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 TELEPHONE (270) 826-3965 TELEFAX (270) 826-6672 www.dkgnlaw.com

October 15, 2004

Ms. Elizabeth O'Donnell Public Service Commission Post Office Box 615 Frankfort, Kentucky 40602

Case 2004-00416

OCT 1 8 2004

REORVED

PUBLIC SET LCE COMMISSION

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Re: Kenergy Corp.

Dear Ms. O'Donnell:

Enclosed for filing please find Application of Kenergy Corp. for Certificate of Convenience and Necessity. This filing is to obtain from the Commission a certificate with respect to Kenergy's 2004-2007 construction work plan. Also enclosed is a separate first page of the application that you are requested to file stamp showing receipt and then return to the undersigned. Please advise of the case number at your earliest convenience.

Your assistance is appreciated.

Very truly yours,

DORSEY, KING, GRAY, NORMENT & HOPGOOD

By

Frank N. King, Jr. Counsel for Kenergy Corp.

FNKJr/cds Encls. COPY: Mr. Mark A. Bailey Mr. John Newland

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION OCT 1 8 2004

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PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF KENERGY CORP. FOR CERTIFICATE OF CONVENIENCE AND NECESSITY

CASE NO. 2004-00416

<u>APPLICATION</u>

(a) The applicant Kenergy Corp. ("Kenergy") is a nonprofit electric cooperative organized under KRS Chapter 279 and is engaged in the business of distributing retail electric power to member consumers in the Kentucky counties of Daviess, Hancock, Henderson, Hopkins, McLean, Muhlenberg, Ohio, Webster, Breckinridge, Union, Crittenden, Caldwell, Lyon, and Livingston.

(b) The post office address of Kenergy is Post Office Box 18, Henderson, Kentucky 42419-018.

(c) Kenergy's Articles of Consolidation are on file with the Commission in Case No. 99-136.

(d) The applicant seeks a certificate of convenience and necessity authorizing the construction of the facilities set forth in applicant's 2004-2007 Construction Work Plan ("CWP"). Attached hereto and made a part hereof are copies of the following: Cost Estimates and Loan Budget for Electric Borrowers, RUS Form 740c (as of August

2004) marked "Exhibit A;" Executive Summary of R. W. Beck, the consultant that was retained to assist Kenergy in preparation of the CWP, marked "Exhibit B;" and certified copy of resolution of Kenergy's board of directors' adopting the CWP, marked "Exhibit C."

(e) The facts relied upon to show that the proposed new construction is or will be required by public convenience or necessity are included in the Executive Summary ("Exhibit B"). As stated therein on page 2 the CWP was prepared to provide adequate and dependable service to 54,916 customers with a total annual sales of 1,164,691 MWh in 2007.

(f) Franchises or permits from public authorities are not required for the proposed new construction or extension.

(g) A full description of the proposed location, route, or routes of the new construction or extension, including a description of the manner in which same will be constructed is set forth on the maps that are a part of the R. W. Beck 2004-2007 Construction Work Plan for Kenergy Corp. attached as "Exhibit D" (three sets are submitted as required under 807 KAR 5:001, Section 9(2)(d)). The proposed new construction or extension will not compete with any other public utility, corporation or person. There are no like facilities owned by others located anywhere within the map area.

2

(h) As set forth in attached "Exhibit A," the cost estimate for the CWP is \$27,325,000.00.¹ These funds will be borrowed from the United States of America, acting by and through the Administrator of the Rural Utilities Service ("RUS"). Pursuant to KRS 278.300(10) the Commission's approval of evidences of indebtedness in connection with this loan will not be required.

(i) After the proposed facilities are completed the estimated cost of operation is set forth in Kenergy's 2004-2013 Financial Forecast which utilizes assumptions in accordance with RUS guidelines. Excerpts from the Financial Forecast are attached as "Exhibit E" and include RUS Form 325c-Statement of Operations, which shows projected expenses after the proposed facilities are completed. A certified copy of the resolution of Kenergy's board of directors approving said Financial Forecast is attached as "Exhibit F."

(j) The system improvements and construction referenced herein are necessary and desirable to furnish reliable and adequate service to the applicant's member customers, to serve new customers within the applicant's service area which applicant is obligated to serve, and are in the best interest of the applicant, its member customers and potentially new customers within said service area. There should be issued by this Commission a certificate that convenience and necessity require such construction.

¹This amount includes reimbursement of general funds being requested by Kenergy. The RUS Form 740c that is a part of "Exhibit D" shows cost estimates as of July 2004 in the amount of \$26,953,021.00.

WHEREFORE, applicant asks that the Public Service Commission of

the Commonwealth of Kentucky make its order issuing a certificate of convenience and necessity authorizing the applicant to proceed with the construction outlined in the CWP and applicant further requests all proper relief.

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Public reporting burden for this collection of information is estimated to average 17 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Department of Agriculture, Clearance Officer, OIRM, Room 404-W, Washington, DC 20250; and to the Office of Management and Budget, Paperwork Reduction Project (OMB #0572-0032), Washington, DC 20503. OMB FORM NO. 0572-0032, Expires 05/31/92.

This data will be used by RUS to review your financial situation. Your response is req			
		rm Approved	
USDA·RUS	, ON	1B No. 0572-0032	
COST ESTIMATES AND LOAN BUDGET	BORROWER AND LO		5 0 4 4
		ERGY CORP - KY 6	
FOR ELECTRIC BORROWERS		2004-2007 Work Pla	n
To: U.S. Dept. of Agriculture, RUS, Washington, D. C. 20250	COST ESTIMATES AS	. , ,	
INSTRUCTIONS See EOM-4 Guideline for the Implementation of 7 CFR 1711.1		Aug-04	
SECTION A. COST ESTIMATES		LOAN PERIOD	<u>3</u> YEARS
	l		
		BORROWER'S COST ESTIMATES	RUS USE ONLY
1. DISTRIBUTION		UDI ESTIMATES	RUS USE UNLT
100 a. New Line: (Excluding Tie-Lines)	Miles		
<u>Construction</u> <u>Consumers</u> 101 Underground 1155	<u>59.97</u>	\$2,530,083	
101 Underground 1155 102 Overhead 2328	144.32	5,990,180	
Total Consumer 3483 Total Miles		5,770,100	
Less Contributions			
Subtotal (New Line)		\$8,520,263	
Dublouit (iver Dille)			
a.(1) Major Development : (site specific code 100)			
103 Southgate		\$94,700	
104 Turtle Creek - Bon Harbor		52000	
105 LR Chapman - Lewisport #1		91732	
Subtotal (Major Development)		\$238,432	
Subtotal All code 100		\$8,758,695	
200 b. New Tie-Lines			
Line Designation	<u>Miles</u>		
201 Construct (3) 3ph 500 MCM UG 25 kV circuits - Manitou	0.57	\$150,499	
202 Construct 3ph 500 MCM AI 15 kV UG - Sacramento	0.10	24,998	
Subtotal from page 1A	· · · · · · · · · · ·		
Subtotal (Includes subtotals from pages 1A) Miles	• • • •	\$175,497	
300 c. Conversion and Line Changes	3. 4' 1		
Line Designation	Miles	¢1.000	
301 Extend Vph #2 ACSR	0.06	\$1,753	
302 Convert to 3ph 1/0 ACSR	1.60	60,700 16,942	
303 Extend Vph 1/0 ACSR	0.48	70,775	
305 Convert with 3ph 1/0 AL URD 25 kV	0.35	29,552	
306 Convert to 3ph #2 ACSR	0.60	43,470	
307 Convert to 3ph #2 ACSR	0.51	18,001	
308 Extend 3ph 1/0 ACSR 309 Extend 1ph #2 ACSR	0.38	9,799	l
310 Convert to 3ph 1/0 ACSR & 336 ACSR	2.00	141,100	
311 Convert to 3ph 1/0 ACSR	0.60	30,856	· · · · · · · · · · · · · · · · · · ·
Subtotal from page 1A Miles		7,734,244	
Subtotal . (Includes subtotals from pages 1A) Miles	233.04	\$8,157,192	
Sustout. (Includes sustouts from pages 11) These		\$0,157,17 2	
400 d. New Substations, Switching Stations, Metering Points, etc.			
400 d. New Substations, Switching Stations, Metering Points, etc. Station Designation <u>kVA</u>	<u>kV to kV</u>		
401 Manitou 10,000	69-12.5 kV	\$807,807	
Subtotal		\$807,807	B
RUS FORM 740c (Computer generated form - modified)	(version 2, 8/15/96, CAE	i)	PAGE 1 OF 4 PAGES

DF 4 PAGES EXHIBIT

SECTION A. COST ESTIMATES (Page 1 Continuation	Sheet)	BORROWER'S COST ESTIMATES	RUS USE ONLY
) b. New Tie-Lines (Continued)	Miles		
Line Designation	IVITIES		
······································			

Miles			
Subtotal (transfers to page 1)		. \$0	
c. Conversion and Line Changes (Continued)			
Line Designation	Miles		
2 Convert to 3ph 1/0 ACSR	1.57	\$63,380	
3 Extend 1ph #2 ACSR	0.10	2,450	
4 Convert to Vph #2 ACSR	0.51	15,684	
15 Extend 1ph #2 ACSR	0.38	9,799	
16 Convert to 3ph #2 ACSR	3.95	134,830	
17 Convert to 3ph #2 ACSR	0.53	18,091	
18 Convert to 3ph 1/0 ACSR & extend 1ph #2 ACSR	0.80	59,330	
19 Convert to Vph #2 ACSR	0.15	4,659	
20 Extend 1ph #2 Al UG	0.10	12,393	
	2.56	87,383	
21 Convert to 3ph #2 ACSR	2.40	230,180	
22 Reconductor with 3ph 336 ACSR	2.40		
23 Convert to 25 kV		460,266	
24 Reconductor with 3ph 336 ACSR	1.37	94,107	
25 Reconductor with 3ph 336 ACSR	2.00	137,382	
26 Extend 3ph 336 ACSR	0.19	11,425	
27 Convert to 3ph 336 ACSR & extend 336 ACSR	2.74	121,150	
28 Convert to 3ph #2 ACSR & 1ph 25 kV	3.18	81,924	
29 Convert to 25 kV	15.00	251,500	
30 Reconductor with 3ph #4/0 ACSR	0.86	43,988	
33 Reconductor with double circuit 3ph 336 ACSR	0.80	97,866	
44 Convert to Vph #2 ACSR	1.20	59,422	
71 Replace UG cable	6.00	599,065	
72 Reconductor Cu with #2 ACSR & 4/0	150.00	4,816,119	
83 Convert 3ph 336 ACSR	1.30	111,901	
86 Extend 3ph 795 ACSR	1.00	209,950	
	•		
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	••••••		
<u></u>			
	·····		
Calledal Human forme da mara 11	225 20	\$7,734,244	
Subtotal (transfers to page 1)	<u>223.37</u>	442,754,754	
			1

	BORROWER AND LOAN DESIGNATION	KENERGY CORP - KY	65 C44
	SECTION A. COST ESTIMATES (cont.)	BORROWER'S COST ESTIMATES	RUS USE ONLY
500	e. Substation, Switching Station, Metering Point Changes		
	Station Designation Description of Changes		
	Attachment	\$613,444	
		·	
		\$C15 444	
	Subtotal	\$613,444	
	f. Miscellaneous Distribution Equipment		
601	(1) Transformers and Meters		
1	Construction <u>Transformers</u> <u>Meters</u>	Ø0 460.050	
	Underground <u>3078</u> \$2,063,656 <u>4506</u> \$399,607	\$2,463,263	
	Overhead 12 \$69,928 $\overline{5}$ $14 \pm 1 + 2 \pm 601$ (included in total of all 600 and as helpen)	69,928 \$2,533,101	
	Subtotal code 601 (included in total of all 600 codes below)	\$2,533,191	
602	(2) Sets of Service Wires to increase Capacity	725,412	
602	(2) Sets of Service whes to increase capacity	750,000	
604		198,993	
605		0	
605		3,218,084	
000			
1			
	Subtotal ALL 600 codes	\$7,425,680	
700	g. Other Distribution Items		
,	(1) Engineering Fees		
701		1,014,445	<u></u>
,01	(2) Security Lights(3) Reimbursement of General Funds (see attached)	372,240	
	(4)		
	(4)	\$1,386,685	
	TOTAL DISTRIBUTION	\$27,325,000	
800	2. Transmission		
	a. New Line		
	Line Designation Voltage Wire Size Miles		
			·
	Total Miles		
	Subtotal	\$0	
		ψ0	
L			

(Computer generated form - modified) (version 2, 8/15/96, CAB)

COST	ESTIMATE AND LOAN BUDGET FOR ELECTRIC BORROWERS	BORROWER AND LOAN DESIGNATION	KENERGY COF	- KY 65 C44
	SECTION A. COST ESTIMATES (cont.)		BORROWER'S COST ESTIMATES	RUS USE ONLY
900	b. New Substation, Switching Station, etc. <u>Station Designation</u> <u>kVA</u>	<u>kV TO kV</u>		
	Subtotal			
1000	c. Line and Station Changes <u>Line/Station Designation</u> <u>Description</u>	on of Changes		
1100	<i>Subtotal</i>			
	(1) R/W Procurement			
	 (2) Engineering Fees (3) Reimbursement of General Funds (see schedule) 			
	(4)		······································	
ł				
	TOTAL TRANSMISSION		\$0	
1200	GENERATION (including Step-up Station at Plant) a FuelNameplate Rating b	kW		
	TOTAL GENERATION		\$0	
	4. HEADQUARTERS FACILITIESa. New or additional Facilities		\$0	
	b			
	TOTAL HEADQUARTERS FAC	LITIES	\$0	

740c

COST	ESTIMATE AND LOAN BUDGET FOR ELECTRIC BORROWERS	KENERGY CORP - I	KY 65 C44
-	SECTION A. COST ESTIMATES (conl.)	BORROWER'S COST ESTIMATES	RUS USE ONLY
1400	5. ACQUISITIONS		
	aConsumersMiles		
	b		
	TOTAL ACQUISITIONS	\$0	
1500	6. ALL OTHER		
	a		
	b		
	с		
	d		
	e		
	TOTAL ALL OTHER	\$0	
	SECTION B. SUMMARY OF AMOUNTS AND SOURCES OF FINA	ANCING	
	1. GRAND TOTAL - ALL COSTS	\$27,325,000	
	2. FUNDS AND MATERIALS AVAILABLE FOR FACILITIES		
	a. Loan Funds		
	b. Materials and Special Equipment0		
	c. General Funds Purpose 1 \$0.00		
	Purpose 2		
	Purpose 3		
	Purpose 4		
	Total General Funds Applied \$0.00		
	d. Total Available Funds and Materials	\$0	
	3. NEW FINANCING REQUESTED FOR FACILITIES	\$27,325,000	
	4. TREASURY RATE LOAN REQUESTED FOR FACILITIES	\$27,325,000	
	5. TOTAL SUPPLEMENTAL LOAN REQUESTED		
1	Name of Supplemental Lender		
	6. CAPITAL TERM CERTIFICATE PURCHASES (CFC Loan only)		
	8. 100% SUPPLEMENTAL LOANS (SEE RUS Bulletin 20-40,Att. C)*		
	* Identify in section A by budget purpose and separate subtotals.		L
	SECTION C. CERTIFICATION		
	We, the undersigned, certify that:		
	1. Upon completion of the electrical facilities contained herein and any others uncomplete		
	financing is available, the system will be capable of adequately and dependably serving loan period as contained in our current RUS approved Power Requirement Study and C		
	2. Negotiations have been or will be initiated with our power supplier, where necessary, to	ohtain new deliver	v noints
	2. Negotiations have been or will be initiated with our power supplier, where necessary, is and/or additional capacity at existing ones to adequately supply the projected load upon is based.		
	3. The data contained herein and all supporting documents have, to the best of my knowled and in accordance with RUS Bulletin 20-2.	dge, been prepared o	correctly
		0	
	10/5/2004 Price 2	ilici	
	Date Signature of Borrower's Pre	sident & CEO	
	10/5/2004 Jan de a llo	in X	
	Date Signature of Borrower	's Chair	
	Sandra		
	KENERGY CORP		
	Corporate Name of Borrower		
1		А	
	GFR Initials	MQ/1	_
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PAGE 4 OF 4 PAGES

KY 65 C44

REIMBURSEMENT SCHEDULE

August 2004

Work Orders \$234,197.66 Special Equipment \$138,042.68 <u>Total</u> \$372,240.34

KENTUCKY 65 Kenergy Corp 2004-2007 Construction Work Plan

SUBSTATION CHANGES (Code 500)

RUS Code	General Description	2005	2006	2007	Estimated Cost
506	Location: Weaverton				
	Replace existing RTUs	\$26,000			\$26,0
507	Location: Weaverton				
	Oil Spill Containment		\$52,839		\$52,
508	Location: Marion				
	Replace existing RTUs	\$26,000			\$26,
503	Location: Hudson				
	Replace existing RTUs	\$10,000			\$10,
519	Location: Marion				
	Oil spill containment	\$50,000			\$50
510	Location: Race Creek				
	Replace existing RTUs	\$26,000			\$26,
511	Location: Race Creek				
	Oil Spill Containment			\$55,798	\$55,
513	Location: Little Dixie				
	Upgrade Capacity	\$141,330			\$141,
522	Location: Accuride				
	Oil spill containment	\$50,000			\$50,
501	Location: Sullivan				
	Oil spill containment		\$52,839		\$52,
502	Location: Sacramento				
	Install electronic recloser and switches		\$30,840		\$30,
523	Location: Tyson				
	Replace Regulator	\$10,000			\$10,
547	Location: Geneva				
	Replace existing RTUs	\$26,000			\$26
512	Location: Zion				
-	Oil Spill Containment			\$55,798	\$55
TOTA	L SUBSTATION CHANGES	\$365,330	\$136,518	\$111,596	\$613

Attachment to 740c KENERGY CORP - KY 65 C44

STATEMENT

Statement certifying that at least 90% of the Loan funds are for facilities with a useful life of 33 years or longer as required by 7 CFR 1710.115.

To facilitate the determination of the final maturity for this RUS Loan, KENERGY CORP

does hereby certify that:

X

At least 90% of the Loan funds requested as part of this loan application and included on the RUS Form 740c (Cost Estimates and Loan Budget for Electric Borrowers) are for facilities with an anticipated useful life of 33 years or longer.



Less than 90% of the Loan funds requested as part of this loan application and included on the RUS Form 740c (Cost Estimates and Loan Budget for Electric Borrowers) are for facilities with an anticipated useful life of 33 years or longer. A schedule has been attached to this statement listing the facilities with an anticipated useful life of less than 33 years, the anticipated useful life of those facilities and the associated cost estimates (see attached).

10/5/2004 Date

nuli/ a Title:

KY 65 2004-2007 Construction Work Plan

Kenergy Corp Henderson, Kentucky





August 2004



	EXHIBIT	
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H2	В	
_		

Purpose of Report

This 2004-2007 Construction Work Plan ("CWP") documents the engineering analysis and proposed system improvements required for Kenergy Corp ("Kenergy") to provide satisfactory and reliable service to its customers through the summer peak of 2007. R. W. Beck, Inc. ("Beck") was retained to assist Kenergy in the preparation of the CWP. Included within is engineering support for a loan application to RUS to finance the proposed construction program. The engineering support includes descriptions, estimated costs and justification of required new facilities and facility improvements.

Service Area and Power Supply

Kenergy provides service to approximately 52,205 customers located in all or parts of Caldwell, Crittenden, Henderson, Hopkins, Livingston, Lyon, Union, Breckinridge, Daviess, Hancock, McLean, Muhlenberg, Ohio, and Webster Counties in northwestern Kentucky.



Figure ES-1: Location Map

Note: Map from the Kentucky Association of Electric Cooperatives, Inc.



Kenergy purchases power from Big Rivers Electric Corporation ("BREC") pursuant to a contract covering the rural system and all commercial customers except two smelters (where partial-requirements apply). A tabulation of general operating statistics for the calendar years 2002 and 2003 from RUS Form 7 are shown in Table ES-1.

	2002	2003
Miles of Distribution Line	6,739	6,801
Year-End consumers per Month Served	51,633	52,205
Consumers per Mile	7.6	7.7
Average Residential Consumption (kWh/mo)	1,319	1,276
Total Rural System MWh Purchased ⁽¹⁾	1,094,065	1,078,327
Total Rural System MWh Sold (1) (2)	1,049,841	1,035,730
Percent System Losses for Rural System	4.04%	3.95%

Table ES-1 General System Operating Statistics

Note:

(1) Rural System Sales and Purchases provided by Kenergy Corp.

(2) Includes own use.

BREC constructs, owns, and operates the 69 kV transmission system supplying power to the 49 delivery points on the Kenergy system. Kenergy owns all of the substations serving the distribution system. The distribution system includes 176 circuits operated at 24.9/14.4 kV or 12.5/7.2 kV. The installed overhead conductor sizes range from #8 CWC to 795 kcmil ACSR, and the underground cable sizes range from #2 Al to 750 MCM Al.

Results of Proposed Construction

On completion of the proposed construction program, the system will adequately serve the 2007 summer peak load of 291.9 MW as projected in the 2003 Load Forecast prepared by Kenergy. The CWP was prepared to provide adequate and dependable service to 54,916 customers with total annual sales of 1,164,691 MWh in 2007.

A detailed description of the proposed system improvements is given in Section 2. This CWP includes carryovers from the previous 2002-2004 CWP. The proposed system improvements are identified in the 740c Detail following the RUS Form 740c and are summarized in Table ES-2.

RUS Code	ltem	Estimated Cost
100	New Construction	\$8,758,956
200	New Tie Lines	\$175,497
300	Line Conversions	\$8,157,192
400	New Substations	\$807,807
500	Substation Improvements	\$613,444
600	Miscellaneous Distribution Equipment	\$7,425,680
700	Security Lights	\$1,014,445
1300	Headquarters Facilities	\$3,224,993
Total CWP	Improvements	\$30,178,014

 Table ES-2

 System Improvements and Additions Summary

General Basis of Study

The projected system peak load and number of customers served used in this report were based on the 2003 Load Forecast prepared by Kenergy. Supplemental analyses of large capital projects are summarized in Appendix A of this report. The analyses are based on the economic evaluation of alternatives presented in the System Planning Report ("SPR"). Recommendations for this CWP were based on these analyses.

Kenergy's current operations and maintenance review (Review Rating Summary, RUS Form 300) was used to determine construction required to replace physically deteriorated equipment and material, upgrade portions of the system to conform with code or safety requirements, and/or improve reliability or quality of service.

New distribution and power supply construction requirements were considered simultaneously as a "one system" approach for the orderly and economical development of the total system. All of the proposed construction and recommendations herein, relative to power supply and delivery, were discussed with Kenergy's power supplier, BREC.

Details and estimated costs of the line and equipment changes and the additional requirements to serve 3,483 new customers during the work plan period are included in Section 2. An estimated cost of necessary service upgrades to existing customers is also included in Section 2.

An analysis, using RUS guidelines as a basis and the design criteria herein, of thermal loading, service voltages, physical conditions and reliability, was performed on all of the substations, distribution lines and major equipment of the existing system. Milsoft Integrated Solutions, Inc.'s Windmil[™] software was used to analyze the distribution circuits for the projected summer 2007 peak load of 291.9 MW. A sample printout from the software is given in Appendix C. The criteria presented in Section 1 forms the rest of the basis of this analysis.

In the preparation of this Report, including the opinions contained herein, we have made certain assumptions and used certain considerations with respect to conditions which may occur in the future. While we believe these considerations and assumptions are reasonable and reasonably attainable based upon conditions known to us as of the date of this Report, they are dependent upon future events, and actual conditions may differ from those assumed. We have also relied upon certain information provided to us by others. To the extent actual future conditions differ from those assumed herein or from the assumptions provided by others, the actual results will vary from those estimated. Field conditions encountered during design will affect some of the projects.



P.O. Box 18 • 6402 Old Corydon Road Henderson, Kentucky 42419-0018 (270) 826-3991 • FAX (270) 826-3999 (800) 844-4832

EXCERPT FROM THE MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF KENERGY CORP. ON OCTOBER 5, 2004

WHEREAS, A Construction Work Plan for 2004-2007 has been prepared by Kenergy Corp.'s engineering staff and consultants, reviewed by management, and discussed with the board.

NOW, THEREFORE, BE IT RESOLVED, that the board of directors adopts the construction work plan as a plan of action to be followed by the President and staff until superseded by a revised construction work plan duly adopted and transmitted to RUS for concurrence.

> I, Debra Hayden, Assistant Secretary, hereby certify that the foregoing is a true and correct excerpt from the minutes of a meeting of the board of directors on October 5, 2004.

Assistant Secretary

	EXHIBIT	
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A Touchstone Energy® Partner

THREE (3) SETS OF THE R. W. BECK 2004-2007 CONSTRUCTION WORK PLAN, INCLUDING MAPS REQUIRED UNDER 807 KAR 5:001, SECTION 9(2) (d) ARE ATTACHED TO THE ORIGINAL APPLICATION.

	EXHIBIT	Ĩ
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P.O. Box 18 • 6402 Old Corydon Road Henderson, Kentucky 42419-0018 (270) 826-3991 • FAX (270) 826-3999 (800) 844-4832

September 2004

2004 - 2013 FINANCIAL FORECAST

STATEMENT OF ASSUMPTIONS

BASE CASE

Kenergy Corp. has developed this financial forecast based on certain planning documents developed earlier and certain assumptions described here. We have listed those documents that have already received RUS approvals, as required by our loan agreement with RUS, and described any subsequent adjustments to them that have become necessary. We have also stated the assumptions which we believe may have a material effect on the "pro forma" financial statements which summarize this forecast.

- A. LOAD ESTIMATES
- B. PLANT ADDITIONS
- C. POWER COST
- D. OPERATING REVENUES & TIER
- E. OPERATING EXPENSES
- F. NON-OPERATING ITEMS
- G. FINANCING ASSUMPTIONS
- H. CAPITAL MANAGEMENT POLICY

A. <u>LOAD ESTIMATES</u> Estimates of energy requirements were developed in the 2003 Load Forecast, which has been approved by RUS. Excluding the large industrial accounts, the weather normalized 10-year projected compound growth rate is 2.6%. The industrial consumers are included in other 1, Century and Alcan (the aluminum smelters and mill); and other 2, the special contract industrials with dedicated substations. These customer's load levels are held constant throughout the forecast period. The projected 10-year compound growth rate for the total system is .3%.

B. <u>PLANT ADDITIONS</u> The capital additions to plant were derived from the 2004-2007 Construction Work Plan. An accelerated copper replacement program, which was started in 1997, will be completed in 2007. The work plan includes one new substation, minor substation upgrades, and a new office building which will be shared with Big Rivers. General plant additions for 2004 were based on the 2004 budget and consist primarily of normal vehicle replacements. Plant additions for 2004 include the new Adams Lane Substation. Future plant expenditures were escalated 2.8%/year for inflation. Total plant expenditures over the forecast period are \$116 million dollars, with a 10-year compound growth rate of 3.9% in total utility plant.

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C. <u>POWER COST</u> No increase in power cost was included in this base case scenario. The most recent Big Rivers financial forecast projects a 7% wholesale increase in 2012, which would be passed through to Kenergy customers and equate to a 4.6% retail increase. No changes were made in 2013 because it is so far out. The 3% discount adjustment (2% retail) is reviewed annually. The smelter load requirements will be provided by LG&E Energy Marketing and other power suppliers with rates virtually fixed throughout the contract period, which ends 2012, and will then be renegotiated. The forecast assumes the smelters will remain in operation in 2013.

D. <u>OPERATING REVENUES & TIER</u> Revenue estimates from the sale of electric energy were made utilizing the actual 2003 revenue per KWH, adjusted upward 4% to reflect the expiration of the 4% consolidation credit in September 2004. Kenergy is required to file a rate application with the Kentucky Public Service Commission no later than December 31, 2004 to address overall revenue requirements and rate of return disparities between classes. Kenergy is planning on requesting a TIER of 1.75, and reducing commercial three-phase classes approximately \$600,000 annually beginning July 1, 2005. The forecast allows TIER to fall naturally until it drops below 1.50. The next year additional revenues are added to bring TIER back to 1.75. Additional revenues are required in the years 2007 and 2010 of \$3,182,120 (4.47%) and \$1,971,000 (2.3%) respectively. The average TIER over the ten-year period is 1.63.

Revenues, less power costs (net revenue) dollars increase from \$26 million in 2003 to \$39 million in 2013, representing a ten-year compound growth rate of 4.1%. This growth is due to the addition of approximately 7,800 new customers (net), an 8% increase in average KWH usage, and the two general rate increases mentioned above.

E. <u>OPERATING EXPENSES</u> The 2004 expenses were based on the 2004 operating budget. The number of employees is projected to remain at the 2004 budgeted level of 170, as new positions required will be offset by efficiencies gained through use of technology and increased productivity. Thereafter, the variable expenses were escalated 2.8% for inflation. Depreciation was based on a 2.73% historical rate applied to utility plant projections. Total expenses (excluding power cost) are projected to increase from \$23 million to \$36 million in 2013, at a ten-year compound growth rate of 4.6%.

F. <u>NON-OPERATING ITEMS</u> Interest income from short term investments was projected utilizing the cash available from the general funds summary assuming an interest rate of 1.5% (2004) 2% (2005) 2.5% (2006) and 3% (2007) and thereafter.

G. <u>FINANCING (INTEREST) ASSUMPTIONS</u> Future RUS Treasury and FFB guaranteed loan funds are projected using RUS guidelines and short term maturities. The CoBank and CFC variable rate loans are shown at a rate of 2.8% (net of cash capital credits) for 2004, and then increased ½% per year to 5.5% in 2011 - 2013. New loan funds are projected to be \$97 million dollars leaving \$22 million of plant additions to be financed internally.

H. <u>CAPITAL MANAGEMENT POLICY</u> The Kenergy Board of Directors has approved a capital management policy, which includes a target equity to total capital ratio of 30 - 40% and provides for general and estate retirements of capital credits. Capital credit retirements averaging \$2.3 million per year have been included in the forecast, which approximates a 20-year retirement cycle.

KENERGY CORP.

KY 065 BASE CASE Steve Thompson September, 2004

RUS FORM 325A- RATIOS FINANCIAL FORECAST

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
4 EOULTYASSETS RATIO MUTH ADD. REV.) (%)	28.74	27.64	27.12	25.92	26.01	25.94	25.90	26.38	26.56	26.66	26.64
1. EQUITY/CAPITAL RATIO/WITH ADD. REV.) (%)	34.00	32.42	31.67	30.06	29.97	29.74	29.54	29.92	30.00	30.00	29.87
2 DERT SERVICE COVERAGE (WITH ADD. REV.)	1.85	1.52	1.80	1,44	1,66	1.57	1.54	1.66	1.62	1.56	1.52
3ª TIMES INTEREST EARNED RATIO (WITH ADD. REV.)	2.08	1.64	1.70	1.35	1.75	1.59	1.51	1.75	1.71	1.66	1.61
3b. OPERATING TIER (Including op. margins + G&T & lender CCs paid)		1.39	1.48	1.15	1.58	1.42	1.34	1.58	1.53	1.47	1.43
A AVERAGE REVENUE PER KWH SOLD (CENTS)(TOTAL)	2.88	3.02	3.04	3.04	3.09	3.10	3.10	3.13	3.14	3.15	3.16
48. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)(TOTAL)		1.17	0.74	G.16	1.41	0.27	0.28	0.95	0.30	0.28	0:30
5. AVERAGE REVENUE PER KWH SOLD (CENTS)(RURAL)	5.83	6 .00	6.13	6.12	6.39	6.39	6.37	6.53	6.52	6.51	6.50
58. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)(RURAL)		2.93	2.18	-0.22	16.4	-0,03	-0.18	2.46	-0.23	-0.07	-0.21
6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)(RURAL)	18.73	18,97	19.24	19.84	20.01	20,28	20.47	20.74	20.89	21.15	21.32
7 NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)	2.86	2.87	3.21	3.84	3.85	4.09	4.47	5,34	5.61	5.59	5.24
8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)	19.81	20.34	21.19	21.76	22,84	23,48	24.30	25.08	25,84	26.58	27.26
9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER (S)	173.14	199.08	201.98	204.75	207.65	210.36	213.23	216.13	219.05	221.97	224.88
10. ADMIN. & GEN. EXPENSE PER CONSUMER (5)	50.78	43.38	44.02	44.63	46.24	45,84	46.48	47.09	47.72	48.35	49.00
11. PLANT REVENUE RATIO(PLANT/REVENUE)(RURAL)	3.15	3.16	3.14	3.24	3,27	3.31	3.35	3.39	3.42	3.46	3.49
12. BATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)		2.57	3.28	2.88	4,49	42.4	4.19	6.0	4.86	4.68	4,53
13. RATE BASE = 104% OF NET UTILITY PLANT		170,375,103	175,217,592	183, 137, 477	187,521,583	191,981,581	196,520,891	201,143,172	205,852,332	210,651,485	215,546,127
14. INCREASE OVER PRESENT RETAIL RATES REQUIRED TOTAL (%)		0.00	0,00	0.00	1.10	1.10	1.09	1.76	1.75	1.74	1.73
148. INCREASE OVER PRESENT RETAIL RATES REQUIRED-RURAL(%)		0,00	0.00	0.00	4.47	4.37	4.27	6.77	6.60	6.46	6.31
15. MODIFIED DSC (FOR RUS USE)		1.51	1.58	1,43	1,85	1.56	1.53	1.65	1.61	1.58	1.52
18. MODIFIED TIER (NET OF GAT & OTHER CAP. CREDITS)		1,61	1.67	1.33	1.73	1.57	1.50	1.74	1.70	1.65	1.60
16. OPERATING DSC (NËT OF NONOPERATING MARGINGS)		1.4.1	1.48	1.33	1.56	1.47	1.43	1.56	1.61	1.46	1.42
		Ē.	FINANCIAL FÓRÉCAST		US FORM 3268 -	RUS FORM 3268 - PRO FORMA BALANCE SHEET	ANCE SHEET				
	LAST YEAR	****	*************	******	FUTURE YEARS	·	**********			**************	********
	2002	2004	2005	2008	2002	2008	2008	2010	2011	2012	2013
1. ASSETS AND OTHER DEBITS a. TOTAL UTILITY PLANT b. A.C.TIM PREVISION FOR DEPREC. & AMORT.	193,429,620 38,310,950	205,640,970 41,818,756	213,776,210 46,297,758	225,088,484 48,974,756	233,068,971 52,759,758	241,245,430 56,647,758	248,808,151 60,643,756	258,148,652 64,742,756	266,884,691 68,948,756	275,810,271 73,260,756	284,935,647 77,679,756

207,255,091 14,936,501 3,823,159 33,737,880 259,753,431 28,094,771 259,753,431 69,201,610 128,589,562 20,933,155 12,934,333 202,548,515 15,406,282 3,823,158 33,679,030 255,457,986 28,394,771 255,457,986 21,441,033 14,759,570 0 68,113,058 122,749,554 3,823,158 33,612,468 250,344,798 197,934,935 14,974,236 21,931,505 16,563,977 28,694,771 250,344,798 0 66,484,651 116,669,894 193,408,896 13,783,508 3,823,159 33,538,411 244,551,974 110,361,551 22,405,168 18,286,213 28,994,771 244,551,974 0 64,504,272 156,962,395 11,157,910 3,623,159 33,457,202 237,400,666 103,834,978 22,862,598 19,930,067 29,294,771 29,294,771 0 61,478,251 184,597,674 9,858,533 3,823,159 33,369,076 97,127,337 23,304,352 21,540,983 29,594,771 231,648,442 0 231,648,441 60,080,999 160,309,215 8,497,558 3,823,159 33,273,726 235,903,655 23,703,792 23,329,611 29,894,771 225,903,655 o 90,225,343 58,750,138 178,093,728 6,381,079 3,823,159 33,170,817 219,468,783 83,202,423 24,077,148 25,097,754 30,194,771 219,468,783 9,805 56,886,883 168,478,454 6,867,438 3,823,159 33,060,471 212,229,521 76,150,817 21,095,433 26,830,184 30,494,771 212,229,521 94,979 57,563,339 163,822,214 6,097,805 3,823,159 32,942,824 206,685,802 178,483 71,492,811 18,864,172 28,532,906 30,494,771 206,685,802 57,122,659 155,118,670 5,533,454 3,823,159 32,841,824 197,317,107 290,633 73,579,044 30,494,771 197,317,107 6,000,000 56,718,409 30,234,250 (1). LONG TERM DEBT - 2% & 5% QUARTERLY) (2). LONG TERM DEBT - 5% & MUNI(MONTHLY) (3). LONG TERM DEBT - GUARANTEE
 c. LONG TERM DEBT - OTHER
 d. OTHER LIABILITIES AND CREDITS
 e. TOTAL LIABILITIES AND OTHER CREDITS GENERAL FUNDS EXCLUDABLE ITEMS 1. OTHER ASSETS AND DEBITS 9. TOTAL ASSETS AND OTHER DEBITS 2. LIABILITIES AND OTHER CREDITS a. TOTAL MARGINS AND EQUITIES b. LONG TERM DEBT - RUS D. ACCOM, PROVISION FOR D. NET UTILITY PLANT d. NET GENERAL FUNDS

0

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. ACCRUAL BASIS										
a (1). ADDITIONAL REVENUE REQUIREMENTS FOR TIFRIFICULITY	0	0	0	3,182,120	3, 182, 120	3, 182, 120	5,153,532 \	5, 153, 532	5, 153,532	5, 153,532
(2) OPER REV. & PATRON, CAP - PRESENT RATES	281,676,233	285,226,956	286,390,050	288,170,162	289,728,706	291,484,277	293, 110, 167	295,032,286	296,733,861	298,643,707
b. COST OF POWER	254,922,638	256,548,765	257,420,934	268,630,421	259,449,442	260,558,201	261,567,785	262,747,317	263,784,527	264,969,953
C. OPER. REV. LESS COST OF POWER	26,763,595	28,677,191	28,969,116	32,821,861	33,461,384	34,108,196	36,705,914	37,438,501	38, 102, 866	38,827,286
d. OPERATIONS & MAINTENANCE EXPENSE	10,457,674	10,760,000	11,051,000	11,360,000	11,678,000	12,005,000	12,341,000	12,687,000	13,042,000	13,407,000
e. CONSUMER ACCOUNTS AND SALES EXPENSE	3,579,454	3,680,000	3,783,000	3,889,000	3,998,000	4,110,000	4,225,000	4,343,000	4,465,000	4,590,000
f. ADM. & GEN. & OTHER DEDUCTIONS EXPENSE	2,279,059	2,343,000	2,409,000	2,476,000	2,646,000	2,616,000	2,689,000	2,764,000	2,841,000	2,921,000
g. DEPRECIATION AND AMORTIZATION EXPENSE	5,757,806	6,829,000	6,137,000	6,366,000	6,678,000	6,806,000	7,038,000	7,277,000	7,621,000	7,769,000
	295,000	303,000	311,000	320,000	329,000	338,000	347,000	367,000	367,000	377,000
I. INTEREST EXPENSE	3, 148, 630	3,809,107	4,581,034	6,344,690	5,887,032	6, 143, 435	6,384,847	6,548,961	6,696,521	6,842,886
J. TOTAL COST OF ELECTRIC SERVICE	280,440,161	283,362,872	286,692,967	268,276,112	290,464,474	292, 576, 636	294,683,732	296,722,278	298,716,047	300, 876, 839
K. PATRONAĢĒ CAPITAL & OPĒRATING MARGINS	1,236,072	1,863,084	697,083	3,077,170	2,446,352	2,089,761	3,679,967	3,463,540	3,171,346	2,920,400
I. NON-OPERATING MARGINS	674,900	768,859	808,693	828,439	034,421	982,055	1,027,634	1,119,430	1, 161, 105	1,178,227
m. G&T AND OTHER CAPITAL CREDITS (CFC CTC's)	101,000	117,647	110,347	102,908	96,350	88, 126	81,210	74,057	66,563	58,850
n. TOTAL ACCRUAL MARGINS	2,011,972	2,730,690	1,616,122	4,008,517	3,476,124	3, 169, 942	4,788,710	4,667,026	4,399,013	4,166,478
2. CASH BASIS										
a. CASH FROM OPERATIONS BEFORE DEBT SERVICE	10,817,308	12,360,150	12,223,809	16,605,300	16,845,806	16,021,251	18, 131, 448	18,406,930	18,548,971	18,708,512
b. TOTAL DEBT SERVICE	7,185,085	7,790,067	8,674,316	9,467,074	10, 173, 106	10,488,463	10, \$58, 859	11,434,516	11, \$10,741	12,336,992
C. CASH MARGINS AFTER DEBT SERVICE	3,632,223	4,570,083	3,649,493	8,148,226	5, 872,899	5,532,788	7,171,789	6,872,414	6,638,231	6,372,520
	6,444,103	6.630.982	6.816.649	7.007.816	7.203.726	7.405.430	7.612.782	7.825.940	8.046.067	8.270.329
	3 239 659	3 333,809	3 428.950	3 622 906	3 621 646	3 722 649	3 827 197	3 934 353	4 044 616	4 167 767
	6.632.425	5 808 409	8.889.400	7,194,580	7.395.778	7,602,620	7 815 076	B 033 706	8 268 418	A 489 910
	0 201 336	10 041 107	11 ÚTÁ MEA	10 010 500	CEU 102, C1	APA 780 51	770 047	14 180 061	5 KO2 K71	14 048 956
FIXED(axciuding property (xxex)	900'I N7'S	10, 04 1, 10/ 16 773 000	11,028,000	000 904 4.4	700'48''71	004 107 101 000 102 01	10.048.000	101,101,501	14,903,021	14,800,000
			FINANCIAL FORECAST		RUS FORM 3250 - GENERAL FUNDS SUMMARY	ENERAL FUNDS S	UMMARY		000'040'07	000'01 8'07
	2004	2006	2006	2007	2008	2009	2010	2011	2012	2013
		-		Second Streams		-			4	مدين <u>ت ۽ م</u> رسم
1. SOURCES OF GENERAL FUNDS		4		:		:				
	5,533,454	6,097,805	6,867,438	6,381,079	8,497,558	9,858,533	11, 157, 910	13,783,608	14,974,236	16,406,282
	3,632,223	4,670,083	3,648,493	5, 148, 226	0,672,699	6,632,788	7,171,789	6,972,414	6,638,231	6,372,520
C. OTHER PROCEEDS		5 0		5 0	5 0				0 0	00
 SALE OF EACLOURDEE I ENV REMEILE SECTION DRIDRITY DAN FLINDS 		о с	, c		• c		о с	о с	.	
	. 0	0	0	0	0	. 0	. 0	. 0	. 0	
2. TOTAL GENERAL FUNDS AVAILABLE	9, 165, 677	10,667,688	10,516,931	12,529,304	14,170,256	15,391,321	18,329,699	20,765,922	21,612,467	21,778,802
3 PROPOSED LISE OF GENERAL FUNDS										
	0	o	0	0	0	o	0	o	o	0
	1,607,722	2,299,010	2,292,578	2,145,262	2,145,263	1,762,690	1,762,690	2,676,647	2,770,606	3,066,924
c. GENERAL FUNDS INVESTED IN PLANT	1,460,350	1,501,240	1,543,275	1,586,486	1,866,460	2,170,720	2,483,501	2,805,039	3, 135, 579	3,475,376
	o	0	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
4. TOTAL PROPOSED USES OF GENERAL FUNDS	3,068,072	3,800,250	4, 135,853	4,031,748	4,311,723	4,233,410	4,546,191	5,781,686	6,206,185	6,842,300
5. NET GENERAL FUNDS - END OF YEAR	6,097,605	6,867,438	6,381,079	8,497,556	9,858,533	11, 157,910	13,783,508	14,974,236	15,406,282	14,936,501

RUS FORM 325C - STATEMENT OF OPERATIONS

FINANCIAL FORECAST

K*energ*

P.O. Box 18 • 6402 Old Corydon Road Henderson, Kentucky 42419-0018 (270) 826-3991 • FAX (270) 826-3999 (800) 844-4832

BOARD RESOLUTION

APPROVAL OF TEN-YEAR FINANCIAL FORECAST

WHEREAS, the Ten (10) Year Financial Forecast for the period of 2004 through 2013 as prepared and included with this loan application is an acceptable projection of the financial trend and conditions of Kenergy Corp.; and

WHEREAS, the Board of Directors of Kenergy Corp. has reviewed the attached Long Range Financial Forecast prepared by the Cooperative's staff; and

WHEREAS, the Financial Forecast includes estimates taken from a previously Board approved Load Forecast and Three-Year Construction Work Plan, both of which have been approved by the Rural Utilities Service (RUS); and

WHEREAS, the Long Range Financial Forecast is based upon Board approved policies, operating rules and plans and sets forth appropriate management goals, all of which are acceptable to the Board of Directors as an overall plan of operations;

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of Kenergy Corp. hereby approves and accepts the Ten-Year Long Range Financial Forecast, as proposed, as a plan of operations, and has reviewed the projected rates which are included in the Forecast and is committed to take whatever action may be necessary to implement such rate changes as may be required, on a timely basis to achieve the goals outlined therein.

CERTIFICATION OF SECRETARY

I, Chris Mitchell, Secretary of Kenergy Corp. hereby certify that the above is a true and correct excerpt from the minutes of the meeting of the Board of Directors of the Kenergy Corp., held on the 5^{th} day of October, 2004, at which meeting a quorum was present.

SEAL

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Signature

EXHIBIT F

A Touchstone Energy® Partner



KY 65 2004-2007 **Construction Work Plan**





AUGUST 2004



ÚCT 1 8 2004

Kenergy Corp Henderson, Kentucky

Your Touchstone Energy Cooperative

Service Area Map



