

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENERGY CORP.	)	CASE NO.
FOR A REDUCTION IN REVENUE AND	)	2004-00446
ADJUSTMENT IN EXISTING RATES	)	

THIRD DATA REQUEST OF COMMISSION STAFF TO  
KENERGY CORPORATION

Kenergy Corp. (“Kenergy”) is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and 6 copies of the following information, with a copy to all parties of record. The information requested herein is due on March 4, 2005. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to the Second Data Request of Commission Staff dated January 21, 2005 (“Staff Second Request”), Items 21 through 24. Kenergy states that these expenses are reasonable and further the legitimate purpose of the cooperative, thereby benefiting the members. Explain in detail how these expenses benefit the members.

2. Refer to Staff Second Request, Item 4, page 8 of 10.

a. Do the premiums shown on this schedule reflect the increase that became effective January 1, 2005?

b. Explain why single coverage for 12 employees has been deducted from the annual premium total.

c. Show the calculation of the line items titled “average family premium” and “less 5 % employee.”

d. Reconcile the \$2,135,454.60 shown on page 8 of 10 with the pro forma amount shown in the application, Exhibit 5, page 14, line 1, column (f). Also, provide a breakdown of the pro forma amount shown on line 1, column (f) for health, dental, life, and disability premiums.

3. Refer to Staff Second Request, Item 5. Explain the increase in the right-of-way clearing expense for December 2004.

4. Refer to Staff Second Request, Item 7. Describe Kenergy’s “desired situation” as it relates to a corporate finance strategy. Provide the current status of the development of a corporate finance strategy.

5. Refer to Staff Second Request, Item 11.

a. The response indicates that the main reason for the proposed reduction in cable attachment charges is lower interest rates. Explain whether Kenergy is aware that the rate of return awarded in this case will become the carrying charge component used in computing its cable attachment charges.

b. The response shows a Return on Investment (“ROI”) of 4.56 percent from Case No. 2000-00395.<sup>1</sup> Explain whether the 4.56 ROI was stated in a Commission Order, or if the ROI was calculated by Kenergy.

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<sup>1</sup> Case No. 2000-00395, The Application of Kenergy Corporation for a General Adjustment in Existing Rates (Rate Reduction).

(1) If the ROI was stated in an Order, provide the date of the Order and the page number on which the ROI is stated.

(2) If the ROI was calculated by Kenergy, provide the calculation.

c. Per page 4 of 4 of the response, the proposed cost of money component is 2.77 percent less than in the prior case cited by Kenergy. Is the Staff's reading of that page correct in that the general administrative expense component is 2.22 percent less than in the prior case?

6. Refer to Staff Second Request, Item 12 and the Application, Exhibit 14, page 2.

a. Given the Commission's findings in Case No. 2003-00165<sup>2</sup> regarding the issue of rebalancing rates among customer classes, explain why Kenergy is proposing no increase in rates for the residential customer class.

b. Identify any rate-making theory or principle which supports not increasing rates for a customer class which, at current rates, is generating a rate of return that equals only 28 percent of the system average rate of return.

c. Kenergy proposes modest decreases in the rates of return for the Three Phase 0-1,000 kW, Three Phase Over 1,000 kW and Primary Over 1,000 kW customer classes. Explain whether consideration was given to reducing these classes' rates further to produce greater equity in class rates of return.

d. Explain how Kenergy determined that it would propose to increase the rate of return for Schedule 31 from 13.05 percent to 15.13 percent.

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<sup>2</sup> Case No. 2003-00165, Application of Kenergy Corporation for Review and Approval of Existing Rates.

7. Refer to Staff Second Request, Item 14, pages 4 through 6 of 7.
  - a. Describe what actions Kenergy has taken concerning the group pension plan recommendations outlined in the letter from PricewaterhouseCoopers LLP (“PWC”).
  - b. Provide copies of any correspondence from PWC relating to the actual fiscal 2003 end-of-year accounting results, the estimated fiscal 2004 end-of-year accounting results, and the fiscal 2005 expense.
8. Refer to Staff Second Request, Item 17.
  - a. Describe the weather events that resulted in the Federal Emergency Management Agency (“FEMA”) reimbursement received in 2004.
  - b. Explain why it would not be reasonable to use the test-year actual capitalization rates adjusted to remove the FEMA impact.
9. Refer to Staff Second Request, Item 19, page 2 of 2. For each employee receiving an increase during the test year, provide justification for each increase granted.
10. Refer to Staff Second Request, Item 20.
  - a. Refer to page 7 of 22. Would Kenergy agree that the expense of the advertisement to the Homebuilders Association would constitute promotional advertising? Explain the response.
  - b. Refer to pages 8 through 13 of 22. Would Kenergy agree that the expense for the advertising of geothermal heating and cooling systems not only promotes energy conservation but encourages the purchase of electric equipment over other heating sources? Explain the response.
11. Refer to Staff Second Request, Item 21.

a. Explain why the monthly mileage reimbursement for each director varies each month. Provide the actual miles reimbursed and the mileage rate used during the test year.

b. Does Kenergy agree that the monthly director board fees should be normalized for the test year, i.e. \$200 per month per director for 12 months? If no, explain why the director board fees should not be normalized for the test year.

c. Refer to lines 37 and 46. Explain why the director board fee is \$400.

d. In its Application, Kenergy proposed to remove the CEO search costs as non-recurring expenses. Does Kenergy agree that the directors' expenses related to the CEO search should also be removed as non-recurring expenses? Explain the response.

e. Refer to line 506. Explain why this transaction should be included for rate-making purposes.

12. Refer to Staff Second Request, Item 22. Would Kenergy agree that in its April 22, 2004 Order in Case No. 2003-00165, the Commission found that public relations expenditures were designed to enhance the public image of Kenergy and excluded those expenses from rates in its last rate case? Explain the response.

13. Refer to Staff Second Request, Item 23. Provide a copy of annual reports or other materials describing the entities to which Kenergy made contributions or payments during the test year for the purpose of economic development.

14. Provide a copy of Kenergy's current Economic Development Plan.

15. Refer to Staff Second Request, Item 24, control numbers 175134 and 175689. Kenergy states the transactions were removed for rate-making purposes,

however the adjustment amount shown in the application, Exhibit 5, page 17 does not appear to include the transactions. Does Kenergy agree that the adjustment amount should include an additional \$700 for these transactions? Explain the response.

16. Refer to Staff Second Request, Item 28. Has Kenergy given consideration to performing a depreciation study within the next 5 years? Explain the response.

17. Refer to the response to the First Data Request of Commission Staff dated December 9, 2004 ("Staff First Request"), Item 35. Reconcile the total of the Case No. 2003-00165 Rate Case expenses shown in column (b) with the test-year rate case expenses shown in the application, Exhibit 5, page 25.

18. Refer to the response to Staff First Request, Item 46. Provide a copy of the Vegetation Management Program evaluation program referred to in the response.

a. Did Kenergy accept all of the recommendations in the evaluation?

b. If not, explain how the Vegetation Management Program adopted by Kenergy differs from the consultant's evaluation.

c. Has the Vegetation Management Program resulted in any reductions in outages or outage expenses?

19. Refer to the Application, Exhibit 5, page 15, which refers to a contract for right-of-way clearing. Provide a copy of this contract.

20. Refer to the Application, Exhibit 5, page 23. Provide the most current interest rates as of February 28, 2005.

21. Refer to the response to First Data Request of the Kentucky Industrial Utility Customers, Inc., Item 6, which indicates that contractor right-of-way trimming costs partially contribute to test year increases in distribution maintenance expense.

a. Did this contract replace any existing right-of-way trimming costs, or is it in addition to previous activities?

b. If the contract is in addition to previous activities, will the increased vegetation management efforts result in a reduction of expenses caused by major storms?

22. In several responses to Staff Second Request, Kenergy has identified items that should be included or excluded for rate-making purposes. Provide a schedule listing each of these items, the dollar amount, and the data request item number. In addition, for each item list the applicable capitalization rate, accounts receivable rate, non-regulated rate, and expensed rate.

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Beth O'Donnell  
Executive Director  
Public Service Commission  
P. O. Box 615  
Frankfort, Kentucky 40602

DATED \_\_\_\_\_

cc: All Parties

Case No. 2004-00446