



Ernie Fletcher  
Governor

Mark David Goss  
Chairman

Teresa J. Hill, Secretary  
Environmental and Public  
Protection Cabinet

Commonwealth of Kentucky  
**Public Service Commission**  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, Kentucky 40602-0615  
Telephone: (502) 564-3940  
Fax: (502) 564-3460  
psc.ky.gov

John W. Clay  
Commissioner

Christopher L. Lilly  
Commissioner  
Department of Public Protection

October 12, 2006

Lawrence W. Cook  
Assistant Attorney General  
Office of the Attorney General Utility & Rate Intervention Division  
1024 Capital Center Drive  
Suite 200  
Frankfort, KY 40601-8204

RE: Case No. 2006-00369

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell  
Executive Director

BOD/jc  
Enclosure



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Attorney at Law  
Dorsey, King, Gray, Norment & Hopgood  
318 Second Street  
Henderson, KY 42420

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Attorney at Law  
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employees found in this response, page 5 of 5, with the number of employees found in the Application, Exhibit 5, page 7.

c. Refer to response to Staff's First Request, Item 23. Explain the difference in wage rate shown in this response, page 5 of 5, with the wage rate shown in the Application, Exhibit 5, page 7.

2. Refer to the Application, Exhibit 5, page 8, and the response to the Staff's First Request, Item 28, page 3 of 3. Provide the workpapers showing the determination of the pro forma amounts, including premium statements or other documentation supporting the rates used for the pro forma amounts.

3. Refer to the Application, Exhibit 5, page 11.

a. Provide a narrative explanation with calculations explaining why the liability, capital, and expense accounts were reduced during the test year.

b. Explain why customer service, sales, and administrative and general expenses were increased.

4. Refer to the Application, Exhibit 5, page 12.

a. Explain the event or events that resulted in a large lump sum benefit paid in July 2005.

b. Provide the amount of the lump sum benefit paid, including the supporting calculations.

c. Provide the supporting calculations for the \$437,000 adjustment as booked during the test year.

5. Refer to the Application, Exhibit 5, page 13.

a. How does Kenergy normally track storm damage repair expense?

b. Were there any storm repair expenses incurred in the test year? If yes, provide the amount of storm repair expenses.

c. Explain why only 3 years are included in the proposed adjustment.

d. Concerning past storm damages involving Federal Emergency Management Agency ("FEMA"), did Kenergy receive reimbursement for assets that had been damaged in the storm? If yes, describe how Kenergy accounted for the FEMA reimbursement for damaged assets.

6. Refer to the Application, Exhibit 5, page 14. Provide a copy of the Rural Utilities Service ("RUS") approval letter.

7. Refer to the Application, Exhibit 5, page 16. Update the schedule reflecting the most currently available interest rates and date of the interest rate used.

8. Refer to the Application, Exhibit 5, page 17.

a. Does Kenergy agree the current PSC Assessment rate should be used for this calculation?

b. Does Kenergy agree that the current PSC Assessment rate is .001643?

9. Refer to the Application, Exhibit 5, page 19. Explain why this adjustment only includes the normalization of the RUS Cushion of Credit interest income.

10. Refer to the Application, Exhibit 5, page 20. Provide workpapers and calculations supporting each adjustment shown on this page.

11. Refer to the Application, Exhibit 5, page 21. Explain why there were no similar proposed adjustments to Federated Electric Insurance, Kentucky Association of

Electric Cooperatives ("KAEC"), United Utility, and National Rural Utilities Cooperative Financing Corporation.

12. Refer to the Application, Exhibit 6, page 2, the testimony of Mark A. Bailey.

a. Provide an analysis of vegetation management expenses for the test year and the two preceding calendar years.

b. Provide the current calendar year-to-date vegetation management expenses for 2006 and include a similar analysis of these expenses.

c. Provide copies of current contracts or memorandums documenting the costs incurred for vegetation management.

d. Explain how a 6-year cycle was determined to be the most reasonable for Kenergy.

13. Refer to Exhibit 7, page 2, the testimony of Steve Thompson.

a. What analysis was performed to determine the reasonable TIER for Kenergy?

b. Was holding the increase to 5 or 6 percent a primary factor used in determining the TIER?

c. What would have been the percentage increase had Kenergy proposed a 2.00 TIER?

14. Refer to Exhibit 9, the testimony of Robert N. Welsh.

a. Is Kenergy Mr. Welsh's first depreciation work for an electric utility?

b. If no, provide the names of other electric utilities for whom he has performed depreciation studies.

15. Refer to Exhibit 12, page 20. In the next to last paragraph of the Internal Controls letter, the auditor states that "certain matters" had been reported to Kenergy's management in a separate February 22, 2006 letter. Provide a copy of this separate February 22, 2006 letter.

16. Refer to response to Staff's First Request, Item 10. For each of the accounts listed below, explain the reason(s) for the change in the December balances for the test year and the prior year.

- a. Account No. 124100, Investment-Cobank, page 11 of 48.
- b. Account No. 128000, Other Special Funds (Def. Comp.), page 12 of 48.
- c. Account No. 131110, Cash-General Fund-US Bank, page 12 of 48.
- d. Account No. 136000, Temporary Cash Investments, page 15 of 48.
- e. Account No. 142175, Acc-Rec Alcan, page 18 of 48.
- f. Account No. 142180, Acc-Rec Century, page 18 of 48.
- g. Account No. 143100, Accounts Receivable – Other, page 21 of 48.
- h. Account No. 143600, Accts Rec-Customer Billings, page 22 of 48.
- i. Account No. 165120, Prepaid Insurance-Workers Comp, page 24 of 48.
- j. Account No. 186210, Pension-Defined Ben (Former GR & HU), page 28 of 48.
- k. Account No. 201200, Patronage Capital Assignable, page 29 of 48.
- l. Account No. 217000, Retired Capital Credits-Gain-Oboro, page 29 of 29.

- m. Account No. 217100, Retired Capital Credits-Gain Headqt, page 29 of 48.
- n. Account No. 219400, Other Marg & Equities-Prior Periods, page 30 of 48.
- o. Account No. 219500, Other Comprehensive Income, page 30 of 48.
- p. Account No. 224140, Other Long-Term Debt - Miscellaneous, page 30 of 48.
- q. Account No. 224330, Long-Term Debt RUS Notes Exec Various Rate, page 32 of 48.
- r. Account No. 224350, RUS Notes Executed 5% (West), page 32 of 48.
- s. Account No. 224470, Long-Term Debt Federal Financing Bank, page 32 of 48.
- t. Account 224600, RUS Advance Payments Unapplied, page 32 of 48.
- u. Account No. 228330, Additional Minimum Liability-Pension, page 33 of 48.
- v. Account No. 228400, Accum Misc Operating Provisions, page 33 of 48.
- w. Account No. 231000, Notes Payable-Short Term, page 33 of 48.
- x. Account No. 232100, Accounts Payable General, page 34 of 48.
- y. Account No. 235000, Consumers Deposits-Owensboro, page 34 of 48.

- z. Account No. 237210, Interest Accr.-Federal Financing, page 36 of 48.
- aa. Account No. 253250, Deferred Credit-BREC Hanson Lease, page 43 of 48.
- bb. Account No. 362000, Dist Plant-Station Equipment, page 43 of 48.
- cc. Account No. 362100, Dist Plant-Supervisory Control Eqp, page 43 of 48.
- dd. Account No. 364000, Dist Plant-Poles-Towers-Fixtures, page 44 of 48.
- ee. Account No. 365000, Dist Plant-Overhead Conductors, page 44 of 48.
- ff. Account No. 367000, Dist Plant-Underground Conductors, page 44 of 48.
- gg. Account No. 368000, Dist Plant-Line Transformers, page 44 of 48.
- hh. Account No. 369000, Dist Plant-Services, page 44 of 48.
- ii. Account No. 370000, Dist Plant-Meters, page 45 of 48.
- jj. Account No. 390000, Gen Plant-Structures & Improvements, page 45 of 48.
- kk. Account No. 391100, Computer and Related Equipment, page 45 of 48.
- ll. Account No. 392000, General-Transportation Equipment, page 46 of 48.
- mm. Account No. 398100, Gen Plant-GIS Equipment, page 48 of 48.

17. Refer to response to Staff's First Request, Item 10. Describe the economic development activity for the following accounts:

- a. Account No. 124210, Invest-Economic Dev-Rdk Hospitality (Motel), page 11 of 48.
- b. Account No. 124230, Economic Dev-Liberty Plaza, page 11 of 48.
- c. Account No. 124240, Economic Dev-Snow Enterprises, page 11 of 48.
- d. Account No. 124250, Economic Dev-DAPCO, page 11 of 48.
- e. Account No. 124270, Economic Dev Loan-Scott Foam Tech, page 12 of 48.
- f. Account No. 124280, ECO Loan-West KY Reg Ind Dev Author, page 12 of 48.
- g. Account No. 224160, RUS Economic Dev Loan-West KY Poult, page 30 of 48.
- h. Account No. 224165, RUS Economic Dev Loan-Snow Enterpri, page 31 of 48.
- i. Account No. 224170, RUS Economic Dev Loan-RDK Hospitali, page 31 of 48.
- j. Account No. 224175, RUS Economic Dev Loan-Scott Foam Te, page 31 of 48.
- k. Account No. 224180, RUS Economic Dev Loan-Liberty Plaza, page 31 of 48.

l. Account No. 224185, RUS Economic Dev Loan-West KY Reg Ind Dev, page 31 of 48.

m. Account No. 224190, RUS Economic Dev Loan-DAPCO, page 31 of 48.

18. Refer to Response to Staff's First Request, Tab 10, page 12 of 48. Describe the nature of each investment.

a. Account No. 124400, Invest-Ohio Co Industrial Develop.

b. Account No. 124500, Inv-Daviess Co Industrial Foundation.

c. Account No. 124510, INV-Hancock Co Industrial Foundation.

19. Refer to the Application, Exhibit 11. For each of the accounts listed below, explain the reason(s) for the change in the total balances for the test year and the prior year.

a. Account No. 424000, Other Capital Cr Allocations, page 8 of 34.

b. Account No. 427100, Interest On REA Construction Loan, page 8 of 34.

c. Account No. 427200, Interest –Long Term Debt-CFC, page 8 of 34.

d. Account No. 427210, Interest On Cobank Loans, page 9 of 34.

e. Account No. 427220, Interest-Federal Financing Bank, page 9 of 34.

f. Account No. 442100, Revenue-Commercial-3Phase-Under 1000kW, page 10 of 34.

g. Account No. 442102, Revenue Former HUEC 3Phase 0-50KVA, page 11 of 34.

- h. Account No. 442200, Rev-Commercial-3Phase (Over 1000kW) 3,  
page 11 of 34.
- i. Account No. 442240, Revenue-Comm-Arvin Roll Coater, page 12  
of 34.
- j. Account No. 442802, Revenue-American Engineering, page 12 of  
34.
- k. Account No. 442804, Revenue-Allied Resources, page 12 of 34.
- l. Account No. 442810, Revenue-KMMC LLC, page 13 of 34.
- m. Account No. 442817, Rev-Dyson Creek Mine, page 14 of 34.
- n. Account No. 445000, Revenue-Public Authorities-Single P, page 14  
of 34.
- o. Account No. 55102, Purchased Power-Black Diamond Minin, page  
17 of 34.
- p. Account No. 555103, Purchased Power-Breckridge, page 17 of 34.
- q. Account No. 555104, Purchased Power-Allied Resources, page 17  
of 34.
- r. Account No. 555117, Purchased Power-Dyson Creek Mine, page  
18 of 34.
- s. Account No. 555200, Purchased Power-Commonwealth Alum,  
page 18 of 34.
- t. Account No. 555300, Purchased Power-Willamette, page 18 of 34.
- u. Account No. 555400, Purchased Power-LEM-Southwire, page 18 of  
34.

- v. Account No. 555401, Purchased Power-BREC-Southwire, page 19 of 34.
- w. Account No. 555402, Purchased Power-SIGECO-Southwire, page 19 of 34.
- x. Account No. 555500, Purchased Power-Alcoa Auto Castin, page 19 of 34.
- y. Account No. 555600, Purchased Power-LEM-Alcan, page 19 of 34.
- z. Account No. 555601, Purchased Power-Cinergy-Alcan, page 19 of 34.
- aa. Account No. 555602, Purchased Power-SIGECO-Alcan, page 19 of 34.
- bb. Account No. 555603, Purchased Power-BREC-Alcan, page 19 of 34.
- cc. Account No. 555604, Purchased Power-Henderson Municipal, page 19 of 34.
- dd. Account No. 588000, Dist Exp-Ops Miscellaneous Dist, page 22 of 34.
- ee. Account No. 593000, Dist Exp-Main-Overhead Lines, page 23 of 34.
- ff. Account No. 593200, Dist Exp-Main-Storm Damage, page 23 of 34.
- gg. Account No. 593300, Maintenance Of Overhead Lines-Row, page 23 of 34.

- hh. Account No. 594000, Dist Exp-Main-Underground Lines, page 23 of 34.
- ii. Account No. 598000, Dist Exp-Misc Distribution Plt, page 24 of 34.
- jj. Account No. 903000, Consumer acct Exp-Ops Record-Collect, page 25 of 34.
- kk. Account No. 913000, Member and Public Relation Expenses, page 28 of 34.
- ll. Account No. 920000, Adm-Gen Exp, page 28 of 34.
- mm. Account No.920200, Adm-Gen Expense-Ops-Gen Off Salary, page 28 of 34.
- nn. Account No. 928000, Regulatory Comm Expense, page 32 of 34.
- oo. Account No. 930201, Dues Assoc.& Community Agency, page 32 of 34.
- pp. Account No.935000, Maintenance of General Plant, page 34 of 34.

20. Refer to the response to Staff's First Request, Item 23, page 3 of 5.

Explain the reduction in overtime hours between the test year and previous year.

21. Refer to the response to Staff's First Request, Item 25, page 2 of 2.

a. Explain why the Social Security adjustment was based on year 2005 wage limit of \$90,000.00 instead of using the Social Security adjustment for 2006 of \$94,200.00.

b. Recalculate the Social Security adjustment reflecting the 2006 wage limit.

c. Recalculate the pro forma payroll taxes shown on the Application, Exhibit 5, page 8 to reflect the amount determined in part (b).

22. Refer to the response to Staff's First Request, Item 27, pages 2 and 3 of 3. Provide an explanation for each amount in the "Transfers" column.

23. Refer to the response to the Staff's First Request, Item 29.

a. Provide the amounts for payroll, employee benefits, other compensation, and associated taxes included in the test year associated with the former President/CEO.

b. Did Kenergy propose to remove the amounts provided in part (a) from test-year operations?

(1) If yes, identify the adjustment.

(2) If no, explain why such an adjustment was not proposed.

24. Refer to the response to the Staff's First Request, Item 31, pages 15 through 88 of 88. Provide the same information as shown on these pages by individual director. If an entry reflects an expense that Kenergy is proposing to exclude for rate-making purposes, include a mark identifying the entry as excluded.

25. Concerning director compensation:

a. Explain in detail why Kenergy believes it needs to provide its directors a retainer as well as a board fee.

b. Explain how Kenergy determined that the board fee should be \$650 per meeting. Include all studies and analyses reviewed or performed by Kenergy.

26. Refer to the response to Staff's First Request, Item 33, page 2 of 2. Provide the designated delegate and alternate for KAEC and the National Rural Electric Cooperative Association.

27. Refer to the response to Staff's First Request, Item 50.

a. For each non-regulated activity identified in Exhibit 17A of the Application, provide the amounts that Kenergy has contributed in cash or property or spent to purchase stock in each activity since the inception of the activity.

b. In the response Kenergy states that it realized a total profit of \$3,089 from all non-regulated activities during the test year. Provide a schedule of revenues and expenses associated with each non-regulated activity for the test year and each of the two previous calendar years.

c. Has Kenergy initiated any new non-regulated activities since the end of the test year? If yes, provide the same information as requested in parts (a) and (b) above.

d. Since the end of the test year, has Kenergy discontinued any of the non-regulated activities listed in Exhibit 17A? Explain the response.

28. Refer to the Application, Exhibit 13, Tab 2, page 4, the depreciation study. The narrative indicates that because there was no previous life and survivor curve information to compare results, the results of the depreciation study were benchmarked with other cooperatives and electric distribution companies. Identify all cooperatives and electric distribution companies used as the benchmark and provide the corresponding depreciation rates.

29. Refer to the Application, Exhibit 13, Tab 2, page 12.

a. Provide the workpapers that support the amounts shown in Table 4. Include all calculations and assumptions.

b. If the depreciation rates used to calculate the depreciation expense shown for the "Proposed Rates" do not match the "Recommend" depreciation rates shown at Tab 3, page 1, explain the reason for the difference.

30. Refer to the Application, Exhibit 13. For each of the Iowa Curves shown in Tab 9, provide the applicable Conformance Index.

31. Refer to the Application, Exhibit 13, Tab 3, page 1 of the depreciation study.

a. Given the concerns about a lack of historic net salvage data, explain in detail why it is not reasonable to use the "No Salvage" depreciation rates and recover the actual removable cost at the time of retirement.

b. Explain why it is reasonable to average the "No Salvage" and the "Depreciation Rates Salvage" for Accounts 364 to 373.

32. Refer to Exhibit 13, Tab 11 of the depreciation study.

a. Describe the sources of information for the amounts listed as "Gross Salvage" and "Cost of Removal."

b. Provide the following information about the data for Accounts 364, 365, 367, 368, 369, 370, 371, and 373:

(1) Describe what items are included as "Gross Salvage."

(2) Describe the types of expenses classified as "Cost of Removal."

(3) Refer to Account 364. In 2002-2004 the Cost of Removal exceeded the Retirements amount. This situation is repeated in some of the other accounts. Explain why the "Cost of Removal" is so high.

(4) Explain what causes "Gross Salvage" to be negative.

33. Mr. Welsh has expressed concerns about having only 4 years of actual historic net salvage data with which to determine his proposed depreciation rates. In two previous electric cooperative cases<sup>1</sup> where there were concerns about the reasonableness of the net salvage data, the Commission utilized an average net salvage allowance approach to recover the net salvage component normally included in the depreciation rates. Under this approach, a 5-year average of annual net salvage was calculated, then added to the annual depreciation expense, and included in the accumulated depreciation account.

a. Was Mr. Welsh aware of these previous Commission decisions when he was preparing the depreciation study and his testimony for Kenergy?

b. Would Mr. Welsh agree that this approach could be a reasonable alternative to his approach for dealing with limited net salvage data? Explain the response.

c. Assume for purposes of the following questions that an average net salvage allowance approach was used to determine the depreciation rates for Kenergy in this case. Further assume that a 4-year average of annual net salvage was utilized.

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<sup>1</sup> Case No. 2000-00373, The Application of Jackson Energy Cooperative Corporation for an Adjustment of Rates, final Order dated May 21, 2001, at 30-34 and Case No. 2001-00244, Adjustment of Rates of Fleming-Mason Energy Cooperative Corporation, Final Order dated August 7, 2002, at 20-24.

(1) Determine the average net salvage allowance. Include all assumptions, workpapers, and calculations used to determine the amount.

(2) Provide the depreciation rates that would be recommended for distribution plant if net salvage is recognized using the average net salvage allowance. Include all assumptions, workpapers, and calculations used to determine the depreciation rates.

(3) Kenergy has proposed an expense adjustment of \$731,398 that recognizes the application of its proposed depreciation rates to its test-year-end balance of plant in service. Calculate a similar adjustment using the depreciation rates determined in subpart (2) and the net salvage allowance determined in subpart (1). Include all assumptions, workpapers, and calculations used to determine the adjustment.

34. Refer to Case No. 2006-00045, page 1 of Item 1 of Kenergy's response to the initial data requests contained in Appendix C to the Commission's Order dated February 24, 2006.<sup>2</sup>

a. In the response Kenergy states that it does not offer either time-based rates or a demand response tariff. Kenergy previously offered an off-peak rider for industrial accounts and a pilot electric thermal storage tariff for residential customers, but the rates were subsequently terminated due to a lack of interest from its member-customers. Provide a narrative explanation that further describes the extent of customer participation including the actual or estimated number of customers that

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<sup>2</sup> Administrative Case No. 2006-00045, Consideration of the Requirements of the Federal Energy Policy Act of 2005 Regarding Time-Based Metering, Demand Response, and Interconnection Service.

participated in those tariffs. The explanation should also include the extent of Kenergy's prior efforts to make its customers aware of those tariffs.

b. Explain whether Kenergy has considered offering time-based metering or demand response programs since the enactment of the Energy Policy Act of 2005.

35. Refer to the Application, Exhibit 3(a), pages 5 and 6. Explain whether the weighted average costs for poles and anchors are gross costs, or if the values are net of depreciation.

36. Refer to the Application, Exhibit 3(a), page 7.

a. Kenergy calculates a return on investment ("ROI") of 5.34 percent. Explain why Kenergy calculates the ROI rather than using the ROI allowed in its last rate case as prescribed by Administrative Case No. 251.<sup>3</sup>

b. Does Kenergy agree that the 5.34 percent ROI it proposes is subject to change, depending upon possible disallowances of revenues and expenses in this case?

37. Refer to the Direct Testimony of Jack D. Gaines ("Gaines Testimony"), page 3. Mr. Gaines states that a significant re-classification of customers from the residential rate to the non-residential rate was effective June 14, 2005.

a. Explain whether all re-classified customers were moved from Schedule 1 - Residential to Schedule 4 - All Non-Residential Single Phase and Farm Service, or were customers in other rate schedules also affected.

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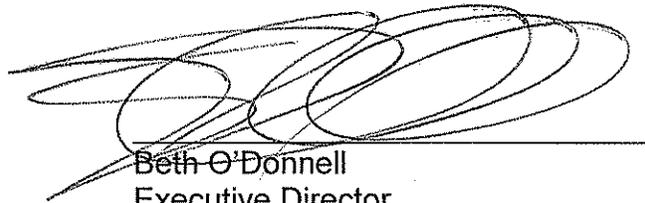
<sup>3</sup> Administrative Case No. 251, The Adoption of a Standard Methodology for Establishing Rates for CATV Pole Attachments.

b. Explain the reason for the customer re-classification.

38. Refer to the Gaines Testimony, page 10. Mr. Gaines refers to one "grandfathered" customer served on a transitional rate of Schedule 3 that was approved in Case No. 2004-00446<sup>4</sup> with the understanding that the transitional rate would be fully phased into Schedule 3 in this rate case. Cite the document in the record of Case No. 2004-00446 that is the source of the understanding to which Mr. Gaines refers. Include reference to the exact location within the document of the source of the understanding.

39. Refer to the Application, Exhibit 10, pages 1 through 14. Provide the electronic versions of the spreadsheets included in Exhibit 10 on CD-ROM or diskette.

40. Refer to the Application, Exhibit 16 – Cost of Service Study, page 5. The cost of service produces a consumer related cost of \$18.83 per month for Schedule 1 and Schedule 4. However, Kenergy proposes a facilities charge of \$12.00 for Schedule 1 and a facilities charge of \$15.61 for Schedule 4. Explain why Kenergy is not seeking a common facilities charge for Schedules 1 and 4.



Beth O'Donnell  
Executive Director  
Public Service Commission  
P. O. Box 615  
Frankfort, Kentucky 40602

DATED October 12, 2006

cc: All Parties

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<sup>4</sup> Case No. 2004-00446, The Application of Kenergy Corp. for a Reduction in Revenue and Adjustment in Existing Rates.