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January 7, 2009

FEDEX

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

RECEIVED

JAN 08 2009

PUBLIC SERVICE
COMMISSION

Re: Case No. 2008-00323

Dear Mr. Derouen:

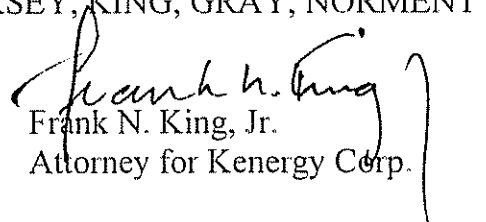
Enclosed for filing in the record of this case please find the original and six (6) copies of Joint Settlement Stipulation and Recommendation and Supplemental Testimony of Sanford Novick. As discussed at the informal conference Kenergy is requesting that the hearing scheduled for January 21, 2009, begin at 1:00 o'clock P.M., EST. This will enable the Kenergy contingent to drive roundtrip to Frankfort on the day of the hearing and should not inconvenience the Commission because in light of the settlement that has been reached, the hearing should be relatively short.

Your assistance in this matter is appreciated.

Very truly yours,

DORSEY, KING, GRAY, NORMENT & HOPGOOD

By


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

FNKJr/cds

Encls.

COPY/w/Encls.:

Hon. Lawrence W. Cook, Assistant Attorney General of Kentucky
Hon. Michael J. Kurtz, counsel for Industrial Utility Customers, Inc.
Hon. Quang Nguyen, PSC Staff Counsel
Hon. Richard Raff, PSC Staff Counsel
Kenergy Corp.

RECEIVED

JAN 08 2009

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:)
) CASE NO. 2008-00323
THE APPLICATION OF KENERGY CORP.)
FOR AN ADJUSTMENT IN EXISTING RATES)

JOINT SETTLEMENT STIPULATION AND RECOMMENDATION

It is the intent and purpose of the parties to this proceeding, being the applicant, Kenergy Corp. (“Kenergy”) and the intervenors, Attorney General of the Commonwealth of Kentucky (“Attorney General”) and Kentucky Industrial Utility Customers, Inc. (“KIUC”) to express their agreement on a mutually satisfactory resolution of all of the issues in the instant proceeding which shall hereafter be referred to as the “Stipulation” and/or the “Recommendation.”

It is understood by all parties hereto that this Recommendation is not binding upon the Kentucky Public Service Commission (“Commission”), nor does it represent agreement on any specific theory supporting the appropriateness of any recommended adjustment to Kenergy’s rates. Kenergy and the Attorney General have expended considerable efforts to reach the stipulation and agreements that form the basis for this Recommendation. The parties, representing diverse interests and divergent viewpoints, agree that this Recommendation, viewed in its entirety, constitutes a reasonable resolution of all issues in this proceeding.

In addition, the adoption of this Recommendation will eliminate the need for the Commission and the parties to expend considerable resources in litigation

of this proceeding, and will eliminate the possibility of, and any need for, rehearing or appeals of the Commission's final order herein. Based upon the parties' participation in a settlement conference and the materials on file with the Commission, and upon the belief that these materials adequately support this Stipulation and Recommendation, the parties hereby stipulate and recommend the following:

1(a). Kenergy filed an application for a rate adjustment seeking a total increase in revenue in the amount of \$3,232,258.00. The parties agree that Kenergy should be permitted to adjust its rates to permit a total increase in revenue of only \$3,022,969.00, being \$209,289.00 less than sought in the application. The adjustments necessary for this reduction in revenue will be made only in Kenergy's tariff Schedule 1 (Residential—Single Phase and Three phase) by reducing the proposed Customer Charge to \$10.50 per month and increasing the proposed Energy Charge per KWH to \$0.062327. Attached as "Exhibit A" is revised tariff Schedule 1 showing these adjustments and for comparison attached as "Exhibit B" is Schedule 1 proposed in the filing.

(b) Rates for commercial and industrial customers shall not be affected and shall remain as proposed in the application.

2. Kenergy's proposed tariff revisions as reflected in Schedule 1 attached as "Exhibit A" and as reflected in all other proposed tariffs in Kenergy's application should be adopted and should become effective as of February 1, 2009, or as soon thereafter as ordered by the Commission.

3. It is the purpose and intent of the parties hereto that the revision in rates for Kenergy result in a 2.0 TIER (times interest earned ratio), and the revision in rates as proposed by this Recommendation and Stipulation will result in such a TIER rating.

4. Kenergy's Board of Directors has approved the stipulated and amended rate reduction amount of \$209,289.00.

5. Each party hereto waives all cross-examination of witnesses of the other parties hereto unless the Commission disapproves this Recommendation, and each party further stipulates and recommends that the Notice of Intent, Application, testimony, pleadings, and responses to data requests filed in this proceeding be admitted into the record.

6. This Recommendation is submitted for purposes of this case only and is not deemed binding upon the parties hereto in any other proceeding, nor is it to be offered or relied upon in any other proceeding involving Kenergy or any other utility.

7. If the Commission issues an order adopting this Recommendation in its entirety, each of the parties hereto agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin County Circuit Court with respect to such order.

8. If this Recommendation is not adopted in its entirety, each party reserves the right to withdraw from it and require that hearings go forward upon any and all matters involved herein, and that in such event the terms of this Recommendation shall not be deemed binding upon the parties hereto, nor shall

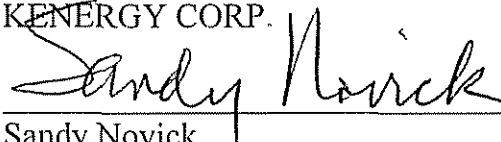
such Recommendation be admitted into evidence, or referred to, or relied upon in any manner by any party hereto, the Commission or its Staff in any such hearing.

9. Attached as "Exhibit C" is proof of revenue analysis showing that the proposed rate adjustments will generate the proposed revenue reduction to which the parties have agreed in paragraph (1) of this Stipulation.

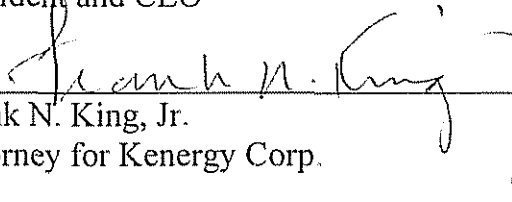
10. The parties hereto agree that the foregoing Recommendation is reasonable and is in the best interests of all concerned, and urge the Commission to adopt this Recommendation in its entirety.

This 7th day of January, 2009.

KENERGY CORP.

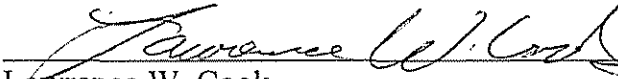


Sandy Novick
President and CEO



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

KENTUCKY ATTORNEY GENERAL



Lawrence W. Cook
Assistant Attorney General

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

(signature on next page)
Michael L. Kurtz, Attorney

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10. The parties hereto agree that the foregoing Recommendation is reasonable and is in the best interests of all concerned, and urge the Commission to adopt this Recommendation in its entirety.

This 7 day of January, 2009.

KENERGY CORP.

Sandy Novick
President and CEO

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

KENTUCKY ATTORNEY GENERAL

Lawrence W. Cook
Assistant Attorney General

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.


Michael L. Kurtz, Attorney



Henderson, Kentucky

FOR ALL TERRITORY SERVED

Community, Town or City

PSC NO 2

Original SHEET NO 1

CANCELLING PSC NO 1

SHEET NO _____

CLASSIFICATION OF SERVICE
Schedule 1 – Residential (Single Phase & Three-Phase)

APPLICABLE

In all territory served.

AVAILABILITY OF SERVICE

Available for single and three-phase single family residential service. Residential electric service is available for uses customarily associated with residential occupation, including lighting, cooking, heating, cooling, refrigeration, household appliances and other domestic purposes.

Residential rates are based on service to single family units and are not applicable to multi-family dwellings served through a single meter. Where two or more families occupy a residential building, Kenergy may require, as a condition precedent to the application of the residential rate, the wiring in the building be so arranged as to permit each family to be served through a separate meter. In those cases where such segregation of wiring would involve undue expense to the Member, at the Member's option in lieu of the foregoing, electric service rendered to a multi-family residential building through a single meter will be classified as commercial and billed on the basis of service to a Member at an appropriate non-residential rate.

If a separate meter is used to measure the consumption to remotely located buildings, such as garages, barns, pump houses, grain bins or other outbuildings, or facilities, such as electric fences, it will be considered a separate service and be billed as a separate service at the applicable non-residential rate.

RATE

T I Customer Charge per delivery point..... \$10.50 per month

Plus:

I Energy Charge per KWH..... \$0.062327

ADJUSTMENT CLAUSES:

The bill amount computed at the charges specified above shall be increased or decreased in accordance with the following:

Renewable Resource Energy Service Rider Sheets No. 23 – 23D

TAXES AND FEES

School Taxes added if applicable.

T Kentucky Sales Taxes added if applicable.

DATE OF ISSUE September 3, 2008

Month / Date / Year

DATE EFFECTIVE _____

Month / Date / Year

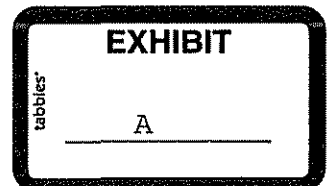
ISSUED BY _____

(Signature of Officer)

TITLE President and CEO

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO 2008-00323 DATED _____





Henderson, Kentucky

FOR ALL TERRITORY SERVED
Community, Town or City
PSC NO. 2
Original SHEET NO 1
CANCELLING PSC NO. 1
SHEET NO

CLASSIFICATION OF SERVICE
Schedule 1 - Residential (Single Phase & Three-Phase)

APPLICABLE

In all territory served

AVAILABILITY OF SERVICE

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If a separate meter is used to measure the consumption to remotely located buildings, such as garages, barns, pump houses, grain bins or other outbuildings, or facilities, such as electric fences, it will be considered a separate service and be billed as a separate service at the applicable non-residential rate.

RATE

Customer Charge per delivery point \$12.00 per month

Plus:

Energy Charge per KWH \$0.061540

ADJUSTMENT CLAUSES:

The bill amount computed at the charges specified above shall be increased or decreased in accordance with the following:

Renewable Resource Energy Service Rider Sheets No. 23 - 23D

TAXES AND FEES

School Taxes added if applicable
Kentucky Sales Taxes added if applicable

DATE OF ISSUE September 3, 2008
Month / Date / Year

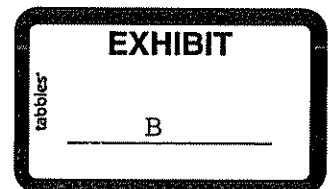
DATE EFFECTIVE October 3, 2008
Month / Date / Year

ISSUED BY (Signature of Officer)

TITLE President and CEO

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO 2008-00323 DATED



KENERGY CORP
2008 RATE APPLICATION
RESIDENTIAL CONSUMPTION ANALYSIS

Line No.	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
		TEST YEAR DATA					Adjustment to year-end level of customers		Normalized	Settlement Rates	Settlement Revenue (\$)
			(1)	Present							(8)
1	Customer charge:		\$7.91	\$9.91				\$9.91			
2	Number of bills per consumption analysis	535,036	146,063	388,973							
3	adjustment to number booked	(274)	(75)	(199)			(2)	(5)			
4	Number of bills per books with customer charge	534,762	145,988	388,774	\$5,007,515		2,640	537,402	\$5,325,654	\$10.50	\$ 5,642,721
5	plus yard light only bills(no customer charge)	2,339									
6	Total bills issued per books	<u>537,101</u>									
7											
8	Energy Charge:		at	at (1)				at			
9			\$0.056769	\$ 0.059956				\$ 0.059956			
10	Kwh sales per consumption analysis	756,042,756	229,756,283	526,286,473	\$44,597,066	\$0.058987					
11	Adjustment to KWH booked	-1,473,662	at	\$ 0.058987	(\$86,928)		(3)	(6)			
12	KWH booked	<u>754,569,094</u>					3,725,040	758,294,134	45,464,283	\$ 0.062327	\$ 47,262,198
13											
14								at (7)			
15								0.000000			
16	Wholesale discount adjustment	<u>754,569,094</u>		(\$0.001169)	(\$881,929)			758,294,134	\$	0.000000	\$
17					\$48,635,725				\$50,789,937		\$ 52,904,919
18	Adjustment for revenue difference				(\$8,128)				(\$8,128)	-0.0160%	\$ (8,166)
19	Revenue per books				<u>\$48,627,597</u>				<u>\$50,781,809</u>		<u>\$ 52,896,453</u>
20											
21										As Filed reduction	\$ 53,105,746
										Agreed to settlement reduction	\$ (209,292)
										rounding difference	\$ (209,289)
											\$ (3)

(1) Rate change effective March 1, 2007

(2) Customers billed December 2007 44,964 (4)
 13 month average 44,744 (4)
 Increase 220 (4)
 Times 12 months 12 (4)
 2,640 (4)

(3) KWH Booked 754,569,094
 Number Bills 534,762
 Average KWH 1,411
 Times 2,640 3,725,040

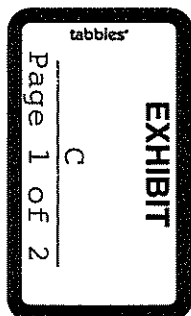
(4) See Exhibit 9, Page 11

(5) (Line 4, Col. b) 534,762 + (Line 32, Col. b) 2,640

(6) (Line 12, Col. b) 754,569,094 + (Line 37, Col. f) 3,725,040

(7) Test year wholesale discount adjustment 1,403,244.11 (See Item 20, Page 2 of 5, Information Request No. 1) divided by KWH billed 1,170,730.495 (See Exhibit 9, Page 1, Line 32, Col. c)

(8) Col. h times Col. i



KENERGY CORP.
Case No. 2008-00323

	<u>KWH</u>	<u>Normalized Present Revenue</u>	<u>Proposed Revenue</u>	<u>Settlement</u>
1 Residential KWH and Revenues from Summary of Revenue	758,294,134	\$50,781,809	\$53,105,745	\$52,896,456
2				
3 Number of Customers	44,978	44,978	44,978	44,978
4				
5 Test Year Averages per Month	1,404	\$ 94.08	\$ 98.39	\$ 98.00
6				
7 Present, Proposed & Settlement Rates				
8				
9 Facilities Charge		\$ 9.91	\$ 12.00	\$ 10.50
10 Energy Charge		\$ 0.059956	\$ 0.061540	\$ 0.062327
11				
12 Rate Calculations @ Average Consumption	1,404			
13				
14 Facilities Charge		\$ 9.91	\$ 12.00	\$ 10.50
15 Energy Charge		\$ 84.17	\$ 86.40	\$ 87.50
16				
17 Total		<u>\$ 94.08</u>	<u>\$ 98.40</u>	<u>\$ 98.00</u>

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

1
2
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7 **In the Matter of:**)
8) **CASE NO. 2008-00323**
9 **THE APPLICATION OF KENERGY CORP.**)
10 **FOR AN ADJUSTMENT IN EXISTING RATES**)

11
12
13 **SUPPLEMENTAL TESTIMONY OF SANFORD NOVICK**
14

15 Q1. Please state your name and title.

16
17 A. My name is Sanford Novick and I am President and CEO of Kenergy Corp.
18

19 Q2. Have you previously provided testimony in this proceeding?
20

21 A. Yes. My direct testimony is filed as Exhibit 6 to the Application.
22

23 Q3. What is the purpose of this supplemental testimony?
24

25 A. To present evidence regarding a settlement that has been reached between
26 Kenergy and intervenors AG and KIUC.
27

28 Q4. How were settlement talks initiated?
29

30 A. Kenergy was contacted by the AG and requested to meet in Frankfort. The
31 meeting was held at the AG's office on December 10, 2008.
32

33 Q5. What was the AG's settlement offer?
34

35 A. The AG proposed that Kenergy reduce by \$209,289.00 its request for an
36 annual revenue increase and that the residential customer charge in
37 Schedule I be lowered from \$12.00 monthly that Kenergy was requesting
38 to \$10.50 monthly. Lowering the monthly customer charge to \$10.50
39 resulted in a revenue reduction of approximately \$806,000.00 annually and
40 the decision was made to increase the Schedule 1 energy charge to achieve
41 the \$209,289.00 net annual revenue reduction.
42

- 1 Q6. What increase needed to be made to the Schedule 1 energy charge to
2 accomplish a net annual reduction of \$209,289.00?
3
- 4 A. The energy charge needed to be increased from the originally proposed
5 \$0.061540 per KWH to \$0.062327 per KWH.
6
- 7 Q.7 Did the AG explain how it arrived at the proposed annual reduction amount
8 set forth in its offer?
9
- 10 A. Not exactly. Kenergy was informed that the AG's expert Robert Henkes
11 had reviewed Kenergy's filing and was of the opinion that Kenergy had
12 listed some expenses that should not be included for rate making purposes,
13 and that this reduction would result in a fair resolution of the matter.
14 Kenergy was not given the details of how the expert arrived at this specific
15 amount.
16
- 17 Q8. How does this affect Kenergy's TIER?
18
- 19 A. Kenergy's TIER remains at 2.0 which is the level requested in the
20 Application.
21
- 22 Q9. Does the settlement include any other terms?
23
- 24 A. Yes. It is important to Kenergy to get the new rates in effect as soon as
25 reasonably possible. Presently Kenergy's proposed rates have been
26 suspended for five (5) months which means new rates would not be
27 effective until March 1, 2009. The AG agreed to cooperate with Kenergy
28 in attempting to get the new rates in effect February 1, 2009.
29
- 30 Q10. Why is it important to Kenergy to accelerate the effective date of the new
31 rates in this manner?
32
- 33 A. Kenergy's test year for adjustments in its rates is 2007. However, in 2008
34 Kenergy has incurred unanticipated expenses due in part to extreme
35 weather conditions. Kenergy is going to barely meet its operating TIER for
36 2008 and its equity/total capital ratio is now at the minimum 30% level per
37 the board of directors' approved capital management policy. The additional
38 revenue generated by moving the effective date forward one month will
39 strengthen Kenergy's TIER level and will help build equity back to the
40 desired 35% level.
41
- 42 Q11. What is KIUC's position in this settlement?
43

1 A. KIUC acquiesces in this settlement. Counsel for KIUC has requested that
2 an affirmative statement be included in the settlement stipulation that the
3 rates of commercial and industrial customers are not affected by the
4 settlement, and this is being done.
5

6 Q12. Has the AG's settlement offer been accepted by Kenergy?
7

8 A. Yes, Kenergy's management favored the settlement and recommended
9 acceptance to the board of directors. At a special meeting held
10 telephonically on December 15, 2008, the board of directors unanimously
11 voted to accept the offer.
12

13 Q13. Under the terms of the settlement are you still of the opinion that Kenergy's
14 rates will be fair, just and reasonable and that they will be
15 nondiscriminatory?
16

17 A. Yes, I am still of that opinion.
18

19 Q14. Does this conclude your supplemental testimony at this time?
20

21 A. Yes.