

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GREEN RIVER ELECTRIC)
CORPORATION FOR A DECREASE IN) CASE NO.
EXISTING RATES AND FOR APPROVAL OF) 97-219
CONTRACTS)

O R D E R

On July 25, 1997, Green River Electric Corporation ("Green River") applied for approval of interim and permanent tariffs which reflect proposed reductions in the rates of its wholesale supplier Big Rivers Electric Corporation ("Big Rivers"). Green River has also requested approval of changes in its wholesale power contract with Big Rivers and in its retail electric service agreement with Southwire.

Green River proposed interim rates that would become effective on September 1, 1997 and remain in effect until August 31, 1998 or the closing of Big Rivers' First Amended Plan of Reorganization ("Reorganization Plan"), whichever occurs first. Finding that its statutory authority to review rate applications is limited by KRS 278.190(3) to 10 months, the Commission on August 29, 1997, suspended Green River's proposed rates for one day, to be effective, subject to change, with service rendered on and after September 2, 1997 and ordered that the interim rates should remain in effect only until issuance of a final rate order determining the reasonableness of the proposed permanent rates.

The Commission received requests for and granted intervention to Southwire Company and NSA, Inc. (collectively "Southwire"), Williamette Industries, Inc. ("Williamette"), and the Attorney General of the Commonwealth of Kentucky ("AG"). A

public hearing was held in this matter on March 2, 1998. Although encouraged to file written briefs in this matter, the parties declined.

This case is closely related to the proceedings in Case No. 97-204¹ in which Big Rivers applied for, inter alia, Commission approval of interim and permanent rates for its distribution cooperatives and of numerous agreements to implement the Reorganization Plan approved by the U.S. Bankruptcy Court in Big Rivers' Chapter 11 proceeding. Green River's proposed wholesale power contract with Big Rivers and its retail electric service agreement with Southwire are significant parts of the Reorganization Plan and have been extensively examined by the Commission in Case No. 97-204. Furthermore, the Commission has closely examined in that proceeding the proposals for post-2000 Tier 3 Service and for Market Power Purchases as they relate to Big Rivers and its distribution cooperatives. All parties to this proceeding are parties to and actively participated in Case No. 97-204.

As the Commission has in its Order of April 30, 1998 in Case No. 97-204 extensively addressed the issues of Green River's wholesale contract, the retail service agreement with Southwire, the post-2000 Tier 3 Service proposal and the Market Power Purchase proposals, the Commission finds no need to plow the same ground twice. The Commission therefore adopts and incorporates by reference its findings and conclusions regarding those

¹ 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 (filed June 30, 1997).

issues which are contained in that Order.² The scope of this Order will be limited to those issues raised by Green River's Application and not specifically addressed in Case No. 97-204.

REVENUE REQUIREMENTS

Green River proposed an adjustment in rates to reduce revenues by \$14,093,105. It proposed to reduce the rates of its smelter customer by \$7,590,467, of its residential and single phase customers by \$2,129,591, of its special contract (non-smelter customers) by \$3,555,663, and all other customer classes by \$817,384. Green River's proposed rates directly pass the savings in purchase power costs to the appropriate customer classes. The AG has not contested Green River's estimate of the proposed purchase power cost savings or proposed revenue requirements resulting from the reduction in purchase power costs.³

RATE DESIGN

The AG argues for changes in Green River's present rate design for its residential service and single phase customers. He asserts that the Commission should end the use of declining block rates for this customer classification and establish a flat energy rate. The AG argues that Green River's use of declining block rates is unsupported by any study or empirical evidence. He asserts that such rates encourage waste and inefficiency and, given the limits upon Big Rivers' surplus capacity as a result of its leasing agreement with

² The record of Case No. 97-204 has already been incorporated by reference into the record of this proceeding. See Transcript at 10 - 11.

³ Direct Testimony of Lafayette K. Morgan, Jr. at 3.

LG&E Energy, Green River should place greater emphasis upon demand-side management and energy conservation.

Green River counters that the use of a flat rate represents a drastic departure in rate design that should not be imposed in a limited flow-through case. It further argues that the immediate use of a flat rate rather than limited modifications to the existing declining block rates is contrary to the Commission's policy of gradualism and should not be imposed without a current cost-of-service study. No such study has been presented here.

Having considered the evidence of record, the Commission finds that the AG's proposal is reasonable and should be accepted. The rates that the Commission establishes for residential service and single phase customers contain a flat energy charge. The Commission further finds that this rate design will result in a lower charge for most ratepayers, will send proper economic signals to those using larger amounts of electric power, and is consistent with the Commission's policy toward flat energy charges. Any adverse effects of this design change upon individual customers, moreover, is lessened as this rate design change comes as part of a total rate decrease.

ROTATION OF CAPITAL CREDITS

The AG argues that the Commission should require Green River to use all annual earnings over a Times Interest Earned Ratio ("TIER") of 2.0 to rotate capital credits to its members. He argues that the Commission should encourage capital credits to be rotated since no dividends or interest is paid on capital credits and rotation ensures that older members of the cooperative receive a return of their contributions and that newer members pay their share of the cooperative's capital needs.

In response, Green River contends that this case is not the appropriate proceeding to mandate the rotation of capital credits. It contends that such requirements should only be imposed after a full investigation in a general rate case, not a limited proceeding to review the flow through of a rate reduction. Green River argues that a mandatory rotation would result in administrative problems and require major revisions to the cooperative's bylaws. It also suggests that a mandatory rotation might threaten the financial integrity of the cooperative. Finally, Green River notes that its current equity management plan requires it to "strive to retire equity capital on a systematic basis" and that a capital credit retirement of \$2,100,000 was included in its 1997 budget.

The Commission agrees with the principle that all rural electric cooperatives should adopt capital management policies that promote the rotation of patronage capital credits. However, we find that this flow through case lacks sufficient financial information to support the imposition of such a rotation upon a nonconsenting utility. Assuming arguendo that the Commission has the legal authority to direct the adoption of such plan, the Commission is of the opinion that the imposition of such a plan should occur only after a general rate case in which all areas of utility operation, including the utility's capital management plan, have been fully explored. The Commission finds that, given the limited scope of review in this case, the AG's proposal should be denied.

IT IS THEREFORE ORDERED that:

1. As they relate to the issues of Green River's wholesale contract with Big Rivers, Green River's retail service agreement with Southwire, its post-2000 Tier 3 Service and the Market Power Purchase proposals, the findings and conclusions set forth in the

Commission's Order of April 30, 1998 in Case No. 97-204 are adopted and incorporated into this Order as if fully set out herein.

2. The market power provision in the Big Rivers Green River Smelter Tier 3 Energy Rate and the Market Power Purchase option for certain Large Industrial Customers are hereby denied and the termination date on the Tier 3 fixed rate is rejected.

3. Those provisions in Green River's retail service agreement with Southwire and in its proposed tariff that prohibit rate adjustments to reflect costs or payments incurred by Green River for expenditures due to legislation, regulatory, or legal action are rejected.

4. Those provisions in Green River's retail service agreement with Southwire and its proposed tariff that exempts Southwire from paying any stranded costs or exit fees related to Green River are rejected.

5. The proposed rates for the "Residential Service (Single Phase and Three Phase) And All Other Single Phase Service" schedule are modified as discussed herein.

6. The proposed Market Power Purchase option rates set forth as "Option C" of the "Three-Phase Demand - Large Power 1,000 kW and Above" schedule are rejected.

7. The proposed revisions contained in Fourteenth Revised Sheet No. 36, "Industrial and Smelter Customers Served Under Special Contract" are rejected.

8. All proposed permanent rates set forth in Green River's Application and not modified or rejected herein are approved.

9. The rates in Appendix A are approved for service rendered on and after April 30, 1998.

10. Green River's retail service agreement with Southwire, as filed with the Commission on February 27, 1998, is approved in principle, subject to the revisions discussed in this Order and subject to the review of the final version of the contracts.

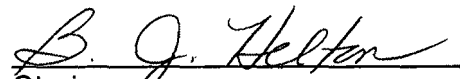
11. The Wholesale Power Contract between Big Rivers and Green River is approved in principle, subject to the revisions discussed in the Commission's Order of April 30, 1998 in Case No. 97-204 and subject to the review of the final version of that contract.


12. Within 30 days of the date of this Order, Green River shall file its tariffs, reflecting all revisions and modifications as required by this Order.

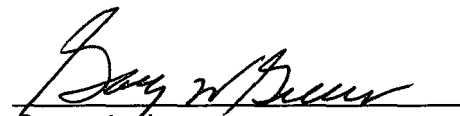
13. Green River shall file, in a new case, the final executed draft of its retail service agreement with Southwire and its Wholesale Power Contract with Big Rivers supported by detailed explanations of all changes to the versions on file with the Commission as of February 27, 1998.

Done at Frankfort, Kentucky, this 6th day of May, 1998.

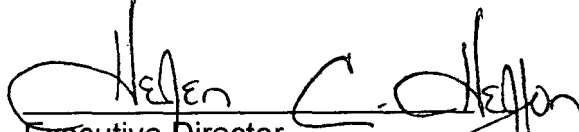
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC
SERVICE COMMISSION IN CASE NO. 97-219 DATED MAY 6, 1998

The following rates and charges are prescribed for the customers in the area served by Green River Electric Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RESIDENTIAL SERVICE (SINGLE PHASE & THREE PHASE)
AND ALL OTHER SINGLE-PHASE SERVICE

Monthly Rate:

Customer Charge	\$7.91
Energy Charge per KWH	.0556073

RESIDENTIAL ELECTRIC THERMAL
STORAGE (ETS)

Monthly Rate:

Energy Charge per KWH	.0333644
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COMMERCIAL, LARGE POWER AND PUBLIC BUILDINGS
THREE-PHASE DEMAND LESS THAN 1,000 KW

Monthly Rate:

Customer Charge	\$25.00
Demand Charge per KW of billing demand	\$4.83
Energy Charges	
First 200 KWH/KW per KWH	.046496
Next 200 KWH/KW per KWH	.042098
All Over 400 KWH/KW per KWH	.040163

THREE-PHASE DEMAND – LARGE POWER
1,000 KW AND ABOVE

Monthly Rate:

Option A – High Load Factor:	
Customer Charge	\$100.00
Demand Charges per KW of Billing Demand	\$7.80
Energy Charges:	
First 200 KWH per KW, per KWH	\$.0310
Next 200 KWH per KW, per KWH	.0255
All Over 400 KWH per KW, per KWH	.0230
Option B – Low Load Factor	
Customer Charge	\$100.00
Demand Charge per KW of Billing Demand	\$4.35
Energy Charges:	
First 150 KWH per KW, per KWH	.0399
All Over 150 KWH per KW, per KWH	.0367

STREET AND INDIVIDUAL CONSUMER LIGHTING

Monthly Rate:

175 Watt Mercury Vapor Lamps	\$7.09
250 Watt Mercury Vapor Lamps	8.20
400 Watt Mercury Vapor Lamps	9.69
100 Watt High Pressure Sodium Lamps	7.00
200 Watt High Pressure Sodium Lamps	9.75

DECORATIVE AREA LIGHTING

Monthly Rate:

	<u>Lumens</u>	<u>Rate Per Month</u>
1 Fixture	6,300	\$ 9.54
2 Fixtures	6,300 (per Lamp)	16.85

LARGE INDUSTRIAL CUSTOMERS SERVED
UNDER SPECIAL CONTRACTS

Monthly Rate:

Commonwealth Industries and Willamette Industries	
Demand Change per KW of Billing Demand	\$10.15
Energy Charge per KWH	.014015
A-CMI and World Source	
Demand Change per KW of Billing Demand	\$10.15
Energy Charge per KWH	.016215
Kimberly-Clark	
Demand Change per KW of Billing Demand	\$10.15
Energy Charge per KWH	.014215
ALCOA – Hawesville Works	
Demand Change per KW of Billing Demand	\$10.15
Energy Charge per KWH	.030614

SMELTER CUSTOMERS SERVED UNDER
SPECIAL CONTRACTS

Monthly Rate:

Tier 1

Energy Rate per KWH	\$0.0312
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Tier 2

Energy Rate per KWH for:	
Effective Date through December 31, 2000	\$0.02148
January 1, 2001 through December 31, 2001	\$0.02169
January 1, 2002 through December 31, 2002	\$0.02179
January 1, 2003 through December 31, 2003	\$0.02229
January 1, 2004 through December 31, 2004	\$0.02240
January 1, 2005 through December 31, 2005	\$0.02251
January 1, 2006 through December 31, 2006	\$0.02273
January 1, 2007 through December 31, 2007	\$0.02312
January 1, 2008 through December 31, 2008	\$0.02344
January 1, 2009 through December 31, 2009	\$0.02377
January 1, 2010 through December 31, 2010	\$0.02410

Tier 3

Energy Rate per KWH
Transmission Rate per KW

\$.01958
Transmission Provider's Open
Access Tariff Charge

Each kilowatt hour purchased by Customer shall also be subject to a fee of one-tenth of a mill (\$0.0001) payable monthly as part of the Monthly Charge, provided that, after December 31, 2000, the fee shall be subject to change by order of the Commission upon application of Customer or Green River Electric Corporation.