COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

In the Matter of:

ADJUSTMENT OF RATES)
OF KENERGY CORP.) CASE NO. 2008-00323

ATTORNEY GENERAL'S INITIAL REQUESTS FOR IFORMATION

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits these Initial Requests for Information to Kenergy Corp. [hereinafter referred to as "Kenergy"] to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the witness who will be prepared to answer questions concerning each request.

(3) Please repeat the question to which each response is intended to refer. The Office of the Attorney General can provide counsel for Kenergy with an electronic version of these questions, upon request.

(4) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional

information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(5) Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

(6) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(7) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(8) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(9) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(10) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to

whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(11) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(12) Please provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response.

Respectfully submitted,
JACK CONWAY
ATTORNEY GENERAL

Lawrence W. Cook

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Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Stephanie Stumbo, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; and via electronic mail to Stephanie.Stumbo@ky.gov , and fking@dkgnlaw.com ; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

Hon. Frank N. King, Jr.
Attorney at Law
Dorsey, King, Grey, Norment & Hopgood
318 2nd St.
Henderson, KY 42420

Mr. Sanford Novick
President and CEO
Kenergy Corp.
P. O. Box 1389
Owensboro, KY 42302

this 3rd day of October, 2008

Lawrence W. Cook

Assistant Attorney General

Attorney General's Initial Requests for Information
to Kenergy Corporation
CASE NO. 2008-00323

1. Re. Mr. Novack's testimony, Exhibit 6, page 2, lines 27 – 31: Please provide a schedule showing how the margin level requested in the instant proceeding is $2,202,863 higher than the amount requested in Case No. 2006-00369.

2. Please provide and describe any filing items, adjustments, or calculation methods reflected in the current case that are different from what was allowed by the PSC in Case No. 2006-00369.

3. In the response to PSC-1-2, Kenergy presented the rate base components, total net rate base and the returns on net rate base for the 2007 Test Year and the years 2002-2006. In this regard, please provide the following information:

   a. Provide a schedule showing how each of the test year rate base components has changed as a result of the pro forma adjustments on Exhibit 5, page 1, columns (c) and (f).
   b. In the same format and detail as per the response to PSC-1-2, provide the pro forma rate base components, total net rate base and return on net rate base reflecting the pro forma results per Exhibit 5, page 1, columns (c) and (f).

4. What portion of the test year equity balance of $55,307,516 consists of G&T Patronage capital? If none, explain why.

5. With regard to capitalization and the return on capitalization, please provide the following information:

   a. Provide a schedule showing how each of the test year capitalization components has changed as a result of the pro forma adjustments Exhibit 5, page 1, columns (c) and (f).
   b. Provide a schedule showing the return on capitalization for the pro forma adjusted test year (incorporating the pro forma changes to be provided in response to part (a) above), the test year, and the years 2002-2006. The returns should be calculated by dividing the sum of the margins and LT debt interest expense into the sum of the LT debt and equity (excluding G&T Patronage capital) balances.

6. With regard to the 13-month average M&S and prepayment balances shown in the test year rate base in the response to PSC-1-2, please provide the following information:

   a. Worksheet showing the calculations for the respective 13-month average balances of $976,532 and $520,442.
   b. What makes up the prepayment balance in prepayment account 165.200 (e.g., 12/31/07 balance of $164,544).

c. Please provide the portion of the 13-month average prepayment balance of $520,442 that represents the 13-month average test year PSC assessment prepayments.

7. Taking into account the adjustment to remove $44,876 customer deposit interest from the test year, what dollar amount of remaining customer deposit interest is still included in the interest expense amount of $123,257 on line 28 of Exhibit 5, page 1?

8. Given that Kenergy has not used its total Consumer Deposit balance from its rate base, explain why Kenergy believes it appropriate to include Consumer Deposit interest expense in its determination of the requested rate increase in this case. Stated differently, if Consumer Deposits are not to be considered for ratemaking purposes in this case, explain why the interest expenses associated with Consumer Deposits have been considered for ratemaking purposes by Kenergy.

9. Is Kenergy aware of the well-established and long-standing Commission ratemaking policy that consumer deposits may not be deducted from rate base and, consistent with that policy, that consumer deposit interest may not be included as an above-the-line ratemaking expense (see page 9 of the Commission's Order in Delta Natural Gas Company's 1999 rate case, Case No. 1999-176)?

10. With regard to Non-Recurring revenue charges, please provide the following information:

    a. Please describe any changes Kenergy proposes for its Non-Recurring revenue charges and indicate on which filing exhibit this information is presented.
    b. Has Kenergy in this case reflected any incremental annual revenues projected to be generated by the proposed changes in its Non-Recurring revenue charges? If so, please quantify these incremental revenues, show the calculations, and indicate on which filing exhibit this information is presented.

11. With regard to the Miscellaneous Revenues shown on Exhibit 9, page 10, please provide the following information:

    a. In the same format, please provide the actual account 450, 451, 454 and 456 revenues for 2006, 2005 and 2004.
    b. Reconcile the test year account 454 Cable Attachment fees of $48,402 to the corresponding test year account 454 Cable Attachment fees of $64,040 shown in the response to PSC-1-9, page 15 of 32.

c. Reason for the normalized reduction from $520,728 to $497,585 for the account454 Telephone Attachment Fees.
d. Reason for the removal of the $5,523 rental revenue from personal property.

12. Does Kenergy have an Environmental Surcharge? If not, why not?

13. Exhibit 5, page 1, line 11 shows that the test year includes purchased power expenses of $44,783,615 for the Non-Direct Served customers. Please provide the purchased power revenues included in the total base rate revenues of $74,715,456 on Exhibit 5, page 1, line 2 and reconcile these purchased power base revenues to the purchased power costs of $44,783,615.

14. As shown on Exhibit 5, page 6, Kenergy is proposing to *increase* the test year per books KWH sales by 8,896,091 for its customer growth adjustment and, as a result of this, is proposing to increase its purchased power expenses by 8,896,091 x $0.036237, or $322,364. In this regard, please provide the following information:

a. Confirm the above facts. If you do not agree, explain your disagreement.
b. Confirm that Kenergy in this case is also proposing to *decrease* the test year per books KWH sales by 8,827,817 as a result of its proposed unbilled revenue adjustment.
c. Explain why no adjustment was made to reduce the test year purchased power expenses by 8,827,817 x $0.036237, or $319,894 as a result of the unbilled revenue adjustment, consistent with what Kenergy has proposed for its customer growth adjustment.
d. Reconcile the total KWH number of 1,235,848,654 shown in footnote (2) to the total KWH number of 1,179,558,312 shown on Exhibit 9, page 1, line 37.

15. With regard to the proposed Unpaid Power Expense adjustment on Exhibit 5, page 5, please provide the following information:

a. Explain why Kenergy has only limited its test year unpaid costs to unpaid power costs and has not performed the same analysis and adjustment for all of its costs, for example, unpaid wages and salaries and employee benefits, other unpaid O&M expenses, unpaid interest expenses, etc.
b. Explain why the unpaid December 2007 power KWH can be 3,910,270 KWHs *lower* than the unpaid December 2006 power KWH while the associated December 2007 unpaid power costs are $125,733 *higher* than the December 2006 unpaid power costs.

16. Re. Exhibit 9, page 4, line 6: The test year KWH of 646,999 plus the 12,954 KWH for customer growth minus the 10,118 KWH loss for the customer transfer nets to 652,475. Please reconcile this to the number of 649,476 shown on this line.

17. Re. Exhibit 9, page 5, please provide the following information:

    a. Why were the incremental annual customer charge and energy charge revenues associated with the 12 additional bills for the year-end customer growth (see Exhibit 9, page 11) not calculated and reflected on this schedule?
    b. If the matter referenced in part (a) above represents an inadvertent oversight, please provide a revised exhibit with the inclusion of the 12 additional bills.

18. Please reconcile the depreciation expenses for each distribution plant account shown on Exhibit 5, page 12 to the corresponding distribution plant depreciation expenses shown in the response to PSC-1-37, pages 2 and 3.

19. With regard to the PSC Assessment Tax adjustment on Exhibit 5, page 16, please provide the following information:

    a. Please confirm that the difference between the per books test year and pro forma base rate assessable revenues is $1,459,179, calculated as follows: increase in base rate revenues of $1,683,227 less one-half of increase in base rate power costs of $224,049. If you do not agree, explain your disagreement.
    b. Applying the PSC assessment rate of .001706 to this base rate assessable revenue increase of $1,459,179 results in incremental PSC assessment fees of $2,489. Please confirm this. If you don't agree, explain your disagreement.
    c. The per books test year assessable revenues amount to $195,075,409 [calculation: ($74,716,456 + $281,018,827 + $1,531,502) – ($279,597,136 divided by 2)]. Applying the PSC assessment rate of .001706 to this assessable revenue amount of $195,075,409 results in calculated PSC assessments of $332,799. Yet, the actual per books PSC assessments amount to $281,061. Please explain why there is a $51,738 difference (which difference makes up almost the entire pro forma PSC assessment adjustment of $52,250 requested in this case).

20. As shown on Exhibit 10, page 8, the test year per books Tax Expense – Other amount of $295,302 (Exh. 5, p.1, line 25) includes $13,064 for income tax expenses. Please explain what these income taxes represent and why this $13,064 amount should be reflected for ratemaking purposes.

21. With regard to Kenergy's Uncollectible expenses, please provide the following information for the test year and each of the years 2003 through 2006:

    a. Uncollectible reserve starting balance.
    b. Uncollectible expense accruals booked in account 904.000.
    c. Bad debt charges.
    d. Uncollectible reserve ending balance.
    e. Operating revenues subject to uncollectible charges.
    f. Ratio of uncollectible accruals to operating revenues subject to uncollectible charges.
    g. Ratio of bad debt charges to operating revenues subject to uncollectible charges.

22. Please provide a detailed breakout of the nature and purpose of the expense components making up the total test year expense of $67,059 in account 912.000

23. With regard to the long-term debt interest annualization information on Exhibit 5, page 13 and the response to PSC-1-6, page 4, please provide the following information:

    a. Provide the exact reasons for the $87,624 difference in the proforma interest of $2,806,543 and the actual test year interest of $2,718,919 for the total RUS loans shown on Exhibit 5, p. 13.
    b. Please reconcile the proforma interest amounts (adding to $2,678,895) for the RUS loans shown in the response to PSC-1-6, page 2 to the corresponding proforma interest amounts (adding to $2,806,543) shown on Exhibit 5, page 5. In this regard, also explain the reason and derivation of the $127,648 for the "increase for note renewed at 3.25" shown in the response to PSC-1-6, page 4, footnote (1).
    c. Provide the exact reasons for the $341,858 difference in the proforma interest of $1,068,199 and the actual test year interest of $726,341 for the total US Treasury loans shown on Exhibit 5, p. 13.
    d. Provide the exact reasons for the $158,102 difference in the proforma interest of $1,152,413 and the actual test year interest of $1,310,515 for the total Cobank loans shown on Exhibit 5, p. 13.

24. The response to PSC-1-6, page 4, footnote (1) indicates that $127,506 of Kenergy's proforma long term debt interest expense increase adjustment of $267,576 is the result of recognizing interest associated with a long-term debt issues on 4/1/08. Please explain why Kenergy believes it is appropriate to recognize post-test year interest expenses for ratemaking purposes in this case.

25. With regard to the test year interest expenses in account 431200 – Commonwealth deposits of $44,876, please provide the following information:

    a. Explain the nature and purpose of the interest expense amount.
    b. Explain the nature and purpose of the Commonwealth deposits.
    c. Why does Kenergy pay interest on these deposits?
    d. What are the monthly test year deposit balances; and
    e. How have these deposits been treated for ratemaking purposes in this case (e.g, have they been treated as a rate base deduction in this case?)
    f. The monthly interest expense became $0 after September 2007. Please explain why.
    g. Explain why it is appropriate to continue to claim the interest expense of $44,876 given that Kenergy has made a proforma adjustment to remove the $39,317 interest income (see Exhibit 5, p. 18) from the adjusted test year income because the deposit was refunded to the customer in October 2007.

26. Please explain the nature and purpose of the total interest expense of about $2,307 in account 431 associated with the two coal customers, Alcoa and Cardinal River and explain whether the expense is recurring in nature.

27. Please provide Kenergy's monthly Short Term loan balances (do not consider the current portion of LT debt as short term debt for purposes of this request) from 1/1/03 through 8/31/08.

28. What would be the proforma long-term debt interest expense (as compared to the annualized interest expense level of $5,916,079 shown in the response to PSC-1-6, page 4) if the end-of-test year 12/31/07 LT debt balances were to be priced out at the current interest rates applicable to these same 12/31/07 LT debt balances? Also, provide all calculations in the same format as per the response to PSC-1-6.

29. With regard to Exhibit 5, page 18, please provide the actual interest amounts booked for each of the years 2003 through 2006 for CFC CTC's, Deferred Compensation earnings, and overnight & 30-day investments. Also explain what represents the interest associated with CFC CTC's.

30. With regard to Exhibit 5, page 19, please provide the following information:

    a. At the end of 2006, the CoBank loan balance was $24,802,799, which is fairly close to the 2007 ending balance of $23,198,498. Applying the 1% and 35% formula to the 2006 ending balance of $24,802,799 results in a derived non-cash capital credit amount of $86,810. Please explain why this number (derived in the same manner as the pro forma non-cash capital credit amount of $81,195 for 2007) is so much lower than the actual per books amount of $198,853.

b. Footnote (2) states that the "actual 2007 amounts will be known in mid-2008." Has this actual amount become available by now? If not, why not? If so, what is the actual amount as compared to the estimated amount of $120,270 and when (year) will the difference between the actual amount and the estimated amount of $120,270 be booked as "Adjust 2007 to Actual," similar to what was booked in 2007 for the 2006 true-up?
c. Explain whether the derived proforma amount of $81,195 represents an estimate that could be different from the eventual actual amount which would then need to be trued-up to the actual non-cash capital credit amount.
d. Please provide the actual true-up adjustments to true up actual vs. originally estimated non-cash capital credits in each of the years 2003 through 2007.

31. Re. response to PSC-1-34, page 6: Explain why the professional service expenses of $1,259.38 have been removed for ratemaking purposes, but not the $1,825.68 advertising expenses.

32. Please indicate Kenergy's Designated Delegate and Alternate Delegate to KAEC and Kenergy's Designated Delegate and Alternate Delegate to NRECA.

33. With regard to test year directors fees and expenses for KAEC annual meetings, please provide the following information:

a. Provide a schedule showing all test year KAEC annual meeting fees and expenses, in total and broken out by director.
b. Indicate which of these KAEC annual meeting expenses have been included and which have been removed for ratemaking purposes.
c. Explain the reasons for the KAEC annual meeting fees and expenses that have been included for ratemaking purposes.

34. With regard to test year directors fees and expenses for NRECA annual meetings, please provide the following information:

a. Provide a schedule showing all test year NRECA annual meeting fees and expenses, in total and broken out by director.
b. Indicate which of these NRECA annual meeting expenses have been included and which have been removed for ratemaking purposes.
c. Explain the reasons for the NRECA annual meeting fees and expenses that have been included for ratemaking purposes.

35. Please identify any health insurance and/or FAS 106 expenses included in the total directors' fees and expenses requested in this case. If there are no such expenses, then please indicate what represents the directors' expenses identified in the response to PSC-1-30 as "Director Insurance," and provide the total of such Directors' Insurance expenses included in the test year.

36. The directors' fees and expenses include $1,884 for CEO search expenses and $7,500 for CEO meeting fees. The $1,884 expense was removed for ratemaking purposes. Was the $7,500 meeting fee amount also removed as part of the overall meeting fee removal of $26,850? If not, why shouldn't this $7,500 be removed?

37. Please explain the ratemaking inclusion of the following directors' fees and expenses listed in the response to PSC-1-30, pp.1 – 50 (if they have been excluded, please so indicate):
    a. Election envelopes and postage of $852.19 (pp. 25 and 27). Are these non-recurring and/or related to the CEO search?
    b. Postage for ballots of $2,100.85 (p. 27). Are these non-recurring and/or related to the CEO search?
    c. Meal in honor of Mark Bailey of $280.82 (p. 29)
    d. Summer school expenses totaling $5,483.35 (p. 31)
    e. Conference call IRC nominations of $270.22 (p. 35)
    f. Winter school expenses totaling $5,905.02 (pp. 37-39-41-45-47)
    g. Director's orientation meeting meal of $127.34 (p. 43)

38. Please provide a detailed breakout of the test year expense of $122,520 in account 921.000 for A&G General Expense.

39. Please provide the actual account 935.000 Maintenance of General plant expenses for each of the years 2003 through 2006.

40. Please provide a breakout of the advertising expenses of $296.94 in account 930.100 and $241.06 in account 930.230 and indicate which of these expenses have been removed and which have been included for ratemaking purposes and explain why.

41. Please reconcile the Miscellaneous General expenses of $334,438 shown on Exhibit 10, page 12 to the Miscellaneous General expenses of $358,879 (total of $572,437 less $213,558 for directors' fees and expenses) in the response to PSC-1-30, p. 2.

42. What is the nature and purpose of the FOCUS bill stuffers' expense of $8,016 shown on PSC-1-30, p. 5?

43. With regard to the Economic Development expenses listed in PSC-1-30, pages 6 – 8, please provide the nature and purpose of the following items and explain why they should be included for ratemaking purposes:

    a. Total Challenge Grant expenses of $8,143.
    b. Total lunches and other ED meeting meals and annual dinner attendance expenses of $320.73.
    c. ED Cabinet Conference of $107.94.
    d. Total Alliance payments of $19,500.
    e. KIED Scholarship of $550.
    f. Golf tournament of $275.
    g. KAEC Annual Conference of $223.
    h. Total recruiting assistance expenses of $6,604.

44. The other A&G expenses listed in PSC-1-30, page 9 include $741.16 for door prizes and scholarship certificates and $112 for Board Spouse gift. Have these expenses been included for ratemaking purposes and, if so, why would that be appropriate?

45. With regard to Exhibit 5, page 7, footnote (2), please provide the following information:

    a. Actual monthly number of full-time employees (equivalent to the 155 FT employees referenced in the footnote) from 1/1/03 through to date.
    b. 13-month average monthly number of FT employees for each of the years 2003 through the 2007 test year.
    c. Actual number of full-time hours worked (equivalent to the 318,449 for 2007) for each of the years 2003 – 2007.

46. With regard to overtime hours and expenses shown on Exhibit 5, page 7, please provide the following information:

    a. The 23,731 OT hours for which Kenergy is requesting rate recovery includes expenses associated with hours billed to other parties to the extent of $45,043 ($1,104 x $40.80 = $45,043). Isn't Kenergy reimbursed for those OT hours? If not, why not. If so, where are the off-setting reimbursed dollars for these OT hours reflected in the filing?
    b. The 23,731 OT hours for which Kenergy is requesting rate recovery includes expenses associated with storm repairs to the extent of $415,997 ($10,196 x $40.809 = $415,997). Please explain why there is not a certain level of storm damage expense double count when recognizing these storm damage expenses as well as the storm damage expense normalization adjustment on Exhibit 5, page 11.

c. The four year average OT hours of 18,908 shown at the bottom of the exhibit represents the average for the 4-year period 2003 – 2006 and does not include the 2007 test year. Please confirm that the 4-year average for 2004 – 2007, including the test year, is 17,058.

d. Please explain the reason for and derivation of the adjustment for additional OT hours of 2,074 (which, presumably can be found at the bottom of the exhibit but which the AG cannot replicate).

47. With regard to the pro forma test year deferred compensation expense of $82,485 shown on Exhibit 5, pages 8 and 8d, please provide the following information:

a. Provide a description and explanation of the nature and purpose of the deferred compensation program for which these expenses are made.

b. Explain why the pro form expense of $82,485 is 117.40% higher than the per books test year expense of $37,942. In addition, explain why this expense level is to be considered annually recurring.

c. The deferred compensation is for the recently retired CEO and for "2 former Green River" employees. Please indicate what functions and titles these 2 former Green River employees had upon retirement.

d. Explain why it is appropriate to charge the ratepayers for this proforma expense of $82,485.