

DORSEY, KING, GRAY, NORMENT & HOPGOOD

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
S. MADISON GRAY

TELEPHONE
(270) 826-3965
TELEFAX
(270) 826-6672
www.dkgnlaw.com

September 23, 2011

VIA FEDEX

Mr. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED

SEP 26 2011

PUBLIC SERVICE
COMMISSION

Re: Case No. 2011-00196
Kenergy Corp.

Dear Mr. Derouen:

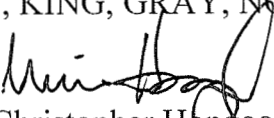
Enclosed you will find the original and 10 copies of Kenergy's Responses to Commission Staff's Second Request for Information dated September 12, 2011.

Your assistance in this matter is appreciated.

Very truly yours,

DORSEY, KING, GRAY, NORMENT & HOPGOOD

By


J. Christopher Hopgood
Counsel for Kenergy Corp.

JCH/cds

Encls.

COPY/w/encls: Mr. Sanford Novick, Kenergy

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

SEP 26 2011

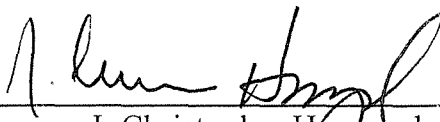
PUBLIC SERVICE
COMMISSION

In the Matter of:

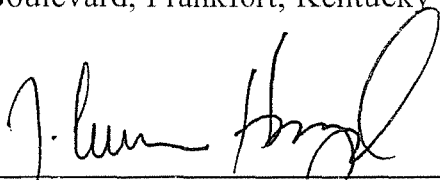
APPLICATION OF KENERGY CORP.)
FOR CERTIFICATE OF CONVENIENCE) CASE NO. 2011-00196
AND NECESSITY)

RESPONSES TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION
DATED SEPTEMBER 12, 2011

DORSEY, KING, GRAY, NORMENT & HOPGOOD
318 Second Street
Henderson, Kentucky 42420
Telephone 270-826-3965
Telefax 270-826-6672
Attorneys for KENERGY CORP.

By 
J. Christopher Hopgood

I hereby certify that the original and 10 copies of this document were placed with FedEx to be delivered to Mr. Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky, 40601, this 23rd day of September, 2011.


J. Christopher Hopgood, Counsel for Kenergy Corp.

1
2
3
4
5
6
7

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

8 **Item 1)** Refer to the response to Item 1 of Commission Staff's Initial
9 Information Request ("Staff's First Request"). The question asked Kenergy to
10 confirm whether information contained in the most recent edition of the Kentucky
11 Association of Electric Cooperatives Directory concerning Kenergy's six office
12 locations (two main offices and four branch offices) was accurate. The response
13 stated that Kenergy has three locations that house construction and service crews.
14 The response also states "All locations have customer service representatives to
15 conduct business with customers." Does the phrase "All locations" mean all three
16 locations that house construction and service crews, or does it refer to all Kenergy
17 offices, including the two main offices and the four branch offices?

18 **RESPONSE:**

19 **The phrase "all locations" refers to all Kenergy offices being the two (2)**
20 **main offices and the four (4) branch offices.**

21
22 **WITNESS: GERALD FORD**

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

Item 2) Refer to the supplemental response to Item 4 of Staff's First Request.

a. Explain why costs for land, an oil containment system, and a communication system, as well as architect and engineering fees, were not included in the initial estimated cost for the proposed Marion branch office expansion.

RESPONSE:

Through miscommunication, the only cost provided initially was the building cost. The omission of land, oil containment system, communication system and architect and engineering fees was by oversight.

WITNESS: GERALD FORD

b. Provide a detailed description of the communication system that is to be included with the proposed Marion branch office expansion.

1 **RESPONSE:**

2 **The proposed communications system for the branch office expansion**
3 **is an 11 GHz fixed microwave communications path capable of**
4 **Ethernet and TDM data paths. The office is currently connected to the**
5 **corporate Wide Area Network (WAN) via an Ethernet connection**
6 **providing full network participation and capabilities, and also**
7 **seamlessly ties the local Voice over IP (VoIP) phones into the corporate**
8 **VoIP system. This communications configuration allows the Marion**
9 **office access to the corporate Customer Information System (CIS) and**
10 **Business Information System (BIS), access to corporate email and**
11 **broadband Internet access, access to the Corporate GIS, and full**
12 **network access. The VoIP interconnection allows the phones to be**
13 **incorporated into the corporate VoIP system allowing the use of a**
14 **single 1-800 number for the company, participation of the office in**
15 **member service and outage queues and call handling, and seamless**
16 **transfer of calls to and from the office.**

17 **The proposed solution consists of radios, antennas and feedlines, and a new**
18 **rooftop short tower mount on the Marion office building. Included in the**
19 **cost estimate are FCC licensing, tower loading evaluation, and Contractor**
20 **and Kenergy labor.**

21 c. Explain how the communication system being considered
22 is different from the system currently in use and the reason for the change.

1 **RESPONSE:**

2 The current communications system in use utilizes fiber optic
3 communications and cabling between the existing Marion office and a
4 Kenergy communications collocation point at the Big Rivers Electric
5 (BREC) Marion Repeater radio site. Kenergy WAN connections
6 terminate at the BREC Marion repeater site and travel cross country
7 approximately 0.85 miles via fiber optic cable. This cable has been
8 damaged numerous times by large trucks at an adjacent rock and
9 gravel operation and by tree damage during storms. The new office
10 location would add about 2.5 miles to the fiber route. A direct line of
11 site is capable from the BREC Marion Repeater to the building site
12 which would allow for a microwave path of 1.86 miles. As the routing
13 for a proposed fiber would still require a cross country routing, the
14 path is not ideal. Additionally, the pole routing along Hwy. 91 south to
15 the site is foreign owned and not a continuous pole routing. Significant
16 make ready work would be necessary for the routing, making a fiber
17 route significantly more costly than an aerial microwave routing.
18 Communications capabilities to the proposed office would be similar to
19 existing communications.

20
21 **WITNESS: JOHN NEWLAND as to 2b and 2c**

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

Item 3) Refer to the response to Item 6 of Staff's First Request.

a. Explain what is meant by the phrase "standard cost breakdowns."

RESPONSE:

"Standard Cost Breakdowns" refer to standard line item costs associated with the individual materials and labor required to construct the facility. (Attached is the preliminary cost breakdown)

b. Provide the cost estimate and the detailed description of the "actual project" currently under construction having M/P/E systems similar to the proposed Marion branch office project.

RESPONSE:

The existing project referred to is a University of Kentucky Livingston Co. Cooperative Extension Service office facility in Smithland, Kentucky. It has a geo-thermal water source heat pump system with in-ground wells; a commercial grade plumbing system and commercial grade electrical system. These items are very similar to the proposed systems that are to be incorporated into the Kenergy facility. The existing project is located approximately fifty miles from the proposed Kenergy facility site. The breakdown of the M, P & E systems for the Smithland facility is as follows:

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45

▪ **HVAC:** Office Area was \$388,560.00 or \$48.57/SF for the Smithland facility; The HVAC for the Warehouse & Garage Area for the Kenergy facility was estimated by the consulting M/P/E engineer, Mr. Park Rommel, P.E. due to the fact there was not a warehouse or garage facility at the Smithland facility. Mr. Rommel did an estimate of the required heating/ventilation and contacted several vendors to get the cost estimate of material and labor time to arrive at a square cost of \$2.25/square foot or \$28,000.00.

▪ **Plumbing:** Office Area was \$72,000.00 or \$9.00/SF for the Smithland facility; The Plumbing for the Warehouse & Garage Area for the Kenergy facility was estimated by the consulting M/P/E engineer, Mr. Park Rommel, P.E. due to the fact there was not a warehouse or garage facility at the Smithland facility. Mr. Rommel did an estimate of the required plumbing systems and contacted several vendors to get the cost estimate of material and labor time to arrive at a square cost of \$2.25/square foot or \$8,000.00 for the Warehouse & Garage Area and \$1.00/square foot or \$6,320.00 for the Open-Air Covered Garage.

▪ **Electrical:** Office Area was \$226,240.00 or \$28.28/SF for the Smithland facility; The Electrical for the Warehouse & Garage Area and the Open-Air Covered Garage was estimated by the consulting M/P/E engineer, Mr. Park Rommel, P.E. due to the fact there was not a warehouse or garage facility at the Smithland facility. Mr. Rommel did an estimate of the required electrical systems and contacted several vendors to get the cost estimate of material and labor time to arrive at a square cost of \$2.16/square foot or \$27,000.00 for the Warehouse & Garage Area and \$1.50/square foot or \$9,480.00 for the Open-Air Covered Garage.

Fire Protection: Office Area was \$58,320 or \$7.29/SF for the Smithland facility; The Fire Protection for the Warehouse & Garage Area and the Open-Air Covered Garage was estimated by the consulting M/P/E engineer, Mr. Park Rommel, P.E. due to the fact there was not a warehouse or garage facility at the Smithland facility. Mr. Rommel did an estimate of the required electrical systems and contacted several vendors to get the cost estimate of material and labor time to arrive at

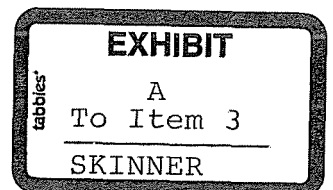
1 a square cost of \$3.50/square foot or \$43,680.00 for
2 the Warehouse & Garage Area and \$3.50/square
3 foot or \$22,120.00 for the Open-Air Covered
4 Garage.
5

6 WITNESS: TIM SKINNER

**Kenergy Corp
(Marion Facility)**

Designer: Skinner Design Associates

Item	Description	Quantity	Unit	Unit Cost	Item Subtotal	Total
Kenergy (Marion Facility)						
	Site Work	1	LS		\$25,500.00	\$25,500
	D.G.A. Paving	1	LS		\$42,000.00	\$42,000
	Asphalt Paving	2,006	YD	\$21.00	\$42,126.00	\$42,126
	8" Exterior Concrete Paving	6,086	SF	\$7.00	\$42,602.00	\$42,602
	Concrete Floor	24,644	SF	\$3.65	\$89,950.60	\$89,951
	Concrete Grade Beam	650	LF	\$65.00	\$42,250.00	\$42,250
	Concrete Footers & Piers (Metal Building)	1	LS		\$35,200.00	\$35,200
	Concrete Running Footings (Office Area)	1	LS		\$20,000.00	\$20,000
	Concrete Walks	1,400	SF	\$10.20	\$14,280.00	\$14,280
	Pre-Engineered Metal Building	18,800	SF	\$10.00	\$188,000.00	\$188,000
	Steel Erection	18,800	SF	\$3.00	\$56,400.00	\$56,400
	Metal Studs & Insulation	1	LS		\$22,250.00	\$22,250
	Masonry	1	LS		\$70,000.00	\$70,000
	DensGlass	1	LS		\$3,600.00	\$3,600
	Wall Insulation	1	LS		\$9,466.00	\$9,466
	Metal Building Wall Insulation	10,000	SF	\$0.49	\$4,900.00	\$4,900
	Metal Building Roof Insulation	18,800	SF	\$0.45	\$8,460.00	\$8,460
	Gypsum Wall Board	1	LS		\$15,000.00	\$15,000
	Lay-in Acoustical Ceiling Tile	1	LS		\$18,000.00	\$18,000
	EIFS (Exterior Insulation Finish System)	1	LS		\$3,600.00	\$3,600
	Misc. Steel & Lintels	1	LS		\$7,500.00	\$7,500
	Steel & Wood Doors & Frames / Hardware	1	LS		\$30,000.00	\$30,000
	Overhead Doors	1	LS		\$30,000.00	\$30,000
	Aluminum Doors & Windows	1	LS		\$19,800.00	\$19,800
	Vinyl Flooring & Base	1	LS		\$13,000.00	\$13,000
	Painting	1	LS		\$12,500.00	\$12,500
	Concrete Entrances	1	LS		\$6,000.00	\$6,000
	Cabinets & Casework	1	LS		\$30,000.00	\$30,000
	Toilet Partitions	1	LS		\$3,000.00	\$3,000
	Toilet Accessories	1	LS		\$1,179.00	\$1,179
	Fire Extinguishers	1	LS		\$1,180.00	\$1,180
	Plumbing	1	LS		\$66,920.00	\$66,920
	HVAC	1	LS		\$335,000.00	\$335,000
	Electrical	1	LS		\$201,780.00	\$201,780
	Fire Protection	1	LS		\$108,400.00	\$108,400
	Metal Roof Trusses	1	LS		\$53,000.00	\$53,000
	Metal Roofing	6,000	SF	\$4.00	\$24,000.00	\$24,000
	Metal Roof Deck	6,000	SF	\$4.00	\$24,000.00	\$24,000
	Subtotal				\$1,720,843.60	\$1,720,844
	Contractor Overhead & Profit				\$189,751.00	\$189,751
	Contractor General Conditions (Trash, Toilets, Job Trailer, etc)				\$20,000.00	\$20,000
	Bond & Insurance				\$20,000.00	\$20,000
	Sales Tax				\$50,000.00	\$50,000
Preliminary Cost Estimate					Total	\$2,000,594.60



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

Item 4) Refer to the response to Item 7 of Staff's First Request.

Explain how Kenergy will publicize the bidding process.

RESPONSE:

The "Request for Bids" will be advertised in Paducah, Kentucky, and
Evansville, Indiana, area public newspapers. The bid date will be
made known to various construction plan rooms: (such as Dodge Plan
Room, ACI Plan Room, Builders Exchange of Kentucky, etc). Plans
and specifications will be made available for review in the various plan
rooms and be made available for acquisition by the contractors.

WITNESS: TIM SKINNER

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

Item 5) Refer to the response to Item 9 of Staff's First Request.

Provide an explanation of all energy efficiency measures considered for the proposed facility and those incorporated into the final design.

RESPONSE:

This project is to being designed as LEED compliant project that will utilize high efficient energy design, systems, and equipment. The following systems will be incorporated into the design:

- **90% plus efficient geo-thermal water source heat pump system.**
- **Direct Digital Control system that will allow for programmed set-back, modulating the HVAC system to outdoor and indoor conditions.**
- **Variable Frequency Drives for the geo-thermal pumping system to allow for energy savings.**
- **High water restrictive plumbing fixtures that will cut back on water usage.**
- **LED trough light fixtures.**
- **Sensor lighting control systems.**
- **Use of materials with high recycled content**
- **Building envelope insulation assembly systems with high R values.**
- **Light color reflective roof systems**
- **No exterior water irrigation system**

WITNESS: TIM SKINNER

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

Item 6) State whether the proposed facility is in compliance with all applicable building codes for the city of Marion and Crittenden County.

RESPONSE:

The proposed facility will meet all building code requirements of the Commonwealth of Kentucky and Crittenden County.

The proposed site is not located within the city limits of Marion.

There are no specific building codes in Crittenden County that are above and beyond the requirements of Kentucky Building Code. There are no planning and zoning requirements in Crittenden County.

WITNESS: TIM SKINNER

1
2
3
4
5
6
7
8
9
10
11
12
13
14

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECONDDREQUEST FOR INFORMATION**

CASE NO. 2011-00196

Item 7) Refer to the response to Item 14 of Staff's First Request. Provide the assessed value of the real estate located at the existing Marion location for property tax purposes for the most recent year available.

RESPONSE:

The assessed value is \$140,046.

WITNESS: STEVE THOMPSON

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

Item 8) Refer to the response to Item 15 of Staff's First Request. Kenergy states that any proceeds from the sale of the present buildings "would be applied to the appropriate General Plant Accounts." Explain what is meant by this statement.

RESPONSE:

Refer to Kenergy Corp. Response to Commission Staff's First Request for Information, Item 19, page 2 of 2 for full explanation.

WITNESS: SANFORD NOVICK

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

Item 9) Refer to the original response to Item 16 and the supplemental responses to Items 4 and 16 of Staff's First Request. The supplemental response to Item 16 states that the table attached to the original response to Item 16 is correct. That table shows that \$82,107 of architect expense has been incurred through July 31, 2011. The supplemental response to Item 16 also states that an additional \$96,000 of architect's fees are expected to be incurred. The total of these two amounts is \$178,107. The supplemental response to Item 4 states that the architect's fees for the project are estimated to be \$160,000. Explain the discrepancy.

RESPONSE:

The \$82,106.95 from the table shown in Item 16, page 2 of 2, of the original response includes a 4/30/10 payment of \$2,336.95 for preliminary investigation work that is not part of the \$160,000 architect fee and will not be charged to the cost of the new Marion building. Also, the \$82,106.95 includes \$15,770 of engineering fees billed to the architect and paid to Skinner & Associates. These costs are not part of the \$160,000 architect fee

1 based on a percentage of the construction costs. The following
2 analysis details the items:

3	Total from Item 16, page 2 of 2	-	\$ 82,106.95
4	Less: 4/30/10 payment	-	(2,336.95)
5	Less: Engineering Fees	-	(15,770.00)
6	Plus: Projected architect fees to be paid	-	<u>96,000.00</u>
7			
8	Projected Architect Fees		<u>\$160,000.00</u>
9			

10
11
12
13
14

WITNESSES: GERALD FORD
STEVE THOMPSON

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

Item 10) Refer to the supplemental response to Item 19 of Staff's First Request which shows a journal entry that debits an account called "RUS Advance Payments on Debt" for \$88,425 for the projected sale of the Marion buildings. Provide a description of the account "RUS Advance Payments on Debt" (i.e., type and purpose of the account) and state in which account it is included in the Rural Utilities Service Uniform System of Accounts.

RESPONSE:

Item 10, page 2 of 2, contains the above referenced information.

(See the explanation for Account 224.6.)

WITNESS: STEVE THOMPSON

B. This account is to be used at the option of the borrower.

224.2 RUS Loan Contract—Construction—Debit

A. This account shall include the total loans (for construction purposes) which are covered by loan contract but not by executed notes.

B. This account is to be used at the option of the borrower.

224.3 Long-Term Debt—RUS Construction Notes Executed

This account shall include the contractual liability to RUS on construction notes executed. Records shall be maintained to show separately for each class of obligation all details as to the date of obligation, date of maturity, interest date and rate, and securities for the obligation.

224.4 RUS Notes Executed—Construction—Debit

This account shall include the total amount of the unadvanced RUS loans for construction purposes, which are covered by executed notes. When advances are received from the RUS for construction, this account shall be credited and Account 131.2, Cash—Construction Fund—Trustee, debited with the amount of cash advanced.

224.5 Interest Accrued—Deferred—RUS Construction

This account shall include interest on RUS construction obligations deferred by the terms of mortgage notes or extension agreements.

224.6 Advance Payments Unapplied—RUS Long-Term Debt—Debit

A. This account shall include principal payments on mortgage notes paid in advance of the date due and not applied to a specific note. Also, include in this account interest savings which are accrued and added to the advance payment unapplied.

B. At such time as these payments are applied to a specific note or loan balances, this account shall be credited and the long-term debt account debited with the amount so applied.

224.7 Long-Term Debt—Installation Loan Contract

A. This account shall include the contractual obligation to RUS on installation loans covered by loan contract but not covered by executed notes.

B. This account is to be used at the option of the borrower.

224.8 RUS Loan Contract—Installation—Debit

A. This account shall include the total loans for installation purposes which are covered by loan contract but not by executed notes.

B. This account is to be used at the option of the borrower.

224.9 Long-Term Debt—Installation Notes Executed

This account shall include the contractual liability to RUS on installation notes executed.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

Item 11) Refer to the supplemental response to Item 20 of Staff's First Request which refers to the "RUS cushion of credit account."

a. Provide a description of this account (i.e., type and purpose of the account) and state in which account it is included in the Rural Utilities Service Uniform System of Accounts.

b. State whether this account is related to the "RUS Advance Payments on Debt" referred to in Item 10 above. If it is related explain.

RESPONSE:

Items 11a and 11b, pages 2-4, contain the above referenced information. (See the explanation for "633 Cushion of Credit). The "RUS Advance Payments on Debt" and the "cushion of Credit Account" are the same account 224.6.

WITNESS: STEVE THOMPSON



Committed to the future
of rural communities.

Electric Programs

- [Rural Development](#)
- [Utilities Programs](#)
- [Electric](#)
- [Telecommunications](#)
- [Water & Environmental](#)

- [Electric Home Page](#)
- [About the Electric Programs](#)
- [Frequently Asked Questions \(FAQ's\)](#)
- [Interagency Electric Energy Market Competition Task Force](#)
- [GIS](#)
- [Success Stories](#)
- [Staff Directory](#)
- [Loan Programs](#)
- [Grant Programs](#)
- [Interest Rates](#)
- [Box Score](#)
- [Cushion of Credit](#)
- [List of Materials](#)
- [Federal Register](#)
- [Regulations](#)
- [Bulletins](#)
- [Engineering](#)
- [Renewable Energy](#)
- [Photovoltaic Systems](#)
- [Environmental](#)
- [Forms](#)
- [Data Collection System \(DCS\)](#)
- [Borrower Directory](#)
- [Links](#)
- [Recently Revised Pages](#)

[Electric Programs](#) >> [Cushion of Credit](#)

Cushion of Credit (Advance Payment) Account

In accordance with the provisions of Section 313 of the Rural Electrification Act of 1936 (RE Act), as amended, the Rural Utilities Service (RUS) established a cushion of credit program. Under this program, RUS borrowers may make voluntary deposits into a special cushion of credit account. A borrower's cushion of credit account balance accrues interest to the borrower at a rate of 5 percent per annum. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed under the RE Act.

If you have any questions concerning the cushion of credit program, please contact the Direct Loan and Grant Program at 314-457-4049.

Perform a USDA wide Search

For questions, contact the [Electric Programs Webmaster](#)
Policies & Statements: [Nondiscrimination](#) | [Accessibility](#) | [Privacy Policy](#) |
[Freedom of Information Act](#) | [Quality of Information](#)

Dr. 108.8, Retirement Work-in-Progress

Cr. 182.3, Other Regulatory Assets

To record the amortization of deferred prior service pension costs as they are recovered through rates in accordance with Statement No. 71.

Statement No. 106

In the event that net reductions in postretirement benefits result from this plan amendment, the reductions are recognized as follows:

1. The amount of the reduction shall first reduce any existing unrecognized prior service cost;
2. Any remaining reductions shall next reduce any unrecognized transition obligation; and
3. Any remaining reduction shall be recognized in a manner consistent with the accounting for prior service postretirement benefit costs.

In accordance with Statement No. 106, prior service postretirement benefit costs are recognized in equal amounts in each remaining year of service for active plan participants. Because it is an off-balance sheet item, only a memorandum entry is required to reduce the amount of unrecognized prior service cost.

At adoption, Statement No. 106 permitted the recognition of the transition obligation in one of two ways. The transition obligation was recognized over the longer of the average remaining service period of current plan participants or 20 years, or it may have been recognized immediately. If the delayed recognition option was chosen under Statement No. 106, this, too, was an off-balance sheet item that requires only a memorandum entry to reduce the amount of unrecognized transition obligation. However, if the immediate recognition option was chosen, the cooperative either recorded the expense in that year or, with RUS approval, deferred the expense under the provisions of Statement No. 71. If the expense were recorded, in total, in the year of adoption, no unrecognized transition obligation remains to reduce. If, however, the transition obligation was deferred in accordance with Statement No. 71, the journal entry required to effect the reduction in Statement No. 106 expense is as follows:

Dr. 228.3, Accumulated Provision for Pensions and Benefits

Cr. 182.3, Other Regulatory Assets

To record a reduction in the deferred Statement No. 106 transition obligation resulting from the adoption of the SERP.

Note: The dollar value of this entry must not exceed the deferral shown on the balance sheet.

If, after the two previous reductions have been made, any net credit remains, it shall be recognized in a manner consistent with prior service costs; that is, as an off balance sheet item that is amortized over the remaining service lives (to full eligibility) of the active plan participants. The annual amortization reduces amounts normally charged to the various operations, maintenance, and administrative expense accounts and Account 228.3 as postretirement benefit expenses.

633 Cushion of Credit

On December 21, 1987, Section 313, Cushion of Credits Payments Program, was added to the Rural Electrification Act. Cushion of credit regulations are located in The Code of Federal Regulations (CFR) 7 CFR part 1785. A cushion of credit payment is a voluntary unscheduled payment by a borrower in excess of amounts due and payable. A cushion of credit account is automatically established by Rural Development for each borrower who makes a payment after October 1, 1987, in excess of amounts then due on a Rural Development note. Payments received in the month in which an installment is due will be applied to the installment due. However, if the regular installment payment is received at a later date in the month, the first payment received will be applied retroactively to the cushion of credit account and the second will be applied to the installment due. By law, cushion of credit accounts earn five per cent interest annually, accrued daily and posted quarterly. Although the interest earned will appear as a

reduction in the interest billed on the borrower's Rural Development notes and will be separately shown on Form 694, Statement of Interest and Principal Due, interest billed must be adjusted by adding back the interest earned while principal is reduced by the amount of the interest earned before recording the debt payment. Below is an example of the adjustment required:

	As billed	Adjustment	Adjusted
Payment Billed	\$1,000		\$1,000
Principal	800	-\$50	750
Interest	*200	50	250

*Includes reduction of \$50 for interest earned on cushion of credit account.

Cushion of credit is intended to enable the borrower to deposit funds and have those funds available to make scheduled payments (or installments) only. A borrower may not have more cushion of credit funds, including accrued interest, than their entire Rural Development debt which includes loans made in Rural Electric and Telephone (RET) and Federal Financing Bank (FFB). If a borrower makes less than or no payment when their billing invoice is due, cushion of credit will automatically add to or make their payment systematically for them.

Cushion of credit is not available to use for prepayment of loan accounts before maturity except for the following situations:

1. The total amount of cushion of credit principal with accrued interest equals the borrower's total debt
2. The borrower intends to prepay all remaining debt using a combination of payment with all cushion of credit funds available.

Accounting Requirements

All payments made to a cushion of credit account should be recorded as follows:

Dr. 224.6, Advance Payments Unapplied—Long-Term Debt—Debit

Cr. 131.1, Cash—General

All interest earned on the balance of funds in the account should be recorded as follows:

Dr. 224.6, Advance Payments Unapplied—Long-Term Debt—Debit

Cr. 419, Interest and Dividend Income

Reporting Requirements

Previously, Rural Development required that the balance in the cushion of credit account be reported, on the Form 7, Financial and Statistical Report, as a reduction of the Rural Development long-term debt balance. On January 15, 2003, Rural Development issued letter guidance permitting a proportionate share of the cushion of credit balance be reported as a reduction in Current Maturities Long-Term Debt. Additionally, beginning with calendar year 2006 submissions, Form 7 has been revised to include a separate line for cushion of credit balances within the long-term debt section of Part C.

For purposes of the audited financial statements, presentation of the balance of the cushion of credit account as a long-term investment is an acceptable alternative to Rural Development.

[58 FR 59825, Nov. 10, 1993, as amended at 59 FR 27436, May 27, 1994; 60 FR 55430, 55435–55438, Nov. 1, 1995; 62 FR 42319–42321, 42323, 42330, Aug. 6, 1997; 73 FR 30288, May 27, 2008]

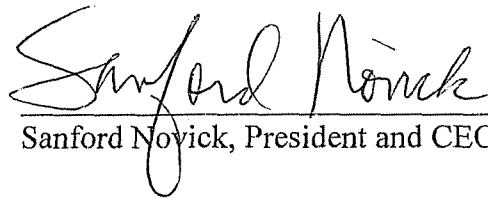
§§ 1767.42-1767.45 [Reserved]

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

VERIFICATION

I, **SANFORD NOVICK**, verify, state and affirm that the data request responses filed with this verification and for which I am listed as a witness are true and correct to the best of my knowledge, information and belief formed after a reasonable inquiry.



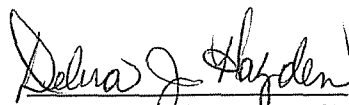
Sanford Novick, President and CEO

STATE OF KENTUCKY

COUNTY OF Daviess

The foregoing was signed, acknowledged and sworn to before me by **SANFORD NOVICK**, this 23rd day of September, 2011.

My commission expires 5-24-2015



Notary Public, State of Kentucky at Large

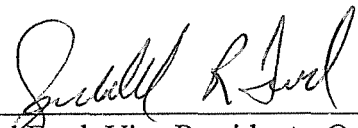
(seal)

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

VERIFICATION

I, **GERALD FORD**, verify, state and affirm that the data request responses filed with this verification and for which I am listed as a witness are true and correct to the best of my knowledge, information and belief formed after a reasonable inquiry.



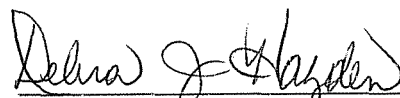
Gerald Ford, Vice President - Operations

STATE OF KENTUCKY

COUNTY OF Daviess

The foregoing was signed, acknowledged and sworn to before me by **GERALD FORD**, this 23rd day of September, 2011.

My commission expires 5-24-2015



Notary Public, State of Kentucky at Large


(seal)

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

VERIFICATION

I, **STEVE THOMPSON**, verify, state and affirm that the data request responses filed with this verification and for which I am listed as a witness are true and correct to the best of my knowledge, information and belief formed after a reasonable inquiry.



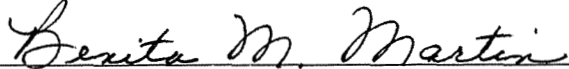
Steve Thompson, Vice President - Finance

STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me by **STEVE THOMPSON**, this 23rd day of September, 2011.

My commission expires 10-16-12



Notary Public, State of Kentucky at Large

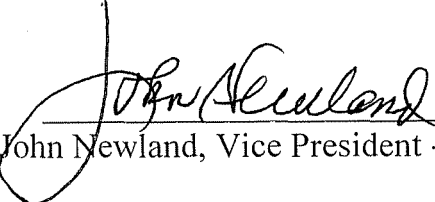
(seal)

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

VERIFICATION

I, **JOHN NEWLAND**, verify, state and affirm that the data request responses filed with this verification and for which I am listed as a witness are true and correct to the best of my knowledge, information and belief formed after a reasonable inquiry.




John Newland, Vice President - Engineering

STATE OF KENTUCKY

COUNTY OF HENDERSON

The foregoing was signed, acknowledged and sworn to before me by **JOHN NEWLAND**, this 23 day of September, 2011.

My commission expires 2-13-2012



Notary Public, State of Kentucky at Large

(seal)

**KENERGY CORP.
RESPONSE TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

CASE NO. 2011-00196

VERIFICATION

I, **TIM SKINNER**, verify, state and affirm that the data request responses filed with this verification and for which I am listed as a witness are true and correct to the best of my knowledge, information and belief formed after a reasonable inquiry.



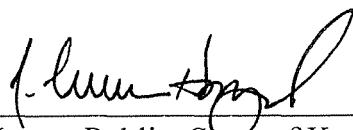
Tim Skinner, Architect

STATE OF KENTUCKY

COUNTY OF HENDERSON

The foregoing was signed, acknowledged and sworn to before me by **TIM SKINNER**, this 23rd day of September, 2011.

My commission expires 5-3-2014



Notary Public, State of Kentucky at Large

(seal)

