

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

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www.dkgnlaw.com

May 4, 2011

FEDERAL EXPRESS

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

RECEIVED

MAY 06 2011

PUBLIC SERVICE  
COMMISSION

Re: Kenergy Corp.  
Case No. 2011-00035

Dear Mr. Derouen:

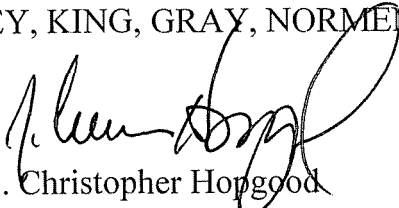
Enclosed for filing please find Kenergy's Responses to Third Data Requests (original plus 10 copies) in the above referenced matter.

Your assistance in this matter is appreciated.

Very truly yours,

DORSEY, KING, GRAY, NORMENT & HOPGOOD

By

  
J. Christopher Hopgood  
Attorney for Kenergy Corp.

JCH/cds

Encls.

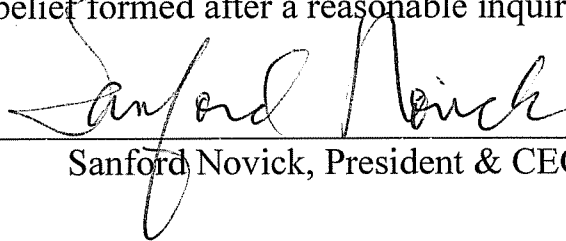
COPY/w/encls.

Office of Attorney General, Utility and Rate Intervention  
Division  
Steve Thompson, Kenergy Corp.  
KIUC

CASE NO. 2011-00035

VERIFICATION

I 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 & CEO

STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me by Sanford Novick, this 5<sup>th</sup> day of May, 2011.

My commission expires 5-24-2011

  
\_\_\_\_\_  
Notary Public, KY. State at Large

(seal)

CASE NO. 2011-00035

VERIFICATION

I 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.

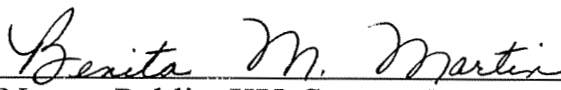
  
\_\_\_\_\_  
Steve Thompson, Vice President - Finance

STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me by Steve Thompson, this 4<sup>th</sup> day of May, 2011.

My commission expires Oct. 16, 2012

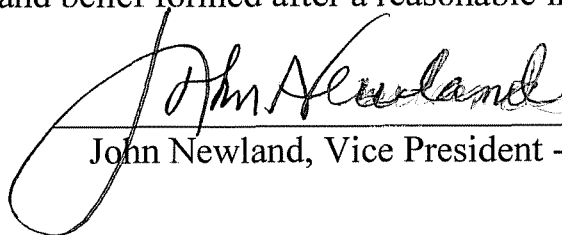
  
\_\_\_\_\_  
Notary Public, KY. State at Large

(seal)

CASE NO. 2011-00035

VERIFICATION

I 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: DAVIESS

The foregoing was signed, acknowledged and sworn to before me by John Newland, this 4<sup>th</sup> day of May, 2011.

My commission expires Oct. 16, 2012


  
\_\_\_\_\_  
Notary Public, KY. State at Large

(seal)

CASE NO. 2011-00035

VERIFICATION

I 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

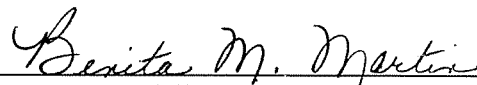
STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me by Gerald Ford, this 4<sup>th</sup> day of May, 2011.

My commission expires

Oct. 16, 2012



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Notary Public, KY. State at Large

(seal)

CASE NO. 2011-00035

VERIFICATION

I 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.

*Keith Ellis*

\_\_\_\_\_  
Keith Ellis, Vice President - Human Resources

STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me by Keith Ellis, this 4<sup>th</sup> day of May, 2011.

My commission expires Oct. 16, 2012

*Berita M. Martin*

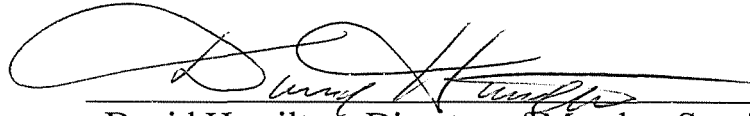
\_\_\_\_\_  
Notary Public, KY. State at Large

(seal)

CASE NO. 2011-00035

VERIFICATION

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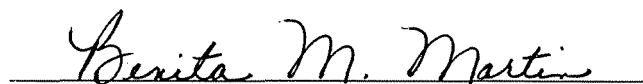
  
\_\_\_\_\_  
David Hamilton, Director of Member Services

STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me by David Hamilton, this 4<sup>th</sup> day of May, 2011.

My commission expires Oct. 16, 2012

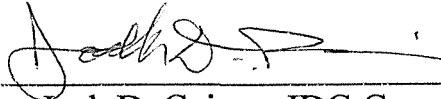
  
\_\_\_\_\_  
Notary Public, KY. State at Large

(seal)

CASE NO. 2011-00035

VERIFICATION

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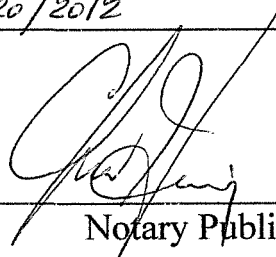
\_\_\_\_\_  
Jack D. Gaines, JDG Consulting

STATE OF GEORGIA

COUNTY OF: DEKALB

The foregoing was signed, acknowledged and sworn to before me by Jack D. Gaines, this 27 day of May, 2011.

My commission expires 10/20/2012



\_\_\_\_\_  
Notary Public

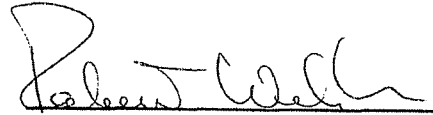




CASE NO. 2011-00035

VERIFICATION

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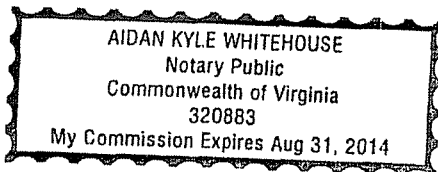


Robert Welsh  
President, Welsh Group, LLC

COMMONWEATH OF VIRGINIA  
COUNTY OF: LOUDOUN

The foregoing was signed, acknowledged and sworn to before me by Robert N. Welsh, this 26<sup>th</sup> day of April, 2011.

My commission expires 8.31.2014



Notary Public



**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
THIRD DATA REQUEST FOR INFORMATION**

**2011 RATE APPLICATION**

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**Item 1)** Refer to Kenergy's response to item 1.a., page 3 of 3, and item 12.d. of the Second Data Request of Commission Staff ("Staff's Second Request"). The response to 12.d. states that the present rate for the 19,500 Lumen-250W-MH-Flood Light should be \$8.61. Kenergy provided a revised Exhibit 10A, page 6, in response to item 1.a. to correct a different light. The revised Exhibit 10A, page 6, does not include a correction for the 19,500 Lumen-250W-MH-Flood Light. Provide an updated revised Exhibit 10A, page 6, showing a correction for this light.

**Response)** Item 1, pages 2 -3 of 3, contain the above referenced information.

**Witness)** Steve Thompson



Henderson, Kentucky

FOR ALL TERRITORY SERVED

Community, Town or City

PSC NO. 2

First Revised SHEET NO. 15A

CANCELLING PSC NO. 2

Original SHEET NO. 15A

<b>CLASSIFICATION OF SERVICE</b>
<b>Schedule 15 – Private Outdoor Lighting</b>

Commercial and Industrial Lighting  
(Available to all classes except residential)

	<u>Type Light</u>	<u>Watts</u>	<u>Approx. Lumens</u>	<u>Avg. Monthly Energy (KWH)</u>	<u>(per lamp per month) Rates</u>
<b>T</b>	<i>Available for New Installations after April 1, 2011:</i>				
	<b><u>Flood Lighting Fixture</u></b>				
I	High Pressure Sodium	250	28,000	103	\$ 9.86
↓	High Pressure Sodium	400	61,000	160	\$12.47
↓	High Pressure Sodium	1,000	140,000	377	\$28.64
↓	Metal Halide	250	19,500	98	\$ 9.45
↓	Metal Halide	400	32,000	156	\$12.44
↓	Metal Halide	1,000	107,000	373	\$28.64
	<i>Not Available for New Installations after April 1, 2011:</i>				
	<b><u>Contemporary (Shoebox) Lighting Fixture</u></b>				
I	High Pressure Sodium	250	28,000	103	\$11.29
↓	High Pressure Sodium	400	61,000	160	\$13.97
↓	High Pressure Sodium	1,000	140,000	377	\$28.64
↓	Metal Halide	250	19,500	98	\$10.88
↓	Metal Halide	400	32,000	156	\$13.71
↓	Metal Halide	1,000	107,000	373	\$28.64
	<i>Not Available for New Installations after April 1, 2011:</i>				
	<b><u>Decorative Lighting Fixtures</u></b>				
I	Acorn Globe Metal Halide	100	9,000	42	\$10.67
↓	Acorn Globe Metal Halide	175	16,600	71	\$12.94
↓	Round Globe Metal Halide	100	9,000	42	\$10.46
↓	Round Globe Metal Halide	175	16,600	71	\$11.95
↓	Lantern Globe Metal Halide	175	16,600	71	\$12.08
↓	Acorn Globe HPS	100	9,500	42	\$12.09

DATE OF ISSUE March 1, 2011  
Month / Date / Year

DATE EFFECTIVE April 1, 2011  
Month / Date / Year

ISSUED BY \_\_\_\_\_  
(Signature of Officer)

TITLE President and CEO

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION  
IN CASE NO. 2011-00035 DATED \_\_\_\_\_





**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
THIRD DATA REQUEST FOR INFORMATION**

**2011 RATE APPLICATION**

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**Item 2)** Refer to Kenergy's response to item 1.c. of Staff's Second Request.

**a.** A copy of an agreement with Meadow Hill subdivision was provided. However, the present rate for this subdivision of \$2.25 shown in Kenergy's notice does not appear in the contract provided. Explain why this contract has not been updated.

**b.** The response indicates that there are three separate contracts for the lighting rates. In the Commission's regulations, 807 KAR 5:011, Section 13, states that, "Every utility shall file true copies of all special contracts entered into governing utility service which set out rates, charges or conditions of service not included in its general tariff." Explain why Kenergy has not filed a copy of the three lighting contracts with the Commission.

**Response a&b)** Kenergy is the consolidation successor of Henderson-Union Electric Cooperative and Green River Electric Corporation effective July 1, 1999 and approved by the Commission in Case 99-162. These agreements were executed in the 1970's and the billing and member records are not available in a complete manner back to that period. Therefore, Kenergy cannot provide responses to items 2a and 2b as to why the 1970 contracts were not filed with the Commission, or updated during the 1970 - 1990's.

I would like to offer that it appears from the agreement found in PSC 2<sup>nd</sup> data request Item 1c, page 2 of 2, that the intent was to charge the rate found under "their regular S.L. schedule" for the lights installed in the subdivisions. The total revenues received would equate to the tariff rate for street lights times the number of lights installed. Under this concept, the tariff rate was used to bill the

**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
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**2011 RATE APPLICATION**

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lights, therefore, Henderson-Union may have deemed it unnecessary to file the agreements with the Commission since the general street lighting tariff rate was being charged.

**Witness)**      Steve Thompson





**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
THIRD DATA REQUEST FOR INFORMATION**

**2011 RATE APPLICATION**

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**Item 3)** Refer to Kenergy's response to item 1.f. of Staff's Second Request and Exhibit B of the application, First Revised Sheet No. 35B.

**a.** Explain how the Replacement Cost Factor of 1.26 percent on First Revised Sheet No. 35B was derived.

**b.** State whether the proposed recovery of replacement cost means that Kenergy intends to set aside funds to help with the replacement of equipment if replacement is needed prior to the end of its useful life.

**c.** Given the typical accounting treatment of early plant retirements, explain why it is necessary to include this type of component in the facilities charge.

**Response a)** The 1.26 factor is based on the present value of the expected replacement costs. The expected replacement costs are determined by an actuarial approach based on the Iowa-type survivor curves, which are survival frequency distributions developed by Iowa State University for use in depreciation studies for electric utilities. In this case, the present value replacement cost is determined by calculating the replacement cost for each year based on the failure percentage given by the 30-year survivor curve, adjusted for 3% inflation and a 6% discount rate. Item 3, page 3 of 3, provides the calculations.

**Response b)** Yes.

**KENERGY CORP.**  
**RESPONSE TO THE COMMISSION'S**  
**THIRD DATA REQUEST FOR INFORMATION**

**2011 RATE APPLICATION**

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2 **Response**     **c)**     The two are not directly related. Although plant retirements are factored into the  
3 depreciation rates, the effects are primarily from historical levels of retired plant due to upgrades and  
4 system improvements, rather than premature plant failure. The Replacement Cost Factor is needed to  
5 add revenue to pay for early retirement of dedicated facilities due to premature failure. It acts as a risk  
6 premium based on the potential for failure that spreads the cost over all customers subject to the  
7 facilities charge. Therefore, the capital recovery component of the facilities charge includes two  
8 elements. The first is based only on amortizing the original cost over 28 years (the useful life based on  
9 the composite depreciation rate of 3.55%) not including a component for retiring plant that fails earlier.  
10 The second is the Replacement Cost Factor

12 **Witness)**     Jack Gaines

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30-Year  
R2 Curve

Inflation Rate 3.00%  
Discount Rate 6.00%

<u>Age</u>	<u>Survival Rate</u>	<u>Failure Rate</u>	<u>Incremental Failure Rate</u>	<u>Inflation Factor</u>	<u>Expected Nominal Cost Factor</u>	<u>Present Value Factor</u>
1.00	99.67%	0.33%	0.33%	1.03000	0.00339	0.00320
2.00	99.30%	0.70%	0.37%	1.06090	0.00390	0.00347
3.00	98.89%	1.11%	0.41%	1.09273	0.00448	0.00376
4.00	98.44%	1.56%	0.46%	1.12551	0.00513	0.00406
5.00	97.93%	2.07%	0.51%	1.15927	0.00586	0.00438
6.00	97.37%	2.63%	0.56%	1.19405	0.00667	0.00471
7.00	96.76%	3.24%	0.62%	1.22987	0.00759	0.00505
8.00	96.08%	3.92%	0.68%	1.26677	0.00861	0.00540
9.00	95.33%	4.67%	0.75%	1.30477	0.00975	0.00577
10.00	94.51%	5.49%	0.82%	1.34392	0.01102	0.00615
11.00	93.61%	6.39%	0.90%	1.38423	0.01243	0.00655
12.00	92.63%	7.37%	0.98%	1.42576	0.01399	0.00695
13.00	91.56%	8.44%	1.07%	1.46853	0.01572	0.00737
14.00	90.39%	9.61%	1.17%	1.51259	0.01764	0.00780
15.00	89.13%	10.87%	1.27%	1.55797	0.01975	0.00824
16.00	87.75%	12.25%	1.38%	1.60471	0.02208	0.00869
17.00	86.26%	13.74%	1.49%	1.65285	0.02464	0.00915
18.00	84.65%	15.35%	1.61%	1.70243	0.02746	0.00962
19.00	82.91%	17.09%	1.74%	1.75351	0.03054	0.01009
20.00	81.03%	18.97%	1.88%	1.80611	0.03389	0.01057
21.00	79.01%	20.99%	2.02%	1.86029	0.03754	0.01104
22.00	76.85%	23.15%	2.16%	1.91610	0.04148	0.01151
23.00	74.53%	25.47%	2.32%	1.97359	0.04572	0.01197
24.00	72.06%	27.94%	2.47%	2.03279	0.05025	0.01241
25.00	69.43%	30.57%	2.63%	2.09378	0.05506	0.01283
26.00	66.64%	33.36%	2.79%	2.15659	0.06010	0.01321
27.00	63.70%	36.30%	2.94%	2.22129	0.06533	0.01355
28.00	60.61%	39.39%	3.09%	2.28793	0.07069	0.01383
29.00	57.38%	42.62%	3.23%	2.35657	0.07610	0.01404
30.00	54.03%	45.97%	3.36%	2.42726	0.08145	0.01418
Sum						0.25956



**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
THIRD DATA REQUEST FOR INFORMATION**

**2011 RATE APPLICATION**

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**Item 4)** Refer to Kenergy's response to item 1.j. of Staff's Second Request and Exhibit B of the application, First Revised Sheet No. 137. The response states that the text change was made for clarification purposes. State whether the text change indicates a change in Kenergy's current practice. If yes, provide the reason for the change.

**Response)** The text change does not indicate a change in Kenergy's practice. It represents an attempt to improve internal communications.

**Witness)** John Newland



**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
THIRD DATA REQUEST FOR INFORMATION**

**2011 RATE APPLICATION**

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**Item 5)** Refer to Kenergy's response to item 1.k. of Staff's Second Request and Exhibit B of the application, First Revised Sheet Nos. 139 and 139A.

**a.** Explain whether Kenergy encourages customers to install the trench and conduit rather than Kenergy installing it or Kenergy having it installed.

**b.** Explain the reason for the difference in cost between the \$8 per foot if a contractor performs the trenching and \$12 per foot if Kenergy performs the trenching.

**c.** Explain the circumstances under which a contractor would perform the trenching rather than Kenergy performing the trenching.

**Response a)** The tariff, as stated, attempts to encourage customers to install the trench and conduit. Actual experience has shown improved coordination and less overall cost with this practice.

**b)** The unit cost for a contractor is a negotiated fee and represents an average based on the type of work anticipated. The Kenergy unit cost is based on actual experience for work orders where Kenergy performed trenching.

**c)** A contractor will always be the first choice and Kenergy will perform the work if the contractor is unavailable.

**Witness)** John Newland





**KENERGY CORP.  
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**2011 RATE APPLICATION**

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**Item 6)** Refer to the response to item 2 of Staff's Second Request. State whether the Non-Fuel Adjustment Clause Purchase Power Adjustment rate of (\$.001005024) is used in the billing analysis provided in Exhibit 10A of the application. If yes, state where in the billing analysis it is used.

**Response)** Yes, it is included in the calculation of proposed "Rider" revenue for each non-direct served rate class. It is included as follows:

Exh. 10A, pg. 14, col. K, ln. 7	\$(1,146,244)
Exh. 10A, pg. 1, col. F, ln. 37	÷ <u>1,140,513,641</u> KWH
	\$(0.001005024) per KWH
Unwind Rider	+ \$0.0020873 per KWH
Exh. 10B, col. D, ln. 26	+ <u>0.000914</u> per KWH
Proposed "Rider"	\$0.001996276 per KWH

For example: Residential KWH sales of 738,388,323 x \$0.001996276 = \$1,474,010 as shown on Exh. 10A, page 1, col. H, ln. 7 (any differences are due to rounding).

The Unwind Rider is the current wholesale net Rider of \$0.002 per KWH grossed up for losses for a retail equivalent. The \$0.000914 is equal to the loss adjusted change in the base wholesale rate, which is a roll-in of environmental surcharge. It is added back as a Rider to reflect that it is revenue neutral.

**Witness)** Jack Gaines



**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
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**2011 RATE APPLICATION**

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**Item 7)** Refer to the response of item 13 of Staff's Second Request.

**a.** Refer to the response to 13.b. State whether Big Rivers has changes its methodology for billing demand since Kenergy's most recent rate case. If no, explain the reason for the change in the demand allocation methodology discussed in this response.

**b.** Refer to the response to 13.g. The response to subparts 1 and 2 state that the allocation factors used for Accounts 584 and 594 in the cost of service study ("COSS") were incorrect.

(1) State whether correcting for these errors throughout the COSS would change the proposed allocation of the proposed revenue increase to each of the rate classes.

(2) Provide an electronic copy of the COSS after the correction is made.

**Response a)** Yes, Big Rivers' is proposing to use the Big Rivers system monthly CP demands for billing. Big Rivers has been using the member monthly NCP demands.

**Response b(1)** The corrections do not significantly change the results or the recommended revenue allocations.

**Response b(2)** The electronic copy of the COSS is provided on the CD enclosed with this filing.

**Witness)** Jack Gaines



**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
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**2011 RATE APPLICATION**

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**Item 8)** Refer to the response to 13.j. The response states that “the minimum-intercept calculations are provided in the file ‘Staff 2-13j - Plant Classification - 2010’”. There was no attachment to the response nor was a file of that name included on the CD provided by Kenergy with its responses. Provide a copy of Staff 2-13j - Plant Classification - 2010 or provide its location in the Kenergy’s responses to Staff’s Second Request.

**Response)** This information is enclosed on the CD provided in this filing.

**Witness)** Jack Gaines



**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
THIRD DATA REQUEST FOR INFORMATION**

**2011 RATE APPLICATION**

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**Item 9)** Refer to the response to item 27.c. of Staff's Second Request. Kenergy's answer was non-responsive regarding its decision to select the current providers. Provide the explanation requested.

**Response)** In 2006, Kenergy elected to move its group medical insurance with the Kentucky Rural Electric Cooperative multi-employer medical plan with East Kentucky Power and other cooperatives. The recommendation resulted in an approximate 10% savings over the previous provider's 2005 rate.

Kenergy elected to move its group dental plan with Health Resources, Inc. in 2009 due to a savings of 18% of the previous provider's 2008 rate without any reduction in plan design.

**Witness)** Keith Ellis





**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
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**2011 RATE APPLICATION**

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**Item 10)** Refer to the response to item 17 of Staff's Second Request, and item 8, page 16 of the First Data Request of Commission Staff ("Staff's First Request").

**a.** Provide an analysis of the items that make up the balance of \$4,276,428.35 in Account 142.200 - Other Accounts Receivable as of June 30, 2010.

**b.** Does the test year include any expenses that were not reimbursed by FEMA resulting from events other than the 2009 ice storm? If yes, provide an analysis of the items and the accounts in which they are recorded.

**Response a)** Item 10, page 2 of 2, contains the above referenced information.

**b)** No.

**Witness)** Steve Thompson

ACCOUNT 142.200 - OTHER ACCTS RECEIVABLE	TOTAL	2008 WIND	2009 ICE	GEOTHERMAL	POLE	CONSTRUCTION
BALANCE AS OF 6-30-2010	AMOUNT	STORM	STORM	SALES	SALES	WORK ORDERS
FEMA - 2008 Hurricane Ike	\$ 651,922.89	\$ 651,922.89				
FEMA - 2009 Ice Storm	\$ 3,608,625.97		\$ 3,608,625.97			
Herbert Miller (overpayment on w.o. to be refunded)	\$ (1,423.42)					\$ (1,423.42)
Hopkins Co. Heating & Air	\$ 3.33			\$ 3.33		
KY Department of Transportation	\$ 5,914.11					\$ 5,914.11
May Electric	\$ 99.35				\$ 99.35	
Mike's Electrical Service	\$ 99.35				\$ 99.35	
Randy Howard Service Co.	\$ 10,964.58			\$ 10,964.58		
White's Service Co.	\$ 222.19			\$ 222.19		
	\$ 4,276,428.35	\$ 651,922.89	\$ 3,608,625.97	\$ 11,190.10	\$ 198.70	\$ 4,490.69
G/L BALANCE 6/30/2010	\$ 4,276,428.35					
DIFFERENCE	\$ -					



**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
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**2011 RATE APPLICATION**

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- Item 11)** Refer to the response to item 18 of Staff's Second Request.
- a.** Refer to the response to 18.1., Account 419000, Interest-Dividend Income. The reasons provided for the change in this account total \$605,341. The change in the account from 2009 to the 2010 test period was \$416,021, or \$189,320 less. Provide an explanation for this difference.
- b.** Refer to the response to 18.h., Account 597000, Dist Exp-Main-Meters. Explain what is meant by "CT" meters and fully explain how the new meter testing requirement for CT meters differs from the previous testing requirements, and the resulting impact on testing expenses.
- c.** Refer to the response to 18.j., Account 920000, Adm-Gen Exp-Ops-Executive Salary. The response indicates that \$180,306 more in labor and overheads for Kenergy employees was charged to this account from 2009 to the 2010 test year. Provide a detailed explanation for the increased amounts of labor and overheads being charged to this account.
- d.** Refer to the response to 18.m., Account 935000, Maint of General Plant. The response indicates that the increase is due to more labor and overheads for Kenergy employees being charged to this account versus other areas during the test year. Provide a detailed explanation of the reasons for the increased labor and overhead being charged to this account.

**Response a)** The change is summarized below:

	<u>Test Year</u>	<u>Prior Year</u>	<u>Difference</u>
RUS Cushion of Credit Income	\$884,640	\$643,185	\$241,455
CFC CTC's Income	95,103	95,103	-0-
Deferred Compensation (loss) Earnings	93,467	(232,573)	326,040
Short Term Investment Income	8,548	65,432	(56,884)
Error Posting CFC Receivable	(47,366)	47,366	(94,732)
Miscellaneous Items	<u>21</u>	<u>(121)</u>	<u>142</u>
	<u>\$1,034,413</u>	<u>\$618,392</u>	<u>\$416,021</u>

**Witness)** Steve Thompson

**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
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**2011 RATE APPLICATION**

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2 **Response b)** "CT" or Current Transformer Rated Meters are set at accounts that require  
3 instrument transformers to be metered safely and efficiently. They are used to keep dangerously high  
4 voltages and currents out of the meter sockets so they may be maintained safely by service personnel.  
5 "CT^" meters in the response to 18.h should have actually used the term "Instrument Transformer  
6 Rated" instead of CT Meter.

7 To be in compliance with PSC testing requirements for instrument transformer rated accounts all CT's  
8 and PT's (instrument transformers) are to be tested when the meter is tested. Because of the need to  
9 have a "load" or current flow through the CT's when being tested, additional testing equipment is  
10 required over and above Kenergy's field test kits, if the account is not loaded at the time of test.  
Kenergy employed the services of a meter testing contractor to perform the tests on all instrument rated  
12 accounts. The contractor is required to have and use the special testing equipment to be able to apply a  
13 load on the instrument transformers if required for testing during the site test/inspection to meet PSC  
14 requirements. This accounts for the increase in account 597.000 during the test period. Kenergy also  
15 downsized its' meter shop by not replacing personnel upon retirements of two individuals, therefore,  
16 Kenergy does not have the manpower available to perform these tests in-house.

17

18 **Witness b)** Gerald Ford

19

20 **Response c)** Approximately \$82,000 was related to pension costs, with \$25,000 for health  
21 insurance. The remaining \$75,306 increase resulted from more labor and payroll taxes charged to this  
account vs. other accounts in the prior year.

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**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
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**2011 RATE APPLICATION**

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**Response**    **d)**    The increase results from more time required for personal computer and telephone system maintenance.

**Witness**    **c&d)**    Steve Thompson





**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
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**2011 RATE APPLICATION**

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**Item 12)** Refer to the response to item 23 of Staff's Second Request.

**a.** Identify Kenergy's designated representatives to attend the Kentucky Association of Electric Cooperatives meetings.

**b.** Provide a detailed explanation for the election expense totaling \$5,847.72 and how this expenditure benefits Kenergy customers.

**c.** Provide a detailed explanation for the expenditure for Director Insurance in the amount of \$24,664.07 and how this expenditure benefits Kenergy customers.

**Response a)** Kenergy's designated representatives to the Kentucky Association of Electric Cooperatives board of directors are Glenn Cox and Sanford Novick.

**b)** Of the \$5,847.72 in election expenses, a further review discovered that \$2,680.24 in expenses were for 2009 elections and should be removed from the test year. The remaining \$3,167.48 in expenditures is detailed as follows:

Postage	-	\$2,652.38
Ballot Envelopes	-	\$ 418.44
Mileage reimbursement for Credentials & Election Committee	-	<u>\$ 96.66</u>
		\$3,167.48

Election of directors is an integral part of the cooperative form of business. Customers are benefitted by having representation on the Board of Directors.

**Witness)** Sanford Novick

**KENERGY CORP.  
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**2011 RATE APPLICATION**

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**Response**     **c)**     The \$24,664.07 is for Directors and Officers liability insurance. The coverage provides protection of the director's business and personal assets in the event of a lawsuit. Kenergy's members benefit as the assets of Kenergy are protected in the event of a lawsuit. Providing insurance to directors is an incentive for them to serve as directors and broadens the pool of candidates.

**Witness)**             Keith Ellis



**KENERGY CORP.  
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**2011 RATE APPLICATION**

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**Item 13)** Refer to the response to item 25.a. of Staff's Second Request. Provide the calculation and location of the data resulting in a TIER of 1.25 as indicated on line 18 of the response.

**Response)** Please refer to PSC 2<sup>nd</sup> data request, item 25, page 3 of 3, line 9. The calculation made was as follows:

2009	-	1.48
2008	-	1.13
2007	-	1.59
2006	-	.70
2005	-	<u>1.35</u>
		$6.25 / 5 = 1.25$

**Witness)** Steve Thompson



**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
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**2011 RATE APPLICATION**

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- Item 14)** Refer to Exhibit 5 of the application, page 5.
- a. Refer to lines 12 and 30. Provide a breakdown, by the items identified on Line 30, of the supplemental wage payments in the amount of \$27,535.
  - b. Provide an explanation for each of the payments identified in 14.a.
  - c. Provide the calculation of the pro-forma part-time rate of \$23.46 shown on line 6.
  - d. Refer to the explanation on lines 26 to 28 of the calculation of the overtime rate. Do the employee's hourly rates used in the calculations include any general, merit or step wage adjustments that occurred after the test year? If so, state the percent of increase included.
  - e. Provide a revised Exhibit 5, page 5, substituting the wage rates in column (i) with the average wage rates for 6/30/10 per Exhibit 5, page 5f, column (o). The overtime and part-time rates should be calculated in the same manner as they were originally on Exhibit 5, page 5.

<b>Response</b>	a)	Biggest Loser Contest Awards	-	\$ 1,380.00
		Moving Expenses - CEO	-	\$ 7,354.60
		Retirement Gifts	-	\$ 5,600.00
		Service Awards	-	\$12,375.00
		United Way Awards	-	<u>\$ 825.00</u>
				\$27,534.60

**Witness)** Keith Ellis

**KENERGY CORP.**  
**RESPONSE TO THE COMMISSION'S**  
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**Response b)** Biggest Loser - Incentive program awarded to employees that lost the most weight and committed to a healthier lifestyle.

Moving Expenses - Amount agreed upon by incumbent CEO and board for payment of moving expenses.

Retirement Gifts - Retirement awards presented to employees in appreciation for years of service to the cooperative.

Service awards - Recognition awards given to employees for every five years of service.

United Way - Incentive awards to increase employee financial involvement in United Way.

The costs were removed for rate-making purposes. (See Exhibit 5, page 5, line 12, column k).

**Witnesses a & b)** Keith Ellis and Steve Thompson

**Response c)** This rate represents the hourly rate of the one part-time employee.

**Response d)** See response to item 14e. Yes, the proforma overtime rate includes the board approved wage rate changes implemented on January 1, 2011, two months before the rate application was filed. See Exhibit 5, page 5f, column q and r. However, these rates were applied to employee levels at June 30, 2010.

**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
THIRD DATA REQUEST FOR INFORMATION**

**2011 RATE APPLICATION**

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**Response e)** Kenergy objects to this data request on the grounds that the January 1, 2011 wage rates submitted by Kenergy in its application in Exhibit 5, page 5, constitute a known and measurable change, which was applied to test year-end employee levels. The Kenergy board approved the wage rates at its December 2010 meeting, and the rates were implemented on January 1, 2011, two months prior to the filing of the application. However, without waiving the objection, Kenergy attaches hereto as item 14, page 4 of 7, a modified Exhibit 5, page 5.

Further, three other adjustments in the application that utilized January 1, 2011 price levels have been modified to use June 30, 2010 price levels, and are attached hereto as item 14e, pages 5-7 of 7.

A comparison of the four modified adjustments using June 30, 2010 price levels to the original adjustments using the known and measurable levels of January 1, 2011 applied to test year-end levels of activity follows:

	<u>Modified</u> Increase (Decrease) <u>Expenses</u>	<u>Original</u> Increase (Decrease) <u>Expenses</u>	<u>Change</u> Increase (Decrease) <u>Expenses</u>
Labor	(\$ 15,136)	\$183,562	(\$198,698)
Overheads Related to Labor	(\$ 92,481)	(\$113,897)	\$ 21,416
Contractor Vegetation Management	(\$636,258)	(\$967,153)	\$330,895
Economic Development Payment			
From Wholesale Power Supplier	<u>\$ 49,472</u>	<u>\$ 83,972</u>	<u>( \$ 34,500)</u>
	<u>(\$694,403</u>	<u>(\$813,516)</u>	<u>\$119,113</u>

Using the modified adjustments, increases test year expenses by \$119,113 over the original adjustment level and therefore would increase the revenue requirement.

**Witness c, d, e)** Steve Thompson



**KENERGY CORP.**  
**2011 RATE APPLICATION**  
**LABOR ADJUSTMENT**  
**USING WAGES AT 6/30/10 FOR PROFORMA PURPOSES**

(a) Line No.	(b)	(c)	(d)	(e) (1)	(f)	(g)	(h)	(i)	(j) (2)	(k)
	Regular Wages Paid:		(Col. e / Col. b)	TEST YEAR	hours times	hours times	(2)	\$	PROFORMA (col. f * col. i)	ADJUSTMENT (col. j - col. e)
1	Full Time:									
2	311,325	hours times	\$ 30,225,318	\$ 9,409,897	305,760	hours times		\$ 30.25	\$ 9,249,240	\$ (160,657)
3										
4										
5	Part Time:									
6	296	hours times	\$ 22,962,838	\$ 6,797	296	hours times		\$ 23.00	\$ 6,808	\$ 11
7	<u>311,621</u>	total regular	<u>\$ 9,416,694</u>						<u>\$ 9,256,048</u>	<u>\$ (160,646)</u>
8	Overtime Wages:									
9	22,306	hours times	\$ 41,801,937	\$ 932,434	22,306	hours times	(4)	\$ 42.24	\$ 942,205	\$ 9,771
10										
11		Total wages paid per earnings register (1)	\$ 10,349,128							
12		Supplemental wage payments (6)	\$ 27,535				(6)		\$ -	\$ (27,535)
13	(3,615)	Accrued sick leave	\$ (97,155)				(5)		\$ -	\$ 97,155
14	(1,615)	Net effect of accruals	\$ (58,821)				(5)		\$ -	\$ 58,821
15	<u>328,697</u>	Total Wages - accrual basis	<u>\$ 10,220,687</u>	<u>328,362</u>			Total Wages - Proforma		<u>\$ 10,198,253</u>	<u>\$ (22,434)</u>
16			(1)						(Col. d % times proforma)	\$ (22,434)
17		Capitalized	31.425438%	\$ 3,211,896					\$ 3,204,846	\$ (7,050)
18		Accounts Receivable	1.099158%	\$ 112,342					\$ 112,095	\$ (247)
19		Non-Operating	0.454447%	\$ 46,447					\$ 46,346	\$ (101)
20		Electric-Expensed	67.020957%	\$ 6,850,002					\$ 6,834,967	\$ (15,035)
21		<u>100.000000%</u>	<u>\$ 10,220,687</u>	<u>\$ 10,220,687</u>					<u>\$ 10,198,254</u>	<u>\$ (22,433)</u>
22										
23										
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To Adjustment Recap - Page 3

(3,305)	Operations	21.9840%
(4,929)	Maintenance	32.7808%
(3,383)	Cust. Acct.	22.5014%
(221)	Cust. Info.	1.4722%
(89)	Sales	0.5886%
(3,108)	A&G	20.6730%
<u>(15,035)</u>		<u>100.0000%</u>

- (1) See Exhibit 5, Pages 5a, e and f for source documentation of the various test year data.
- (2) See Exhibit 5, Page 5f, Line 41, Column q, 147 FT proforma employees at year end times 2,080 hrs = 305,760 hrs.
- (3) Part time proforma hours represent test year. Rate reflects actual at 1/1/11.
- (4) The overtime rate of \$43.51 represents test year overtime hours of each employee times their respective hourly rate times 1.50. The overtime dollars of \$970,534 were divided by 22,306 overtime hours to arrive at \$43.51
- (5) Accruals removed from test year per rate-making policy of using 2,080 hrs. per employee.
- (6) One time payments to the CEO plus safety, united way, retirement, and service awards.

**Kenergy Corp.**  
**2011 Rate Application**  
**Overheads Related to Wages Adjustment**  
**USING WAGES AT 6/30/10 FOR PROFORMA PURPOSES**

(a) Line No.	(b) Item	(c)	(d) Test Year	(e) Proforma	(f) Change	(g) Percent
1	Health Insurance		\$ 1,944,076	\$ 1,893,643	\$ (50,433)	-2.59%
2	Dental Insurance		\$ 90,379	\$ 89,930	\$ (449)	-0.50%
3	Life Insurance under \$50,000		\$ 18,906	\$ 19,669	\$ 763	4.03%
4	Life Insurance over \$50,000 plus spouse		\$ 58,198	\$ 59,783	\$ 1,585	2.72%
5	Disability Insurance		\$ 48,495	\$ 48,393	\$ (102)	-0.21%
6	Pension		\$ 2,212,606	\$ 2,083,362	\$ (129,244)	-5.84%
7	Payroll Taxes		\$ 780,006	\$ 773,311	\$ (6,695)	-0.86%
8	Worker's Compensation Insurance		\$ 321,326	\$ 323,725	\$ 2,399	0.75%
9	Property Loss/Damage and Excess Liability Insurance		\$ 156,814	\$ 194,665	\$ 37,851	24.14%
10			<u>\$ 5,630,806</u>	<u>\$ 5,486,481</u>	<u>\$ (144,325)</u>	<u>-2.56%</u>

	TEST YEAR		PROFORMA	ADJUSTMENT
	(Col. d Lines 16-19)/Line 20	(2)		
Capitalized	34.82228%	\$ 1,960,775	\$ 1,910,518	\$ (50,257)
Accounts Receivable	1.09928%	\$ 61,898	\$ 60,312	\$ (1,586)
Non-Operating	0.34469%	\$ 19,409	\$ 18,912	\$ (497)
Electric-Expensed	63.73375%	\$ 3,588,724	\$ 3,496,740	\$ (91,984)
	100.00000%	<u>\$ 5,630,806</u>	<u>\$ 5,486,481</u>	<u>\$ (144,325)</u>

**Explanation:**

- (1) See Exhibit 5, pages 6c - 6u for explanations of each overhead item.
- (2) See Exhibit 5, pages 6a and 6b.

To Adj. Recap - Page 3	
(23,427)	Operations 25.47%
(26,465)	Maintenance 28.77%
(22,184)	Cust. Accts. 24.12%
(1,472)	Cust. Info. 1.60%
(501)	Sales 0.54%
(17,934)	A&G 19.50%
<u>\$ (91,983)</u>	<u>100.00%</u>

KENERGY CORP.  
 2011 RATE APPLICATION  
 CONTRACTOR VEGETATION MANAGEMENT ADJUSTMENT  
 Modified to reflect June 30, 2010 contract cost

	(a)		(b)
1	Contractor vegetation management expense during test year		
2	recorded in Account 593.300 for routine maintenance		
3	(1,325 miles @\$2,865)		\$ 3,796,353
4			
5	Proforma Expense - 1,103 miles @\$2,865	=	<u>\$ 3,160,095</u>
6			
7	Adjustment - Reduction to test year expense		<u>\$ (636,258)</u>

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 10 Explanation:  
 11 The number of miles cleared during the months of July 2009  
 12 through June 2010 were above the normal twelve month  
 13 total due to crews catching up miles lost during February  
 14 and March 2009 due to the ice storm restoration work. Also,  
 15 the weather was abnormally good for clearing during the  
 16 first quarter of 2010. The contract cost per mile beginning  
 17 January 1, 2011 is dropping \$300.

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KENERGY CORP.  
2011 RATE APPLICATION  
ECONOMIC DEvELOPMENT PAYMENT FROM WHOLESale POWER SUPPLIER  
**Modified to reflect June 30,2010 annual amount**

	(a)	(b)
1	Test Year Amount Booked	\$ 147,472
2	(See PSC First Data Request, Item 30, Page 7, BREC Contribution)	
3		
4	Proforma Amount	<u>\$ 98,000</u>
5	(See Attachment - Page 11a)	
6		
7	Adjustment - Increase Test Year Expense	<u>\$ 49,472</u>
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**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
THIRD DATA REQUEST FOR INFORMATION**

**2011 RATE APPLICATION**

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**Item 15)** Refer to Exhibit 5 of the application, pages 6, 6c, 6d and 6e. Revise all schedules as necessary using wages calculated in 14.d above using 6/30/10 wage rates.

**Response)** The response to item 14e contains the above referenced information.

**Witness)** Steve Thompson



**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
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**2011 RATE APPLICATION**

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**Item 16)** Refer to Exhibit 5 of the application, page 6.

**a.** Line 1 shows an adjustment to test year health insurance expense of \$305,724.

Fully explain the reasons for an increase of this magnitude.

**b.** Line 6 shows an adjustment to test year pension expense of (\$507,210). Fully

explain the reasons for a decrease of this magnitude.

**Response a)** The health insurance increase was due to a 5% increase in the overall rates by the Kentucky Rural Electric Cooperative group plan plus an additional 10% surcharge assessed to Kenergy due to excessive claim utilization the previous plan year.

**Witness)** Keith Ellis

**Response b)** Please refer to PSC 1<sup>st</sup> data request, item 27, page 2 of 3. This schedule indicates that the majority of the decrease occurred in the defined benefit and contribution plan for the former Green River Electric employees, The main impetus behind this decrease was the transfer of the employees in this plan to the defined benefit and contribution plan for the former Henderson-Union employees effective October 1, 2010. The proforma cost excludes \$384,000 of settlement losses booked during the test year and is simply based on 19.2% of proforma regular wages.

**Witnesses)** Keith Ellis and Steve Thompson





**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
THIRD DATA REQUEST FOR INFORMATION**

**2011 RATE APPLICATION**

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**Item 17)** Refer to Exhibit 5 of the application, page 6d. Provide the calculations of the company match on employee savings for each pension plan listed.

**Response)** Item 17, page 2 of 2, contains the above reference information.

**Witnesses)** Keith Ellis and Steve Thompson

**KENERGY CORP.  
2011 RATE APPLICATION  
OVERHEADS RELATED TO WAGE ADJUSTMENTS**

1	<b>Pension</b>		
2			
3	<b><u>A. Defined Benefit &amp; Contribution Plan (former HUEC employees hired before 7/1/99)</u></b>		
4	Proforma regular wages of the 36 <sup>1</sup> participants	= \$	576,534
5	at \$2,336,035 <sup>1</sup> times 24.68% <sup>3</sup>		
6	Proforma regular wages of the 36 <sup>1</sup> participants	=	70,081
7	at \$2,336,035 <sup>1</sup> times 3% maximum company match		
8			\$ 646,615
9			
10	<b><u>B. Defined Benefit &amp; Contribution Plan (former GREC employees hired before 1/1/87)</u></b>		
11	Proforma regular wages of the 42 <sup>1</sup> participants	= \$	570,323
12	at \$2,970,435 <sup>1</sup> times 19.20% <sup>4</sup>		
13	Proforma regular wages of the 42 <sup>1</sup> participants	=	89,113
14	at \$2,970,435 <sup>1</sup> times 3% maximum company match		
15			\$ 659,436
16			
17	<b><u>C. Defined Contribution Plan (former GREC employees hired after 1/1/87</u></b>		
18	<b><u>plus all Kenergy employees beginning 7/1/99)</u></b>		
19	Proforma wages of the 69 <sup>1</sup> participants	= \$	249,137
20	at \$4,152,279 <sup>1</sup> times 6% <sup>5</sup>		
21	Proforma wages of the 69 <sup>1</sup> participants at \$4,152,279 <sup>1</sup>	=	143,993
22	times 3.4678% average company match (maximum is 5% of salary)		
23			\$ 393,130
24			
25	<b><u>D. Deferred Compensation Plan 457B &amp; Defined Contribution</u></b>		
26	Proforma regular wages of 1 participant, less wages included in C. above,	= \$	3,390
27	at \$56,502 <sup>1</sup> times 6% <sup>5</sup>		
28	Proforma regular wages of 1 participant, less wages included in C. above,	=	2,825
29	at \$56,502 <sup>1</sup> times 5% maximum company match		
30			\$ 6,215
31			
32	<b><u>Total Proforma Pension</u></b>		<b>\$ 1,705,396</b>
33			
34			
35			
36			

37 1 = \$9,515,251 per wage adjustment

38 = 147 full time employees

39 2 Used test year employee contribution rate times proforma wages.

40 Company matches 50% of employee contribution up to 3% for former HUEC and up to 5% for former GREC.

41 3 See Exhibit 5, Page 6j

42 4 See Exhibit 5, Page 6k

43 5 See Exhibit 5, Page 6l



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**Item 18)** Refer to the response to item 26.c. of Staff's Second Request. Provide the percentage increases of any general, merit or step wage adjustments by pay grade that occurred subsequent to the test year.

**Response)** Please refer to Exhibit 5 of the application, page 5f, column r for the above referenced information.

**Witnesses)** Keith Ellis and Steve Thompson



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**Item 19)** Refer to Exhibit 5 of the application, pages 6e, 6q and 6r. Provide the calculations for the retention program refunds of \$41,416 and \$86,754 or the location of the calculations in the application.

**Response)** The calculations for the retention program are calculated by Federated Rural Electric Exchange, our worker's compensation carrier.

**Witness)** Keith Ellis





**KENERGY CORP.**  
**RESPONSE TO THE COMMISSION'S**  
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**2011 RATE APPLICATION**

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2 **Item 20)** Refer to Exhibit 5 of the application, page 9, Contractor Vegetation Management  
3 Adjustment.

4 **a.** The response states that the number of miles cleared during the test year was  
5 above normal for a 12-month period. What does Kenergy consider to be the normal number of miles  
6 cleared during a 12-month period?

7 **b.** Explain how Kenergy determined that 1,103 miles was appropriate to use for  
8 calculating its pro-forma vegetation management expense.

9 **c.** Provide the actual miles cleared for the calendar years 2006, 2007, 2008, 2009  
10 and 2010.

12 **Response a)** An average of 1,080 miles cleared per year over a five-year period.

13 **Response b)** Beginning in 2005, Kenergy's board of directors and management placed a  
14 renewed emphasis on vegetation management as a means of improving reliability. With that came a  
15 commitment to provide adequate funding for the program. It is common for electric utilities to strive  
16 to achieve a cycle of between 4-5 years in an effort to balance the cost of clearing right-of-way with  
17 the anticipated reliability benefits. At the time, Kenergy determined that it was cost prohibitive to  
18 institute a cycle less than approximately six years and began implementing that planned approach.  
19 Shortly after this, all utilities were required to submit a vegetation management plan to the Kentucky  
20 Public Service Commission, in part identifying their VM cycle. Kenergy's cycle length is consistent  
21 with this approach and is stated as not to exceed six years.

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A second objective for Kenergy was to reduce the next cycle length to a level more consistent with the 4-5 year timeframe. As a result of Kenergy's continued commitment to its VM program, we will begin meeting the objective of reducing the cycle to 5 years beginning in 2011. Kenergy maintains approximately 5,400 miles of overhead line. In order to achieve a 5 year VM cycle length, an average of 1,080 miles will need to be cleared each of those 5 years. 1,103 represents mileage associated with a specific set of feeders to be cleared in 2011 and is consistent with the average mileage associated with a 5 year VM cycle.

<b>Response</b>	<b>c)</b>	2006	-	736 miles
		2007	-	993 miles
		2008	-	916 miles
		2009	-	939 miles
		2010	-	1,152 miles

**Witness)** Gerald Ford



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**Item 21)** Refer to Exhibit 5 of the application, page 11, Economic Development Payment from Wholesale Power Supplier. Line 5 references Page 11a, which was not attached. Provide a copy of page 11a.

**Response)** Item 21, page 2 of 2, contains the above referenced information.

**Witnesses)** David Hamilton and Steve Thompson

Steve Thompson

---

**From:** David Hamilton [dhamilton@kenergycorp.com]  
**Sent:** Tuesday, December 07, 2010 4:16 PM  
**Subject:** FW: Economic development budget for 2011

Steve:

Based on this information we reduced the amount from \$98,000 to \$63,500.

---

**From:** Russ Pogue [mailto:[Russ.Pogue@bigrivers.com](mailto:Russ.Pogue@bigrivers.com)]  
**Sent:** Thursday, October 14, 2010 10:58 AM  
**To:** [snovick@kenergycorp.com](mailto:snovick@kenergycorp.com); Burns Mercer; Kelly Nuckols; Bill Blackburn; Mark Bailey  
**Cc:** David Hamilton; Izell White; Tim Gossett  
**Subject:** Economic development budget for 2011

As a result of proposed budget reductions for 2011, the economic development budget has been reduced from \$201,000 to \$132,300. The reduction totals \$68,700. The contribution to each of your budgets will depend on the number of customers at the end of the year, but generally breaks down to 50% Kenergy, and 25% to JPEC and MCRECC. Our board of directors has not passed the budget at this time, yet I know you are in the process of budgeting and wanted to inform you of this potential change. If you have questions please let me know.

Thanks,

Russ

Russ Pogue  
Manager of Marketing and Member Relations  
Big Rivers Electric  
270 827 2561

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**Item 22)** In the same format as provided in item 30 of Staff's First Request, provide a detailed schedule of Kenergy's total 2010 annual meeting expenses including expenditures recorded post test year.

**Response)** Item 22, pages 2-3 of 3, contain the above referenced information.

**Witness)** David Hamilton

**YTD Expenses for 2010 Annual Meeting as of 11/22/10**

**Account 930.200 / EAC 500**

<u>Vendor</u>	<u>Description</u>	<u>Cash Received</u>	<u>Amount Paid</u>	<u>Amount Owed</u>
Journal entry #7 3/31/10	Postage		\$63.00	
Sifex	Annual meeting shirts		\$821.49	
U S Bank	Cash - door prizes		\$2,300.00	
Green River Appliance	Door prize		\$636.00	
Owensboro Shriner's Clowns	Entertainment		\$200.00	
Pam Weiden	Door prize		\$100.00	
Jim David Meats	Meal		\$9,750.00	
Welborn Floral Company	Draperies and floral rentals		\$265.00	
Tru-Event Rentals	Booth & linen rentals		\$1,927.08	
RCCU - VISA (Moonlite)	Setup crew meal		\$207.62	
RCCU - VISA ( Sears)	Door prizes		\$592.91	
RCCU - VISA (Best Buy)	Door prizes		\$828.86	
KAEC	Audio/Video services & giveaway pails		\$2,093.10	
City of Owensboro	Sportcenter rental		\$800.00	
City of Owensboro	Popcorn		\$375.00	
Office Depot	Supplies		\$31.73	
Petty cash	Entertainment & supplies		\$306.33	
Mediaworks	Talent fee		\$117.65	
Kenergy	Scholarships 20 x \$500 each		\$10,000.00	
	Cash receipts for booth rentals - February	(\$200.00)		
	Cash receipts for booth rentals - March	(\$1,350.00)		
	Cash receipts for booth rentals - April	(\$550.00)		
	Cash receipts for booth rentals - May	(\$200.00)		
	<b>TOTALS:</b>	(\$2,300.00)	\$31,415.77	\$0.00
			<b>GRAND TOTAL:</b>	<b>\$29,115.77</b>

**NOTE OF DISCREPANCY:** Total cost for 2010 annual meeting was reported as \$29,179. This number has been changed to \$29,116 as outlined above. The difference is the \$63 for postage which was expensed by JE 3/31/10 and also taken as a debit against March cash deposits on the initially reported figure of \$29,179. Please see attached "Response to the Commission's First Data Request for Information -- 2011 Rate Application with revision date of 04-22-2011."

Revised 04-22-2011





**RESPONSE TO THE COMMISSION'S  
FIRST DATA REQUEST FOR INFORMATION**

**2011 RATE APPLICATION**

**Most Recent Annual Meeting**

The meeting was held June 8, 2010, at the Sportscenter in Owensboro, Kentucky. Registration for the meeting ran from 3:00 p.m. to 6:30 p.m. Member-owners and their families were served a light meal consisting of a pork loin sandwich, chips, drink and popcorn. The Annual Meeting was in the format of an Energy Expo. Vendors included: Sun Windows, Neel, Crafton & Phillips LLC, Acme Plumbing & Heating, Thermal Cell, Graber Insealators, Woodard Cooling & Heating, Schwartz Heating & Cooling, Insulated Concrete/Ballard Construction, Green River Appliance, Frontier Basement Systems, Disaster Emergency Services, KY Division of Forestry, UK Extension Office and KY Department of Air Quality and W.I.R.E. (Women in Rural Electrification). The Expo was from 3:00 p.m. to 6:30 p.m. with the business session lasting from 6:30 to 7:20. The business session included a welcome from the board chair, report of the board secretary concerning there being a quorum present, remarks by the President and CEO, Sandy Novick, and the awarding of scholarships. Door prizes were awarded throughout the evening, about every 30 minutes.

**Data on Most Recent (2010) and Four Previous Annual Meetings**

	June 8, 2010	2009	2008	2007	2006
# Members in Attendance	541	451	660	258	431
# Members Voting for New Board Members	1,622	2,633	1,221	1,423	1,244
# of Board Members Elected or Re-Elected	3 Re-elected	1 Re-elected 1 New	4 Re-elected 1 New	3 Re-elected	2 Re-elected 1 New
Total Cost of Annual Mtg.	\$29,116	\$13,038	\$18,581	\$13,443	\$13,752

Note: Cost of Annual Meeting excludes staff labor and overhead.  
2010 expenses include \$10,000 for scholarships.

Revised 04-22-2011

**Reason for revision:** Total cost for 2010 annual meeting was reported on PSC First Data Request for Information as \$29,179. This number has been changed to \$29,116 as outlined on attached list of detailed expenses. The difference is the \$63 for postage which was expensed by JE 3/31/10 and also taken as a debit against March 2010 cash deposits.



**KENERGY CORP.  
 RESPONSE TO THE COMMISSION'S  
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**Item 23)** Refer to the response to item 16 of Staff's Second Request. With the higher net salvage having been adjusted out of depreciation rates in the 2010 Depreciation Study, explain what factors are responsible for the .5 percent increase in rates for Account 364.000, Poles, Towers and Fixtures, and Account 365.000, Overhead Conductors and Devices.

**Response)** To understand the proposed .5 percent increase in rates for Account 364.000, Poles, Towers and Fixtures, and Account 365.000, Overhead Conductors and Devices requires an understanding of the current depreciation rate since the proposed rates are a direct calculation of the recommended life and net salvage. The fact that both accounts have a .5% increase is coincidental; it is not by plan or for any other reason. Table A below shows that the proposed life estimates are the same or longer and the proposed net salvage values are both less than the current. These parameter changes would normally result in an equal or lower depreciation rate. This indicates that the reason for the depreciation rate increase in these accounts is the current depreciation rate.

Table A – Comparison of Current and Proposed Life and Net Salvage				
Account	Life (Yrs)		Net Salvage (%)	
	<u>Current</u>	<u>Proposed</u>	<u>Current</u>	<u>Proposed</u>
364	30	32	-53	-51
365	36	36	-47	-40

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The current approved depreciation rates were developed in the 2006 Depreciation Study. In the 2006 study the depreciation rates calculated from the current parameters in Table A generated the depreciation rates shown in Table B, column (c). These rates are significantly higher than the current

**KENERGY CORP.  
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**2011 RATE APPLICATION**

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2 rates shown in Table B, column (d) because the 2006 Study recommended a transition plan that would  
3 move to the appropriate depreciation rates over a ten-year period.

Table B – Comparison of Depreciation Rates (%)				
(a)	(b)	(c)	(d)	(e)
Account	Rate Before 2006 <u>Study</u>	Rate Based on 2006 Life and <u>Net Salvage</u>	2006 Rate Recommended & <u>Approved</u>	2010 Proposed <u>Rate</u>
364	3.1	5.1	4.2	4.7
365	3.1	4.1	3.4	3.9

4

5 The proposed depreciation rates for these accounts in the transition plan were approved by the  
6 Commission and are roughly the half way point from the ten current 3.1% rate to the appropriate rate  
7 determined by the life and net salvage (Table B, column (c)). It was expected that in the next study the  
8 depreciation rates for these account would be increased the remaining amount to bring the account  
9 depreciation rates to the appropriate long term level. The rates proposed in the 2010 Depreciation  
10 Study shown in Table B, column (e) complete the transition to depreciation rates directly calculated  
11 from the most appropriate life and net salvage estimates. These new rates are lower than the calculated  
12 rates in the 2006 study because the life is longer in account 364 and the net salvage in both accounts is  
13 less than the 2006 estimate.

14

15 **Witness)**      Robert Welsh

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**KENERGY CORP.  
RESPONSE TO THE COMMISSION'S  
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**2011 RATE APPLICATION**

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2 **Item 24)** In the same format as provided for Exhibit 5 of the application, page 12, provide a  
3 depreciation schedule for both distribution and general plant accounts that includes test year  
4 depreciation expense by account. The schedule should reflect pro-forma adjustments as well as  
5 adjustments resulting from proposed depreciation rates.

6

7 **Response)** Item 24, page 2 of 2, contains the above referenced information.

8

9 **Witness)** Steve Thompson

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**Kenergy Corp.**  
**2011 rate application**  
**Depreciation Adjustment - General Plant**  
**Filed in response to item 24 PSC 3rd data request**

Line No.	(a) Description	(b) Account Number	(c) (1) Balance 6/30/2010	(d) Current Depreciation Rate	(e) Proforma Depreciation Current rates	(f) Test Year Depreciation	(g) Impact of Change	(h) Items Fully Depreciated at 6/30/10
1	Land and Land Rights	389.000	\$469,363	n/a	0			
2	Structures and Improvements	390.000	\$7,268,009	2.0%	\$145,360	143,943	\$ 1,417	36,929
3	Office Furniture & Fixtures	391.000	\$245,662	6.0%	\$14,740	15,075	\$ (335)	213,842
4	Computer and Related Equipment	391.100	\$264,689	20.0%	\$52,938	45,742	\$ 7,196	262,755
5	Transportation Equipment (2)	392.000	\$5,939,896	12.1%	\$645,690	628,772	\$ 16,918	1,795,206
6	Stores Equipment	393.000	\$134,383	4.8%	\$6,450	6,474	\$ (24)	34,610
7	Tools & Working Equipment	394.000	\$747,006	4.8%	\$35,856	37,780	\$ (1,924)	108,223
8	Laboratory Equipment	395.000	\$392,229	4.8%	\$18,827	19,763	\$ (936)	161,189
9	Power Operated Equipment	396.000	\$30,886	13.5%	\$4,170	4,169	\$ 1	150,147
10	Right of Way Equipment	396.100	\$247,887	10.0%	\$24,789	29,161	\$ (4,372)	61,373
11	Power Operated Equipment	396.200	\$117,507	13.5%	\$15,863	15,863	\$ (0)	234,726
12	Communication Equipment	397.000	\$1,507,633	6.5%	\$97,996	99,121	\$ (1,125)	392,109
13	Miscellaneous Equipment	398.000	\$489,619	4.8%	\$23,502	24,014	\$ (512)	27,501
14								
15	Total - General Plant		\$17,854,769		\$1,086,181	1,069,877	16,304	3,478,610
16			(1)					(1)

(1) Column c + h = \$21,333,379 which agrees to PSC second data request, item 28, page 3 of 4.

(2) Column c less Salvage value of Vehicles \$593,911 times column d avg. rate of 12.1% = column f proforma depreciation

capital expense	\$ 247,425	23%	\$ 3,771
	\$ 822,452	77%	\$ 12,533
	\$ 1,069,877	100%	\$ 16,304