COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENERGY CORPORATION	)	
FOR A GENERAL ADJUSTMENT IN EXISTING	)	CASE NO. 2000-00395
RATES (RATE REDUCTION)	)	

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

Kenergy Corp. (Kenergy) has moved to modify the Order of June 29, 2001 to extend until July 1, 2004 the time in which it must apply for a general rate adjustment. Kentucky Industrial Utility Customers (KIUC) opposes the motion. Having considered Kenergy s motion and the other pleadings of the parties, we decline to modify our Order.

On June 29, 2001, the Commission entered an Order in this proceeding in which we, <u>inter</u> <u>alia</u>, directed Kenergy to file no later than July 1, 2003 an application for general rate adjustment. We took this action to: (1) ensure that Kenergy s rates would more accurately reflect the savings realized through the consolidation of Kenergy s two predecessors; (2) permit the re-establishment of Kenergy s revenue requirements and rate levels, if necessary, by the beginning of calendar year 2004 when its minimum TIER requirement increases; and (3) obtain a more accurate assignment of costs to all customer classes.

Kenergy requests that the time requirement for filing an application for rate adjustment be extended to July 1, 2004. In support of its request, it argues that its current financial forecasts indicate that no rate adjustment is necessary until 2005. These forecasts also indicate that Kenergy s Times Interest Earning Ratio (TIER) levels will not be in excess of 2.0, a level that we have generally considered reasonable for distribution electric cooperatives. It further argues that, in absence of any compelling reason to adjust Kenergy s revenues, the expense of a rate adjustment proceeding is excessive and not cost-effective.

We are not persuaded by these arguments. In our Order of June 29, 2001, we envisioned an independent review of Kenergy s finances to determine the extent of any savings that consolidation has produced and of any rate adjustment. Kenergy s assertions regarding its financial condition do not constitute such a review nor will they establish public confidence in its present rates.

The purpose of the upcoming rate application, moreover, was to complete the work that began in Case No. 99-162.[1] In that proceeding, we held that the issues of Kenergy s credit rider and adder for direct serve customers[2] should be addressed at Kenergy s first rate adjustment proceeding. We further directed that Kenergy should support its proposed rates with a detailed cost-of-service study that examines 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.[3]

As we noted in our Order of June 29, 2001, Kenergy s efforts to comply with this directive fell short of our expectations:

> We express at the outset our disappointment with Kenergy s efforts to comply with our Order of June 14, 2000

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[1] Case No. 99-162, The Application of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation for Approval of Rate Decrease for Kenergy Corp., Consolidation Successor (Ky.PSC June 14, 2000).

[2] Direct serve customers are those customers who receive power at transmission voltage levels directly from Big Rivers Electric Corporation, Kenergy s wholesale power provider.

[3] Id. at 11 12.

> in Case No. 99-162. In that Order we directed Kenergy to support its proposed rates with a detailed cost-of-service study that examines in detail the costs of serving direct serve customers and, if possible, [to] identify any merger savings that are directly related to serving this customer class. Our review of the record leads to the conclusion that, by not assigning any costs to the direct serve customer class other than purchased power and the PSC assessment, Kenergy failed to address in its cost-of-service study the costs associated with serving the direct serve customer class. The Commission expects Kenergy to comply more carefully with our Orders in the future.

Order at 8. As Kenergy s actions prevented a complete examination of the costs of serving direct customers and contributed in part to the need for a new rate proceeding, we find Kenergy s arguments for delay to be misplaced. Three years have elapsed since this issue was first raised. Deferring the matter for an additional year is not reasonable.

Accordingly, the Commission HEREBY ORDERS that Kenergy s Motion For Order Deferring Mandatory Filing is denied.

Done at Frankfort, Kentucky, this 11th day of December, 2002.

By the Commission

ATTEST:

Executive Director