Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
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David L. Armstrong
Chairman

James Gardner
Vice-Chairman

John W. Clay
Commissioner

October 3, 2008

Honorable Dennis G. Howard II
Assistant Attorney General
Office of the Attorney General Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

RE: Case No. 2008-00323

Please see enclosed data request from Commission Staff in the above case.

If you need further assistance, please contact my staff at (502) 564-3940.

Sincerely,

Stephanie Stumbo

Stephanie Stumbo
Executive Director

SS/ke
Enclosure

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October 3, 2008

Honorable Frank N. King, Jr.
Attorney at Law
Dorsey, King, Gray, Norment & Hopgood
318 Second Street
Henderson, KY 42420

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October 3, 2008

Sanford Novick
President and CEO
Kenergy Corp.
3111 Fairview Drive
P. O. Box 1389
Owensboro, KY 42302

RE: Case No. 2008-00323

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Sincerely,

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

SECOND DATA REQUEST OF COMMISSION STAFF TO KENERGY CORP.

Kenergy Corp. ("Kenergy"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before October 15, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the 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.

Kenergy shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Kenergy fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. 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 request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Kenergy's Application at Exhibit 3, Tab A, Schedule 1, Residential (Single Phase & Three-Phase).

a. In cases where the segregation of wiring would involve undue expense to the member, Kenergy has added the option of the customer being classified as a commercial customer. Explain the rationale for offering the commercial rate rather than the residential rate.

b. Kenergy's residential tariff forgives the gross charge for one bill a year. Provide the criteria that Kenergy uses to determine whether it will forgive a bill.

2. Explain why Kenergy is inserting the Renewable Resource Energy Service Rider as an adjustment clause in the tariff pages for service to most of the classes.

3. Refer to Kenergy's Application at Exhibit 3, Tab B, the proposed tariff for Schedule 15, Private Outdoor Lighting. Explain why Kenergy has increased the categories under "Type Light" for its service to this customer class.

4. Refer to Kenergy's Application at Exhibit 3, Tab B, the proposed tariff for Schedule 16, Street Lighting Service. Explain why Kenergy has increased the categories under "Type Light" for its service to this customer class.

5. Refer to Kenergy's Application at Exhibit 3, Tab B, the proposed tariff for Schedule 23, Renewable Resource Energy Service Rider.

a. Explain why the rate schedules included under this rider have changed from the previously approved tariff.

b. Explain why Kenergy eliminated the Member Discount Adjustment Rider for this schedule.

6. Refer to Kenergy's Application at Exhibit 3, Tab B, the proposed tariff for Schedule 76, Cable Television Attachment Tariff. In Kenergy's presentation of the cost justification, footnote 1 indicates that the weighted average cost for the poles was calculated on the installed plant cost as of 12/31/07. For clarification, is the installed cost the gross or net cost of the poles?

7. Refer to Kenergy's Application at Exhibit 3, Tab B, Schedule 162, Deposits. Kenergy's proposed deposit is $190, calculated in accordance with 807 KAR 5:006, Section 7(1)(b). Provide the calculations that Kenergy used to determine the new deposit amount of $190.

8. Refer to Kenergy's Application at Exhibit 9, page 10, lines 13 and 14, which show the current and proposed rates for "unnecessary trip by serviceman."

a. Explain the specific circumstances under which Kenergy would impose this charge.

b. Provide the tariff sheet number where the proposed rate for this service is shown in Kenergy's Application at Exhibit 3, Tab A.

c. Provide the tariff sheet number where the present rate for this service is shown in Kenergy's Application at Exhibit 3, Tab B.

9. Refer to Kenergy's Application at Exhibit 8 (Gaines Testimony) and Exhibit 14. Provide an electronic copy of the cost-of-service study in Excel format with all formulas intact and unlocked.

10. Refer to Kenergy's Application at Exhibit 8, page 7, lines 9-13 and Exhibit 14, pages 21-24.

a. Provide a copy of page 21, which is missing from Exhibit 14.

b. Provide a step-by-step narrative of where in the cost-of-service study each of the subfunctionalization steps outlined in Exhibit 8, page 7, lines 9-13 occur.

c. For Exhibit 14, pages 21-24, explain where in the cost-of-service study the respective allocation factors are derived.

11. Refer to Kenergy's Application at Exhibit 8, page 7, lines 17-21.

a. Provide an explanation of where the minimum intercept methodology for accounts 364 – 38 is performed. If the worksheets are not in Exhibit 14, provide the calculations and worksheets.

b. Explain how the minimum intercept methodology allows for a portion to be allocated to the Sec.& Services column in Exhibit 14, pages 25 and 29.

12. Refer to Kenergy's Application at Exhibit 14, line 34, pages 22, 25, 29 and 34.

a. Explain what comprises line 34, account 369 Services, and why a small portion is directly assigned to Security Lights.

b. Explain where in the cost-of-service study the allocation factors for the demand-related, consumer-related and direct assignment portions of account 369 are derived.

c. Explain why line 38, account 373 Street Lights, is directly assigned to Security Lights.

13. Refer to Kenergy's Application at Exhibit 14, lines 45-55, pages 23-24, 27-28, 31-32 and 35-36.

a. Provide a step-by-step explanation of where in the cost-of-service study the labor allocation factors are derived.

b. Explain the rationale for directly assigning the various expenses all to Security Lights.

14. Refer to Kenergy's Application at Exhibit 14, pages 37-40.

a. There do not appear to be any analogous Functionalization and Subfunctionalization of Labor Total System for the General Plant Accounts found on page 23. Similarly, there do not appear to be analogous sheets for the demand-related and consumer-related General Plant Accounts found on pages 27 and 31. Explain whether a part of the analysis is missing and, if not, where in the cost-of-service study the labor allocation factors are derived.

b. Provide a step-by-step explanation of where in the cost-of-service study each of the allocation factors on pages 37 – 40 in column C, Basis, are derived.

c. Provide a step-by-step explanation of how the Total System labor amounts were divided into demand- and consumer-related amounts.

d. Provide an explanation of where in the cost-of-service study the demand- and consumer-related ratios are derived.

15. Refer to Kenergy's Application at Exhibit 14, page 95. Explain where in the cost-of-service study the individual factors found in Column C are derived.

16. Refer to Kenergy's Application at Exhibit 14, pages 96-99. Explain where in the cost-of-service study the respective demand- and consumer-related classification ratios were derived.

17. Refer to Kenergy's Application at Exhibit 14, page 102. Explain where in the cost-of-service study each of the allocation factors is derived.

18. Refer to Kenergy's Application at Exhibit 14, pages 104-106. Page 104 at line 6 lists Kenergy's non-coincident peak ("NCP") demand as 222,266 kW. However, on line 8 the same figure is listed as a modified coincident peak("CP") demand. On page 105 on line 5, 222,266 kW is listed as a contribution to system peak (total system column), which seems to indicate that the figure refers to a CP. On page 106 at line 5, 314,860 kW is listed as maximum demand class NCP in the total system column.

a. Explain what the 222,266 kW figure represents and how it was derived.

b. Explain what the 314,860 kW figure represents and how it was derived.

c. Explain how the Average and Excess Method was used on page 105. Include in the response whether or not the system load factor was used and the value of the load factor.

d. Page 106 appears to also use the Average and Excess method to derive an excess demand figure. Explain why the CP demand was not used to calculate excess demand, as opposed to using NCP demand.

e. On page 106, explain how line 7 was derived and its relation to line 6.

f. On page 104, lines 6 and 8, and page 105, lines 5, 6, 8, and 12 contain equal values. On page 106, lines 8, 17, and 19 also contain equal values. However, the total system value of 222,266 kW is common to all of these lines on the three pages. Explain why the class values are different across these pages.

19. On Kenergy's Web site, there is a promotional campaign wherein Kenergy will award a $300 rebate to all customers replacing a gas water heater with an electric water heater.

a. Provide a list of all other current Kenergy campaigns that promote a switch from an alternative source of energy to electricity.

b. For the water heater campaign and each of the other campaigns listed in response to (a) above, provide separately the following:

(1) The date of inception of the campaign.

(2) The total amount of rebates paid to all customers for each of the last five calendar years and the current year up through the date of Kenergy's response to this request.

(3) The amount of rebates included in test year operations stating the accounts, by name and number, in which test year rebates were recorded.

(4) The analysis used to determine the amount of the rebate.

(5) The estimated monthly electric usage of each electric device (water heater) for which a rebate is provided.

(6) The length of time it will take for Kenergy to recover the rebate amounts through the additional sales generated from the electric appliance/water heater.

(7) The analysis performed to determine the length of time provided in response to (5) above.

(8) An explanation of the consideration that was given to the additional load and electric generation requirements resulting from the additional electric devices on Kenergy's wholesale electric provider, Big Rivers Electric Corporation.

(9) An explanation of the consideration given to requiring that the electric water heater rebate be conditional upon the use of a timer device that cycles the water heater off during peak usage hours.

20. Refer to Kenergy's Application at Exhibit 5, page 5, line 1 and line 2.

a. Provide the calculation for unbilled revenues at December 31, 2006 in the amount of $7,087,316 and at December 31, 2007 in the amount of $7,971,563.

b. Provide a description of Kenergy's billing process that includes a discussion of its meter reading routes and billing cycles.

c. For each meter reading route, state the number of unbilled days included in the determination of unbilled revenues at December 31, 2006 and December 31, 2007.

21. Refer to Kenergy's Application at Exhibit 5, page 5, line 10 and line 11.

a. Provide the calculation for unpaid power costs at December 31, 2006 in the amount of $3,835,657 and at December 31, 2007 in the amount of $3,709,924.

b. Explain in full detail what "unpaid power costs" represents and how it relates to unbilled revenues.

22. Refer to Kenergy's Application at Exhibit 5, page 2, line 3.

a. Explain why the adjustments to non-direct revenues and expenses for the "Normalized Wholesale Discount Adjustment" are not of equal amounts as the adjustments are for the direct revenues and expenses.

b. Is Kenergy currently receiving the wholesale discount?

c. If no to (b) above, state the date the discount ceased.

d. If yes to (b) above, state the date Kenergy currently anticipates the discount to cease and provide support for this date.

23. Provide the number of employees of Kenergy at the following dates, separating part-time, full-time, seasonal, and temporary.

a. September 30, 2008.

b. December 31, 2007.

c. December 31, 2006.

d. December 31, 2005.

e. December 31, 2004.

f. December 31, 2003.

24. Refer to Kenergy's Application at Exhibit 5, page 7. On this exhibit, $61,279 of test year payroll is designated as "Accounts Receivable." Provide a

discussion of the nature of this amount and provide workpapers showing its determination.

25. Refer to Kenergy's Response to Staff's First Data Request, Item 28.

a. For each amount listed as "Other Compensation" for the test year, state the amount included in the pro forma payroll listed as capitalized, accounts receivable, non-operating and electric expensed in Kenergy's Application at Exhibit 5, page 7.

b. State the nature of the other compensation expense reported for each executive officer.

c. Discuss how the level of other compensation expense is determined for each executive officer.

d. All executive officers except for the President/CEO experienced a decrease in "Other Compensation" from 2005 to 2006. Explain these decreases.

e. Explain why the President's "Other Compensation" expense decreased from 2006 to 2007.

f. Excluding the amounts listed as "Other Compensation" for executive employees at Item 28, provide a list of all other compensation/bonuses paid to all employees during the test year stating the amounts and accounts to which each compensation/bonus was charged. Also, provide a description of the nature of the compensation/bonus and a discussion of how the amount was determined.

26. Refer to Kenergy's Application at Exhibit 5, page 8.

a. Does the pro forma annual cost for health insurance as stated at $1,802,475 include the payment of health insurance premiums paid on behalf of Kenergy's contracted attorney?

b. Does the test year annual cost for health insurance as stated at $1,760,401 include the payment of health insurance premiums paid on behalf of Kenergy's contracted attorney?

27. Refer to Kenergy's Application at Exhibit 5, page 8(d). Provide the annual pension costs for the defined benefit plan for "GREC" employees hired prior to 1/1/87 for the years 2003, 2004 and 2005, separating the annual costs by service costs, interest costs, return on assets, and net amortizations and deferrals.

28. Refer to Kenergy's Response to Staff's First Data Request, Item 30, page 70. Test year "Director Insurance" is stated at $23,881.

a. Provide a description of this insurance.

b. Provide a list of the names of the directors covered by this insurance.

29. Refer to Kenergy's Response to Staff's First Data Request, Item 16 and Item 30, page 50. At Item 16, Kenergy states that the monthly meeting fee paid to directors was decreased from $650 to $300. At Item 30, page 50, total test year directors' monthly meeting fees are stated at $72,600. Explain why an adjustment decreasing test year expenses by $33,000, as calculated below, was not made by Kenergy to account for the decreased meeting fees.

New meeting fee	$300
Times: 11 Directors	11
12 Months	12
Pro forma meeting fees	39,600
Less: Test year	(72,600)
Adjustment	($33,000)

30. Refer to Kenergy's Response to Staff's First Data Request, Item 31.

a. Listed here are $55,621.01 in test year expenses reported in Account 426 related to Donations, Civic Activities and "Spouse Expense." Confirm that the amounts listed in Item 31 include all test year expenses for these activities and that there are no other related expenses reported in any other revenue or expense accounts.

b. Describe the accounting processes employed by Kenergy to ensure that these expenses are fully and properly reported in Account 426.

31. Refer to Kenergy's Response to Staff's First Data Request, Item 34, page 2.

a. Describe the "Retirement Plan" shown in column (c) and provide a summary of the legal work performed on the "Retirement Plan.

b. Provide a comparative analysis of the annual expenses for the amounts shown for each contracted service listed in columns (g) and (j) for the years 2003, 2004, 2005, 2006 and 2007.

32. Refer to Kenergy's Application at Exhibit 5, page 7(e) and page 11. On page 11, Kenergy calculates "Outside Vendor Storm Repair Expense" using a 13-year average. In support of its calculation, it references the portion of a previous Commission Order included in its application at page 7(e). However, that Commission Order finds that an average of 10 years is the appropriate method. Explain why

Kenergy proposes an adjustment based upon a 13-year average when the Commission's previous practice has been to use a 10-year average.

33. Refer to Kenergy's Application at Exhibit 5, page 12.

a. At Exhibit 5, page 12, Kenergy's test year Gross Plant in Service is stated at $202,842,778. This plant amount is not consistent with Kenergy's annual financial report submitted to the Commission for the year ended 2007, where Kenergy reported a balance for Gross Plant in Service of $224,786,799. Reconcile the Plant in Service stated at Exhibit 5, page 12, in the amount of $202,842,778 to the Plant in Service stated in Kenergy's 2007 annual report in the amount of $224,786,799.

b. At Exhibit 5, page 12, test year depreciation expense is stated at $7,027,484. At Exhibit 11, page 2, test year depreciation expense is stated at $7,415,078. Reconcile these two amounts.

34. Refer to Kenergy's Application at Exhibit 5, page 12(a). The USDA letter states that the approved depreciation rates will terminate on December 31, 2011 and that, upon termination, Kenergy will be required to either revert back to depreciation rates that fall within the ranges established by RUS Bulletin 183-1 or submit an updated depreciation study supporting alternative depreciation rates.

a. Does Kenergy contemplate that it will revert back to rates that are within the ranges prescribed by RUS or that it will update its depreciation study and request different rates?

b. Will Kenergy seek approval of new depreciation rates from RUS prior to requesting Commission approval?

35. Refer to Kenergy's Response to Staff's First Data Request, Item 34, which lists two cases Kenergy brought before this Commission -- Case Nos. 2007-00164 and 2007-00126. In both cases, the Commission approved changes to Kenergy's tariffed rates that went into effect during the test year. Explain why no adjustments were made to test year operating revenues to annualize the test year revenues generated by these tariffed rate changes.

36. Refer to Kenergy's Response to Staff's First Data Request, Item 35(b).

a. The final cost of Case No. 2006-00369 is stated at $67,622. State the portion of this cost that was expensed when incurred and the amount that was deferred for amortization.

b. State the amount of amortization expense included in test year expenses for the amortization of the costs of Case No. 2006-00369.

37. Refer to Kenergy's Application at Exhibit 5, page 4, line 9, column (v). The reference given for this adjustment is Exhibit 5, page 9. State specifically where on Exhibit 5, page 9, the adjustment can be found.

38. Refer to Kenergy's Application at Exhibit 5, page 1. Non-Operating Margins – Other are reported at $51,814 which includes the accounts shown below.

Revenues from Merchandising, Jobbing and Contract Work	$	224,332
Expenses from Merchandising, Jobbing and Contract Work		(197,790)
Income from Non-Utility Operations		23,908
Miscellaneous Nonoperating Income		1,365
Total	$	51,815

a. Provide a current copy of Kenergy's cost allocation manual ("CAM") used to make allocations to the accounts listed above.

b. Provide the general ledger detail for all the accounts shown above. This detail should show separately all entries made to these accounts with a description of each entry which clearly describes the nature of the entry and demonstrates that each entry is properly classified in the account to which it was charged. Also, this detail shall include a specific reference to where the allocation factors used to determine each allocation entry can be found in the CAM provide in (a) above.

39. Refer to Kenergy's Response to Staff's First Data Request, Item 49. Provide the following information separately for each non-regulated activity listed at Item 49.

a. A general ledger analysis for the test year that includes all activity.

b. Discuss how each non-regulated activity listed at Item 49 is related to Kenergy's electric energy distribution and sales.

c. Explain in detail the reasons supporting Kenergy's determination that engaging in non-regulated activities does not have to be conducted through an affiliate as required by KRS 279.020(2).

40. Refer to Kenergy's Application at Exhibit 5, page 18.

a. Provide a detailed analysis of the test year RUS Cushion of Credit in the amount of $572,585 and explain what this amount represents and how it was determined.

b. State the current "federal funds rate."

c. Provide the amount of income Kenergy recognized on its "Overnight & 30 day Investments" from January 1, 2008 through September 30, 2008.

41. Refer to Kenergy's Response to Staff's First Data Request, Item 9. Provide an explanation for the change from the previous year to the test year in the level of expense reported in the following accounts.

	Account	Previous Year	Test Year
a.	583000	$1,431,383	$1,306,881
b.	592000	335,330	436,840
c.	592100	64,160	111,771
d.	593000	3,148,219	2,621,465
e.	593300	3,474,391	3,896,170
f.	595000	145,899	105,471
g.	597000	118,950	140,370
h.	598000	236,368	188,342
i.	904000	98,550	142,372
j.	908000	209,388	245,771
k.	912000	102,561	67,059
l.	921000	166,369	122,520
m.	930200	544,487	334,438

42. Refer to Kenergy's Response to Staff's First Data Request, Item 14.

a. Discuss how and when Kenergy determines that a "General Retirement" of patronage capital is appropriate. Include in this discussion how the amount to be retired is determined.

b. Explain how the target range of equity to total capital ratio of 30 percent to 40 percent was determined.

c. Explain why it is important for Kenergy to maintain an equity to total capital ratio within its targeted range.

Stephanie Stumbo
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED: October 3, 2008

cc: Parties of Record