

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

IT IS ORDERED that Green River Electric Corporation ( Green River ) and Henderson Union Electric Cooperative Corporation ( Henderson Union ) (collectively "the Applicants") shall file the original and 8 copies of the following information with the Commission no later than May 17, 1999, with a copy to all parties of record. Each copy of the information requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet shall be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this Order.

1. Refer to Application, Exhibit 1 ( Consolidation Study ). Provide the following charts and narratives that were removed and replaced with the phrase Intentionally Left Blank :

a. Current Director Compensation Package (page 11).

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

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

d. Unidentified (page 41).

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

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

4. Refer to Consolidation Study at 44.

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

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

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

6. Refer to Consolidation Study at 52 - 55.

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

(1) Green River?

(2) Henderson Union?

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

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

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

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

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

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

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

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

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

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

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

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

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

(3) the Rural Utilities Service ( RUS ).

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

9. Refer to Consolidation Study at 57 - 58.

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

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

10. Refer to Consolidation Study at 77 - 85.

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

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

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

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

(1) The minimum TIER was lowered to 1.00.

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

11. Refer to Consolidation Study at 86.

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

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

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

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

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

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

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

16. Refer to Consolidation Study at 31.

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

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

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

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

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

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

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

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

(1) Kentucky Association of Electric Cooperatives.

(2) United Utility Supply.

(3) CoBank.

(4) CFC.

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

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

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

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

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

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

(2) (a) If yes, how?

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

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

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

b. Why was the position of director emeritus created?

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

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

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

Done at Frankfort, Kentucky, this 6<sup>th</sup> day of May, 1999.

By the Commission

ATTEST:

---

Executive Director