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June 12, 2015

RECEIVED

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PUBLIC SERVICE  
COMMISSION

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

RE: Case No. 2015-00141

Dear Mr. Derouen:

Enclosed for filing please find Kenergy's response to the Commission's First Request for Information (original plus 10 copies) in the above referenced matter.

Your assistance in this matter is appreciated.

Sincerely,

A handwritten signature in black ink that reads "Steve Thompson".

Steve Thompson  
Vice President - Finance



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

**CASE NO. 2015-00141**

**VERIFICATION**

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

  
Steve Thompson, Vice President - Finance

STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me by **STEVE THOMPSON**, this 10 day of June, 2015.

My commission expires October 16, 2016

  
Notary Public, State of Kentucky at Large

(seal)

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

**CASE NO. 2015-00141**

**VERIFICATION**

I, **Kenneth Stock**, 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.



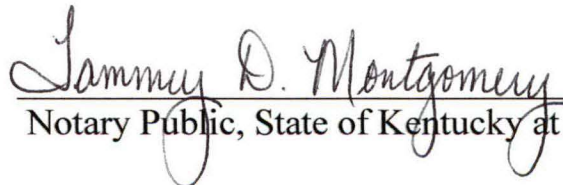
Kenneth Stock, Vice President - Operations

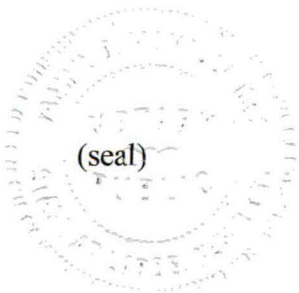
STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me by **KENNETH STOCK**, this 10 day of June, 2015.

My commission expires April 24, 2018

 #508735  
Notary Public, State of Kentucky at Large



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

**CASE NO. 2015-00141**

**Item 1)** Refer to Case No. 2014-00376, Kenergy's recent application for a Certificate of Public Convenience and Necessity to purchase and install an Advanced Metering Infrastructure ("AMI") System, and the Commission's Order approving Kenergy's request, as well as Kenergy's March 11, 2015 letter to Victor Vu of the Rural Utilities Service ("RUS") filed as page 3 of the application in this proceeding.

- a) Confirm that Kenergy still plans to replace all of its electro-mechanical meters currently in use.
- b) What is the date for the balances contained in Account 370.0 Meters and Account 108.6 Accumulated Depreciation as referenced in the letter to RUS?
- c) The letter to RUS shows accumulated depreciation of approximately 12 percent for the mechanical meters (\$525,127/\$4,409,844). Provide the remaining useful life of the mechanical meters being retired.
- d) Provide Kenergy's plans for the retired mechanical meters.
- e) Confirm that Kenergy still plans to purchase and install 56,000 single- and three-phase meters as replacement meters.

**Response a)** Kenergy confirms its plan, as stated in the CPCN request in Case No. 2014-00376, to replace all electro-mechanical meters that are currently in use on the Kenergy system. Kenergy has executed a contract with Landis & Gyr and has issued purchase orders for these meters. The first shipment of 20,000 meters is expected to be received on June 29, 2015 and a second shipment of 20,000 meters will arrive in September with the remaining 16,000 meters to arrive in January 2016.

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**Witness)** Kenneth Stock

**Response b)** The date for the Account 370.0 balance is December 31, 2014. The Account 108.6 balance is also as of December 31, 2014, but is reduced by the estimated removal cost of the existing meters. The balance in Account 108.6 related to the existing meters was \$1,105,481 less estimated removal cost of \$580,354 for a net 108.6 balance of \$525,127.

**Response c)** The existing electro-mechanical meters are currently being depreciated over a 20-year period. The December 31, 2014 balance for meters was \$4,409,844, which would generate about \$220,492 in depreciation expense each year. At today's depreciation rates, depreciation expense would need to be recorded approximately 17.6 more years in order to fully depreciate the balance of existing meters net of removal cost or \$3,884,717.

**Witness b-c)** Steve Thompson

**Response d)** Kenergy selected Luthan Electric Meter ("LEM") to evaluate and test all electro-mechanical meters that will be removed and replaced with an AMI meter for accuracy. Per Commission Order in Case No. 2014-00376, LEM will store the meters for six months after testing in order to accommodate possible customer billing complaints in which examination of a removed electro-mechanical meter might be necessary. Any meters which are stuck, dead, or show an average

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fast or slow error of (2) two percent or greater will be returned to Kenergy for further consideration.

LEM will provide a green disposal certificate.

**Response e)** See response to Item 1a.

**Witness d-e)** Kenneth Stock

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**Item 2)** By type, provide the original depreciable life of each type of meter on Kenergy's system, including the AMI meters to be installed.

**Response)** Kenergy uses the same depreciable life for all electro-mechanical meters. While the life was decreased to 20 years in Kenergy's most recent depreciation study, filed in Case No. 2011-00035, the original depreciable life for meters has averaged 30 years. The depreciable life for AMI meters will be 15 years, as approved in Case No. 2014-00376.

**Witness)** Steve Thompson

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**Item 3)** Refer to the letter filed as page 1 of the application, which states that Kenergy is requesting to establish a regulatory asset to write off mechanical meters and amortize the regulatory asset over ten years. Explain why Kenergy chose ten years as the proposed amortization period for the extraordinary property loss of \$3,884,717 associated with the retirement of meters. Include in the response whether a shorter or longer amortization period was considered and if so, why it was rejected.

**Response)** Kenergy first looked at the remaining useful life of the mechanical meters, (assuming AMI was not implemented), which as stated in response 1c is about 18 years. An argument could be made to use this 18 years as the amortization period. Since the costs amortized will be recovered through higher member retail rates starting in Kenergy's next rate application as required by RUS, Kenergy desires to achieve a balance between current and future members. Therefore, the amortization period chosen is approximately halfway between 0 and 18 years.

**Witness)** Steve Thompson

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**Item 4)** Explain in detail the impact Kenergy expects the deferral to have on its financial statements.

**Response)** The deferral will have the impact of preventing a one-time loss of \$3,884,717 being booked in 2015. Budgeted margins for 2015 and the times interest earned ratio (TIER) are \$1,921,000 and 1.38. Booking the entire \$3,884,717 in 2015 would result in a loss of \$1,963,717 and a TIER of .61. This would place Kenergy in technical default of its mortgage covenant, which requires a minimum TIER of 1.25 when the best two out of three most recent historical calendar years are averaged. Going forward, Kenergy plans to begin amortization of the regulatory asset balance when the annual amount is placed in member rates during the next rate application as required by RUS.

**Witness)** Steve Thompson

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2 **Item 5)** By what date is Kenergy requesting that an Order be issued in this proceeding?

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4 **Response)** Kenergy would like the Order by August 1, 2015.

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6 **Witness)** Steve Thompson

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