 22, 1999.

A public hearing of the application has been scheduled for September 11, 1999, 9:00 a.m. C.S.T. at the Dept. for Surface Mining Reclamation and Enforcement's Madisonville Regional Office, State Office Bldg., 625 Hospital Drive, Madisonville, KY 42431. The hearing will be considered canceled if no request for a hearing or informal conference is received by September 22, 1999.

INVITATION TO BID

Sealed bids will be received by Owensboro Municipal Utilities in the offices of the Purchasing Department at the Customer Service Center, 2070 Tamarack Road, Owensboro Kentucky until 11:30 A.M. (CDT) on Wednesday, September 1, 1999 at which time bids will be publicly opened and read aloud fo the purchase of:

FLUE SYSTEM DAMPER SEALS

Prospective bidders may obtain copies o the bid specifications at the above offices o the Purchasing Department between the hours of 7:30 A.M. - 4:30 P.M., Monday thru Friday.

THE OUTSIDE OF ALL ENVELOPES SHALL BE MARKED WITH:

BIDDER'S NAME AND ADDRESS:

BID NUMBER: 99-09-072

BID ON: Flue System Damper Seals

Owensboro Municipal Utilities reserves the right to reject any or all bids and to waive irregularities.

OWENSBORO MUNICIPAL UTILITIES
Robert Kirk
Buyer
(502) 926-3200 ext. 228

MAIL/DELIVER BIDS TO:
O.M.U./Customer Service Center
P.O. Box 806
2070 Tamarack Road
Owensboro, KY 42301
ATTN: Robert Kirk

INVITATION TO BID

Sealed bids will be received by Owensboro Municipal Utilities in the offices of the Purchasing Department at the Customer Service Center, 2070 Tamarack Road, Owensboro Kentucky until 11:00 A.M. (CDT) on Wednesday, September 1, 1999 at which time bids will be publicly opened and read aloud fo the purchase of:

UNIT #1 TURBINE/GENERATOR VALVE ASSEMBLY SHOP RECONDITIONING SERVICES

Prospective bidders may obtain copies o the bid specifications at the above offices o the Purchasing Department between the hours of 7:30 A.M. - 4:30 P.M., Monday thru Friday.

THE OUTSIDE OF ALL ENVELOPES SHALL BE MARKED WITH:

BIDDER'S NAME AND ADDRESS:

BID NUMBER: 99-09-071

BID ON: Valve Reconditioning Services

Owensboro Municipal Utilities reserves the right to reject any or all bids and to waive irregularities.

OWENSBORO MUNICIPAL UTILITIES
Robert Kirk
Buyer
(502) 926-3200 ext. 228

MAIL/DELIVER BIDS TO:
O.M.U./Customer Service Center
P.O. Box 806
2070 Tamarack Road
Owensboro, KY 42301
ATTN: Robert Kirk

NOTICE TO THE PUBLIC OF A PROPOSED DECREASE IN RATES OF KENERGY CORP PSC CASE 99-162

Kenergy Corp, 6402 Old Corydon Road, P.O. Box 18, Henderson, KY 42419 filed an application for a decrease in rates with the Kentucky Public Service Commission on August 16, 1999. The proposed decrease is designed to flow through to Kenergy's customers the reduction in expense, which will result from the consolidation of Green River Electric Corporation and Henderson Union Electric Cooperative Corp. There is no change proposed in the current base rates of each rate class. A 4% consolidation credit rider for each rate class (except direct-served) is being proposed for a period of five years.

THE AMOUNT AND PERCENT OF DECREASE BY RATE CLASS, BASED ON 1998 USAGE, ARE LISTED BELOW:

KENERGY EAST (former Green River Electric Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential and all other single phase	4%	$ 3.10
Commercial three-phase under 1,000 KW	4%	$ 47.11
Commercial three-phase over 1,000 KW	4%	$1,080.50
Direct-served industrial customers	0%	$ 0

KENERGY WEST (former Henderson Union Service Territory)

	PERCENT	MONTHLY DOLLARS
Residential (single phase)	4%	$ 3.03
Farm, government or commercial (50 KVA or less)	4%	$ 4.15
Grain bins (51 to 500 KVA)	4%	$ 7.66
Farm or commercial (51 to 501 KVA)	4%	$ 57.07
Large power (501 to 2000 KVA) non-dedicated delivery	4%	$884.94
Direct-served industrial customers	0%	$ 0

Any customer, prospective customer or his agent desiring additional information regarding this proposed decrease in rates or regarding Kenergy's tariffs (present or proposed) may secure such information at Kenergy's office at the above stated address, or at one of its offices at P.O. Box 1389, 3111 Fairview Drive, Owensboro, KY 42302; P.O. Box 99, 315 Hawes Blvd., Hawesville, KY 42348; P.O. Box 268, 703 Main Street, Marion, KY 42064; P.O. Box 73, 1441 U.S. 231 North, Hartford, KY 42347, or P.O. Box 327, 2620 Brown Badgett Road, Hanson, KY 42413.

The rates contained in this notice are the rates proposed by Kenergy. However, the Kentucky Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for customers other than the rates in this notice.

Any corporation, association, body politic or person may, by motion, request leave to intervene in the proceeding before the Kentucky Public Service Commission. That motion must be submitted to the Kentucky Public Service Commission, 730 Schenkel Lane, P.O. Box 615, Frankfort, KY 40602, and shall set forth the grounds for the request, including the status and interest of the party. Intervenors may obtain copies of the application filed by contacting Kenergy at the address stated above. A copy of the application is available for public inspection at any of the Kenergy offices listed above.

Kenergy Corp
By: Dean Stanley, President & CEO

8/30

99-162

COMMONWEALTH OF KENTUCKY

COUNTY OF Crittenden

I, Chris Evans, certify that I am Editor of The Crittenden Press, a newspaper having circulation in the area served by Kenergy Corp, and that the attached advertisement was published in said newspaper in the 8.19.99, 8.26.99 & 9.2.99 edition.

IN TESTIMONY WHEREOF, affiant has executed this affidavit as of the 2 day of September 1999.

SUBSCRIBED AND SWORN TO before me in Crittenden County, Kentucky, on this 2nd day of September 1999.

My commission expires the 14 day of March, ~~19~~ 2002.

Karen Stone

Notary Public, State at Large