

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HENDERSON-UNION)
RURAL ELECTRIC COOPERATIVE)
CORPORATION FOR AN INCREASE) CASE NO. 9620
IN RATES TO FLOW THROUGH)
WHOLESALE POWER COST INCREASE)

O R D E R

On August 11, 1986, Henderson-Union Rural Electric Cooperative Corporation ("Henderson-Union") filed an application to flow through any increase in rates granted its wholesale power supplier, Big Rivers Electric Corporation ("Big Rivers"), in Case No. 9613. Henderson-Union did not request the approval of any additional revenues or margins in its flow through application.

Henderson-Union is one of four member distribution cooperatives of Big Rivers. Based on the rates proposed by Big Rivers in Case No. 9613, Henderson-Union requested an increase of \$7,701,254. The proposed increase would result in an overall increase of approximately 9.58 percent to Henderson-Union consumers.

On September 15, 1986, Henderson-Union was ordered to file information supporting the position that it should not have to absorb any purchased power cost increase from Big Rivers. The information filed was reviewed and adjusted in accordance with regular Commission rate-making practices. Under the assumption of a 2.0X TIER, Henderson-Union could absorb \$136,964 of the increase. Under the assumption of a 2.25X TIER, which was

authorized in its last general rate case, Henderson-Union would not be able to absorb any increase. In this case, the Commission will not require any absorption.

During the test year, Henderson-Union converted a National Rural Utilities Cooperative Finance Corporation note from a fixed to a variable interest rate at the time the funds were advanced. In the Commission's Final Order in Case No. 8446,¹ which authorized the borrowing, the interest rate was to be fixed for the first 7 years of the loan life. While the Commission appreciates Henderson-Union's willingness to keep its long-term debt interest expense at the lowest possible level, the Commission should have been consulted concerning the deviation from the stated condition in the Final Order. Henderson-Union is advised to consult the Commission if a similar situation develops in the future.

The matter was scheduled for hearing on January 9, 1987, at the Commission's offices in Frankfort, Kentucky. The hearing was conducted as scheduled and the Utility and Rate Intervention Division of the Attorney General's Office and Alcan Aluminum Corporation participated as intervenors.

The Commission, after review of the evidence of record and being advised, is of the opinion and finds that:

¹ In the Matter of the Application of Henderson-Union Rural Electric Cooperative Corporation for Permission to Borrow from United States of America \$1,834,000 and from National Rural Utilities Cooperative Finance Corporation \$827,000 and to Issue its Notes Therefor and for a Certificate of Convenience and Necessity, Final Order dated March 16, 1982.

1. The proposed increase by Big Rivers in Case No. 9613 was denied, which will result in no increase in purchased power costs to Henderson-Union.

2. The issue of whether Henderson-Union should be allowed to flow through or absorb any increase in its wholesale purchased power cost allowed in Case No. 9613 is moot.

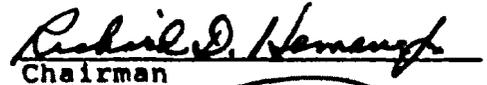
IT IS THEREFORE ORDERED that:

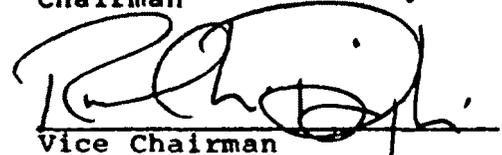
(1) The application by Henderson-Union to flow through any increase in wholesale purchased power costs be and it hereby is denied.

(2) The rates currently being charged by Henderson-Union shall remain in effect.

Done at Frankfort, Kentucky, this 17th day of March, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director