

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

October 14, 2008

TELEPHONE  
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www.dkgnlaw.com

FEDEX

RECEIVED

OCT 15 2008

PUBLIC SERVICE  
COMMISSION

Ms. Stephanie Stumbo  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40601

Re: Case No. 2008-00323

Dear Ms. Stumbo:

This letter is to inform the Commission that today the following are being sent under separate cover by overnight delivery to the Commission for filing:

- The original and 10 copies of Response of Kenergy Corp. to Attorney General's Initial Requests for Information
- The original and 10 copies of Response of Kenergy Corp. to Second Data Request of Commission Staff

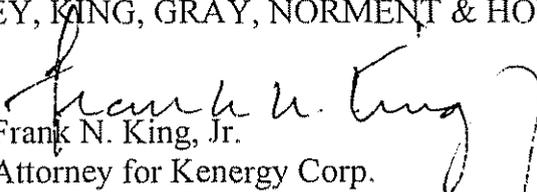
The undersigned hereby certifies that the foregoing has been served upon Attorney General of Kentucky Office of Rate Intervention, 1024 Capitol Center Drive, Frankfort, KY 40601, and Kentucky Industrial Utility Customers, Michael J. Kurtz, Attorney, Boehm, Kurtz & Lowry, 36 East Seventh Street, Suite 1510, Cincinnati, Ohio 45202, by mailing a true and correct copy of same on this October 14, 2008.

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

COPY: Attorney General of Kentucky, Office of Rate Intervention  
Hon. Michael J. Kurtz, Attorney for Kentucky Industrial Utility  
Customers  
Kenergy Corp.

RECEIVED

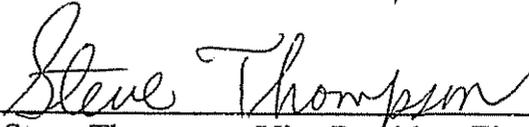
OCT 15 2008

PUBLIC SERVICE  
COMMISSION

CASE NO. 2008-00323

VERIFICATION

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

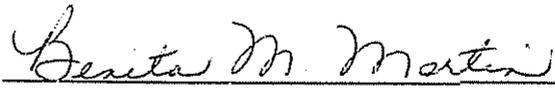
  
\_\_\_\_\_  
Steve Thompson, Vice President Finance

STATE OF KENTUCKY

COUNTY OF: Daviess

The foregoing was signed, acknowledged and sworn to before me by Steve Thompson this 13<sup>th</sup> day of October, 2008.

My commission expires October 14, 2008

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

(seal)

CASE NO. 2008-00323

VERIFICATION

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

Jack D. Gaines  
Jack D. Gaines

STATE OF GEORGIA

COUNTY OF DEKALB

The foregoing was signed, acknowledged and sworn to before me by JACK D. GAINES this 14 day of October, 2008.

My commission expires 6/29/2010

Charles Wooton  
Notary Public,

**CHARLES WOOTON**  
**(SECRETARY PUBLIC**  
DeKalb County  
State of Georgia  
My Comm. Expires June 29, 2010

CASE NO. 2008-00323

VERIFICATION

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

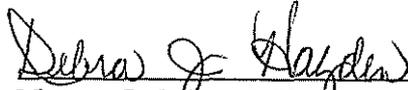
  
\_\_\_\_\_  
Sanford Novick, President & CEO

STATE OF KENTUCKY

COUNTY OF: Daviess

The foregoing was signed, acknowledged and sworn to before me by Sanford Novick this 13<sup>th</sup> day of October, 2008.

My commission expires 5-24-11

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

(seal)

CASE NO. 2008-00323

VERIFICATION

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

  
Lisa Owen, Communications Manager

STATE OF KENTUCKY

COUNTY OF: Daviess

The foregoing was signed, acknowledged and sworn to before me by Lisa Owen this 13 day of October, 2008.

My commission expires 3/20/2012

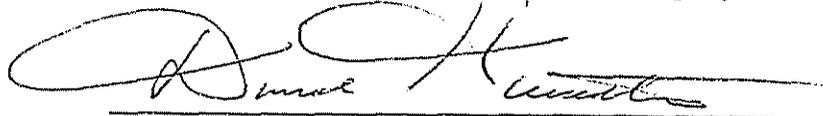
  
Notary Public, KY State at Large

(seal)

CASE NO. 2008-00323

VERIFICATION

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



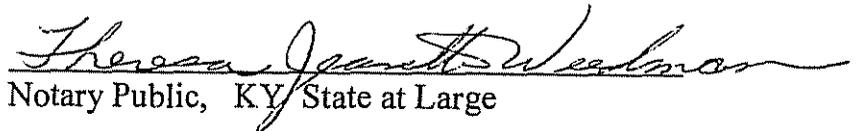
David Hamilton, Director Member Services

STATE OF KENTUCKY

COUNTY OF: Daviess

The foregoing was signed, acknowledged and sworn to before me by David Hamilton this 13 day of October, 2008.

My commission expires 3-20-2012



Notary Public, KY State at Large

(seal)

CASE NO. 2008-00323

VERIFICATION

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

*Keith Ellis*

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

STATE OF KENTUCKY

COUNTY OF: Henderson

The foregoing was signed, acknowledged and sworn to before me by Keith Ellis, this 14<sup>th</sup> day of October, 2008.

My commission expires March 11, 2012

*Dorothy Spawtwood*  
\_\_\_\_\_  
Notary Public, KY. State at Large

(seal)



**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
FIRST DATA REQUEST FOR INFORMATION**

**CASE NO. 2008-00323**

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**Item 1)** Regarding Mr. Novick's testimony, Exhibit 6, page 2, lines 27 – 31: Please provide a schedule showing how the margin level requested in the instant proceeding is \$2,202,863 higher than the amount requested in Case No. 2006-00369.

<b>Response)</b>	Margins requested Case No. 2006-00369	\$3,841,456
	(see Exhibit 5, page 1, line 40, column f from Case No. 2006-00369)	(using 1.75 TIER)
	Margins requested Case No. 2008-00323	\$6,044,319
	(see Exhibit 5, page 1, line 39, column f)	<u>(using 2.00 TIER)</u>
	Increase	<u>\$2,202,863</u>

**Witness)** Steve Thompson



**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
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**Item 2)** Please provide and describe any filing items, adjustments, or calculation methods reflected in the current case that are different from what was allowed by the PSC in Case No. 2006-00369.

**Response)** Kenergy utilized a 1.75 times interest earned ratio in Case No. 2006-00369 to determine the requested revenue increase. A 2.00 times interest earned ratio was utilized in Case No. 2008-00323. In Case No. 2006-00369, Kenergy did not propose a revenue increase for the non-dedicated three-phase classes and unmetered lighting (see Exhibit 4, page 2), while in Case No. 2008-00323, increases of 3.48%, 3.41% and 3.49% have been requested. (See Exhibit 4, page 4.)

**Witness)** Steve Thompson



**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
FIRST DATA REQUEST FOR INFORMATION**

**CASE NO. 2008-00323**

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**Item 3)** In the response to PSC 1-2, Kenergy presented the rate base components, total net rate base and the returns on net rate base for the 2007 test year and the years 2002-2006. In this regard, please provide the following information:

a) Provide a schedule showing how each of the test year rate base components has changed as a result of the proforma adjustments on Exhibit 5, page 1, columns (c) and (f).

b) In the same format and detail as per the response to PSC 1-2, provide the proforma base components, total net rate base and return on net rate base reflecting the proforma results per Exhibit 5, page 1, columns (c) and (f).

**Response a & b)** Item 3, page 2 of 2 contains the above referenced information. The materials and prepayments amount for 2007 have been revised. See Item 6, page 3 of 5.

**Witness)** Steve Thompson

**Kenergy Corp.**  
**Case No. 2008-00323**  
**AG Information Request No. 1**  
**Item 3**

Line No.	(a)	(b)		
		Proforma	Adjustments	Test Year <u>2007 REVISED</u>
1	Utility Plant in Service	\$ 223,689,606	\$ -	\$223,689,606
2	CWIP	\$ 1,097,194	\$ -	\$1,097,194
3	Total Utility Plant	<u>\$ 224,786,800</u>	<u>\$ -</u>	<u>\$224,786,800</u>
4	<b>ADD:</b>			
5	Materials and Supplies (13 month average)	\$ 1,084,025	\$ -	\$1,084,025
6	Prepayments (13 month average)	\$ 541,752	\$ 4,443	\$537,309
7	Working Capital (1/8 of O&M)	\$ 2,410,672	\$ 152,705	\$2,257,967
8	Subtotal	<u>\$ 4,036,449</u>	<u>\$ 157,148</u>	<u>\$3,879,301</u>
9	<b>DEDUCT:</b>			
10	Accumulated Depreciation	\$ 53,491,902	\$ 172,361	\$53,319,541
11	Customer Advances for Construction	\$ 741,250	\$ -	\$741,250
12	Subtotal	<u>\$ 54,233,152</u>	<u>\$ 172,361</u>	<u>\$54,060,791</u>
13				
14	Net Investment Rate Base	<u>\$174,590,097</u>	<u>-\$15,213</u>	<u>\$174,605,310</u>
15				
16	Margins	\$ 6,044,319	\$ 2,637,370	\$3,406,949
17	Interest Expense	\$ 6,043,729	\$ 267,576	\$5,776,153
18	Subtotal	<u>\$12,088,048</u>	<u>\$2,904,946</u>	<u>\$9,183,102</u>
19				
20	Rate of Return on Net Investment Rate Base	<u>6.92%</u>		<u>5.26%</u>
21	(Line 18 divided by line 14)			
22				



**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
FIRST DATA REQUEST FOR INFORMATION**

**CASE NO. 2008-00323**

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**Item 4)** What portion of the test year equity balance of \$55,307,516 consists of G&T patronage capital? If none, explain why.

**Response)** None. Please refer to Exhibit 11, pages 7 and 8 of the audit report, which contains the footnote on the investment in Big Rivers Electric Corporation.

**Witness)** Steve Thompson



**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
FIRST DATA REQUEST FOR INFORMATION**

**CASE NO. 2008-00323**

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**Item 5)** With regard to capitalization and the return on capitalization, please provide the following information:

a) Provide a schedule showing how each of the test year capitalization components has changed as a result of the proforma adjustments Exhibit 5, page 1, columns (c) and (f).

b) Provide a schedule showing the return on capitalization for the proforma adjusted test year (incorporating the proforma changes to be provided in response to part (a) above, the test year, and the years 2002-2006. The returns should be calculated by dividing the sum of the margins and LT debt into the sum of the LT debt and equity (excluding G&T patronage capital) balances.

**Response) a)** The test year capitalization components have not changed as a result of the adjustments in columns (c) and (f) of Exhibit 5. Kenergy's interest on long-term debt is based on debt balances as of the end of the test year. And, Kenergy has not accrued any of the additional margins from the proposed rates. Nevertheless, the attached worksheet shows the effect of increasing margins and equities by the amount of the margin adjustments shown in columns (c) and (f). However, Kenergy believes that the result in column (i) does not properly reflect a proforma capital structure because, among other things, it does not reflect patronage retirements occurring after the test year or advances of additional long term debt. Zero G&T patronage capital is included on Kenergy's balance sheet.

**b)** See the attached schedule. However, Kenergy believes that the result in column (i) does not properly reflect a proforma capital structure because, among other things, it

**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
FIRST DATA REQUEST FOR INFORMATION**

**CASE NO. 2008-00323**

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2 does not reflect patronage retirements occurring after the test year or advances of additional long  
3 term debt. Zero G&T patronage capital is included on Kenergy's balance sheet.

4  
5 **Witness)** Steve Thompson

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Kenergy Corp.  
Attorney General request No. 1  
#5a and b - Capital Structure

	<u>Item</u> a	<u>2002</u> b	<u>2003</u> c	<u>2004</u> d	<u>2005</u> e	<u>2006</u> f	<u>Test Year</u> g	<u>Adjustments</u> h	<u>Pro Forma</u> i
Capital Structure:									
1	Margins and Equities *								
2	Long term Debt	\$ 55,203,000	\$ 55,001,000	\$ 55,444,000	\$ 54,918,000	\$ 52,548,483	\$ 55,307,516	\$ 2,637,370	\$ 57,944,886
3	Total Capital	\$ 98,898,000	\$ 106,350,000	\$ 107,903,000	\$ 113,756,000	\$ 117,705,836	\$ 129,556,979	\$ -	\$ 129,556,979
4		\$ 154,101,000	\$ 161,351,000	\$ 163,347,000	\$ 168,674,000	\$ 170,254,319	\$ 184,864,495	\$ 2,637,370	\$ 187,501,865
5	*Includes a zero balance for G&T Capital Credits								
6									
7	Capitalization Ratio:								
8									
9	Margins and Equities	35.8%	34.1%	33.9%	32.6%	30.9%	29.9%		30.9%
10	Long term Debt	<u>64.2%</u>	<u>65.9%</u>	<u>66.1%</u>	<u>67.4%</u>	<u>69.1%</u>	<u>70.1%</u>		<u>69.1%</u>
11	Total Capital	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		100.0%
12									
13									
14	Operating Margins + Interest on LTD	\$ 6,925,490	\$ 5,209,902	\$ 3,931,825	\$ 4,632,547	\$ 2,611,374	\$ 7,927,021	\$ 2,637,370	\$ 10,564,391
15									
16	Operating Return on Capital	4.49%	3.23%	2.41%	2.75%	1.53%	4.29%		5.63%
17									
18	Total Margins + Interest on LTD	\$ 7,137,308	\$ 6,113,278	\$ 4,879,073	\$ 5,689,145	\$ 3,671,272	\$ 9,183,102	\$ 2,637,370	\$ 11,820,472
19									
20	Total Return on Capital	4.63%	3.79%	2.99%	3.37%	2.16%	4.97%		6.30%



**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
FIRST DATA REQUEST FOR INFORMATION**

**CASE NO. 2008-00323**

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**Item 6)** With regard to the 13-month average M&S and prepayment balances shown in the test year rate base in the response to PSC 1-2, please provide the following information:

a) Worksheet showing the calculations for the respective 13 month average balances of \$976,532 and \$520,442.

b) What makes up the prepayment balance in prepayment account 165.200 (e.g., 12/31/07 balance of \$164,544)?

c) Please provide the portion of the 13 month average prepayment balance of \$520,442 that represents the 13 month average test year PSC assessment prepayments.

**Response) a)** See Item 6, page 2 of 5. The original amounts have been revised to \$1,084,025 and \$537,309. A revised PSC 1-2 is included as Item 6, page 3 of 5.

b) See Item 6, page 4 of 5.

c) See Item 6, page 5 of 5.

**Witness)** Steve Thompson

**KENERGY CORP.**  
**CASE NO. 2008-00323**  
**ATTORNEY GENERAL INFORMATION REQUEST NO. 1**  
**ITEM 6**

		<u>Material &amp; Supplies</u>	<u>Prepayments</u>
1	12/31/06	1,397,405	219,276
2	01/31/07	1,265,121	559,755
3	02/28/07	1,172,325	477,364
4	03/31/07	1,104,100	775,279
5	04/30/07	1,028,082	691,611
6	05/31/07	989,274	604,946
7	06/30/07	978,538	818,771
8	07/31/07	1,021,729	699,712
9	08/31/07	997,068	609,525
10	09/30/07	1,004,936	505,110
11	10/31/07	966,281	429,510
12	11/30/07	1,037,983	342,426
13	12/31/07	1,129,485	251,733
14			
15	13 Mo. Avg.	1,084,025	537,309
16			
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**Kenergy Corp.**  
**Case No. 2008-00323**  
**PSC Information Request No. 1**  
**Item 2**

Line No.	(a)					REVISED
		(b) Test Year 2007	(c) 2006	(d) 2005	(e) 2004	(f) 2003
1	Utility Plant in Service	\$223,689,606	\$214,717,300	\$206,193,608	\$196,450,813	\$188,038,855
2	CWIP	\$1,097,194	\$3,010,053	\$2,909,571	\$3,137,700	\$3,785,599
3	Total Utility Plant	<u>\$224,786,800</u>	<u>\$217,727,353</u>	<u>\$209,103,179</u>	<u>\$199,588,513</u>	<u>\$191,824,454</u>
4	<b>ADD:</b>					
5	Materials and Supplies (13 month average)	\$1,084,025	\$1,395,194	\$1,665,501	\$1,772,634	\$1,707,226
6	Prepayments (13 month average)	\$537,309	\$528,902	\$621,239	\$621,924	\$716,908
7	Working Capital (1/8 of O&M)	\$2,257,967	\$2,387,795	\$2,309,477	\$2,134,679	\$1,876,215
8	Subtotal	<u>\$3,879,301</u>	<u>\$4,311,891</u>	<u>\$4,596,217</u>	<u>\$4,529,237</u>	<u>\$4,300,349</u>
9	<b>DEDUCT:</b>					
10	Accumulated Depreciation	\$53,319,541	\$48,193,715	\$45,328,490	\$41,311,548	\$38,423,491
11	Customer Advances for Construction	\$741,250	\$703,418	\$683,014	\$709,212	\$675,344
12	Subtotal	<u>\$54,060,791</u>	<u>\$48,897,133</u>	<u>\$46,011,504</u>	<u>\$42,020,759</u>	<u>\$39,098,835</u>
13						
14	Net Investment Rate Base	<u>\$174,605,310</u>	<u>\$173,142,111</u>	<u>\$167,687,892</u>	<u>\$162,096,991</u>	<u>\$157,025,968</u>
15						
16	Margins	\$3,406,949	-\$1,594,436	\$1,490,508	\$1,760,095	\$2,748,713
17	Interest Expense	\$5,776,153	\$5,265,708	\$4,198,637	\$3,118,978	\$3,364,565
18	Subtotal	<u>\$9,183,102</u>	<u>\$3,671,272</u>	<u>\$5,689,145</u>	<u>\$4,879,073</u>	<u>\$6,113,278</u>
19						
20	Rate of Return on Net Investment Rate Base	<u>5.26%</u>	<u>2.12%</u>	<u>3.39%</u>	<u>3.01%</u>	<u>3.89%</u>
21	(Line 18 divided by line 14)					
22						
23	Footnote: Year-end amounts for 2002-2004 have been adjusted to reflect retrospective application of a change in accounting principle.					

PREPAID-OTHER 165.200  
12/31/07

POSTAGE MACHINE	\$ 3,878.66
PRE-SORT BULK MAIL POSTAGE	\$ 134.78
UPS	\$ 53.94
NRECA DUES (1 MONTH)	\$ 4,799.49
PSC ASSESSMENT ( 6 MONTHS)	\$ 150,219.68
RCCU-PREPAID AIRLINE TICKET	\$ 289.20
CHAMBER OF COMMERCE DUES	\$ 750.00
MILSOFT UTILITY SOLUTIONS-SOFTWARE SUPPORT	\$ 3,549.52
INOVA-EAP 1ST QTR 08	\$ 868.59
	<u>\$ 164,543.86</u>

**KENERGY CORP.**  
**CASE NO. 2008-00323**  
**ATTORNEY GENERAL INFORMATION REQUEST NO. 1**  
**ITEM 6**

		<u>PSC Assessment</u>	<u>Prepayments</u>
1	12/31/06	130,842	219,276
2	01/31/07	109,035	559,755
3	02/28/07	87,228	477,364
4	03/31/07	65,421	775,279
5	04/30/07	43,614	691,611
6	05/31/07	21,806	604,946
7	06/30/07	300,439	818,771
8	07/31/07	275,403	699,712
9	08/31/07	250,366	609,525
10	09/30/07	225,330	505,110
11	10/31/07	200,293	429,510
12	11/30/07	175,256	342,426
13	12/31/07	150,220	251,733
14			
15	13 Mo. Avg.	156,558	537,309
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**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
FIRST DATA REQUEST FOR INFORMATION**

**CASE NO. 2008-00323**

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**Item 7)** Taking into account the adjustment to remove \$44,876 customer deposit interest from the test year, what dollar amount of remaining customer deposit interest is still included in the interest expense amount of \$123,257 on line 28 of Exhibit 5, page 1?

**Response)** \$102,766.24

**Witness)** Steve Thompson



**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
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**CASE NO. 2008-00323**

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**Item 8)** Given that Kenergy has not used its total Consumer Deposit balance from its rate base, explain why Kenergy believes it appropriate to include Consumer Deposit interest expense in its determination of the requested rate increase in this case. Stated differently, if Consumer Deposits are not to be considered for ratemaking purposes in this case, explain why the interest expenses associated with Consumer Deposits have been considered for ratemaking purposes by Kenergy.

**Response)** Kenergy is not 100% clear what is meant by the Attorney General's question, but will offer the following response. Kenergy has included ongoing interest expense on customer deposits in proforma interest expense on Exhibit 5, page 1, line 28, column f, consistent with prior cases and our understanding of the PSC's rate-making policy relating to distribution cooperatives.

**Witness)** Steve Thompson



**KENERGY CORP.**  
**RESPONSE TO ATTORNEY GENERAL'S**  
**FIRST DATA REQUEST FOR INFORMATION**

**CASE NO. 2008-00323**

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**Item 9)** Is Kenergy aware of the well-established and long-standing Commission ratemaking policy that consumer deposits may not be deducted from rate base and, consistent with that policy, that consumer deposit interest may not be included as an above-the-line ratemaking expense (see page 9 of the Commission's Order in Delta Natural Gas Company's 1999 rate case, Case No. 1999-176)?

**Response)** Kenergy's understanding of Commission rate-making policy applicable to distribution electric cooperatives is that customer deposit interest is included as an above-the-line rate-making expense. See Kenergy's last two cases, No. 2003-00165 and 2006-00369. These cases utilized the times interest earned ratio approach to determine revenue requirements vs. the rate of return on rate base concept utilized for investor-owned utilities.

**Witness)** Steve Thompson



**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
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1

2 **Item 10)** With regard to Non-Recurring revenue charges, please provide the following  
3 information:

4 a) Please describe any changes Kenergy proposes for its Non-Recurring revenue  
5 charges and indicate on which filing exhibit this information is presented.

6 b) Has Kenergy in this case reflected any incremental annual revenues projected to  
7 be generated by the proposed changes in its Non-Recurring revenue charges? If so, please  
8 quantify these incremental revenues, show the calculations and indicate on which filing exhibit  
9 this information is presented.

10

1 **Response a & b)** Kenergy has not included any non-recurring revenue charges in the  
12 proforma revenues requested in this application.

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14 **Witness)** Steve Thompson

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**Item 11)** With regard to the Miscellaneous Revenues shown on Exhibit 9, page 10, please provide the following information:

a) In the same format, please provide the actual account 450, 451, 454 and 456 revenues for 2006, 2005 and 2004.

b) Reconcile the test year account 454 Cable Attachment fees of \$48,402 to the corresponding test year account 454 Cable Attachment fees of \$64,040 shown in the response to PSC 1-9, page 15 of 32.

c) Reason for the normalized reduction from \$520,728 to \$497,585 for the account 454 Telephone Attachment fees.

d) Reason for the removal of the \$5,523 rental revenue from personal property.

**Response)** a) See Item 11, page 2 of 2, for the above referenced information.

b) The difference of \$13,859 represents joint use revenue from telephone companies that are negotiated under special contracts.

c) The 2007 actual amount includes a \$47,148 one-time non-recurring adjustment for 2006 revenues not known until 2007.

d) The arrangement for leasing a portion of the Hanson office to a customer has been discontinued.

**Witness)** Steve Thompson

KENERGY CORP.  
CASE NO. 2008-00323  
MISCELLANEOUS REVENUES

ACCOUNT NUMBER	2006	2005	2004
450.000	\$ 441,089.90	\$ 427,335.97	\$ 444,182.17
451.000	\$ 336,338.88	\$ 299,155.00	\$ 261,415.00
454.000	\$ 479,148.80	\$ 517,186.97	\$ 491,841.04
456.000	\$ 15,022.14	\$ 15,029.75	\$ 13,609.14
TOTAL	<u>\$ 1,271,599.72</u>	<u>\$ 1,258,707.69</u>	<u>\$ 1,211,047.35</u>



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**Item 12)** Does Kenergy have an Environmental Surcharge? If not, why not?

**Response)** No. Kenergy's wholesale power supplier, Big River's Electric Corporation, does not have an environmental surcharge.

**Witness)** Steve Thompson



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**Item 13)** Exhibit 5, page 1, line 11 shows that the test year includes purchased power expenses of \$44,783,615 for the Non-Direct Served customers. Please provide the purchased power revenues included in the total base rate revenues of \$74,715,456 on Exhibit 5,page 1, line 2 and reconcile these purchased power base revenues to the purchased power costs of \$44,783,615.

**Response)** Kenergy's base rates applicable to non-direct served customers are not unbundled into purchased power and non-purchased power components and accordingly, Kenergy does not account separately for purchased power base rate revenues. However, it can be assumed that the test year purchased power revenue in the non-direct served base rates is equal to the non-direct served base rate purchased power expense.

**Witness)** Jack Gaines



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**Item 14)** As shown on Exhibit 5, page 6, Kenergy is proposing to increase the test year per books KWH sales by 8,896,091 for its customer growth adjustment and, as a result of this, is proposing to increase its purchased power expenses by  $8,896,091 \times \$0.036237$ , or \$322,364. In this regard, please provide the following information:

a) Confirm the above facts. If you do not agree, explain your disagreement.

b) Confirm that Kenergy in this case is also proposing to decrease the test year per books KWH sales by 8,827,817 as a result of its proposed unbilled revenue adjustment.

c) Explain why no adjustment was made to reduce the test year purchased power expenses by  $8,827,817 \times \$0.036237$ , or \$319,894 as a result of the unbilled revenue adjustment, consistent with what Kenergy has proposed for its customer growth adjustment.

d) Reconcile the total KWH number of 1,235,848,654 shown in footnote (2) to the total KWH number of 1,179,558,312 shown on Exhibit 9, page 1, line 37.

**Response a)** The facts are incorrect. The proposed increase in test year KWH sales is 8,473,527 as shown on line 5. The 8,896,091 increase in KWH purchased is derived by adjusting the increase in KWH sales for losses of 4.75% as shown on lines 6 and 8. Hence, 8,896,091 KWH purchased is equal to 8,473,527 KWH sales by (1.0475).

b) Yes.

c) The adjustment for unbilled revenue is a timing adjustment designed to synchronize "as billed" revenue with as billed power cost. Accordingly, a corresponding

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adjustment was made for purchased power but it also was a timing adjustment that added \$125,733 to power cost.

d) 1,235,848,654 KWH is the amount purchased from Big Rivers for non-direct served sales. 1,179,558,312 KWH is the amount sold to non-direct served customers. The difference is system losses.

Witness) Jack Gaines



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**Item 15)** With regard to the proposed Unpaid Power Expense adjustment on Exhibit 5, page 5, please provide the following information:

a) Explain why Kenergy has only limited its test year unpaid costs to unpaid power costs and has not performed the same analysis and adjustment for all of its costs, for example, unpaid wages and salaries and employee benefits, other unpaid O&M expenses, unpaid interest expenses, etc.

b) Explain why the unpaid December 2007 power KWH can be 3,910,270 KWHs lower than the unpaid December 2006 power KWH while the associated December 2007 unpaid power costs are \$125,733 higher than the December 2006 unpaid power costs.

**Response) a)** Kenergy has utilized the same approach for the labor adjustment. See Exhibit 5, page 7, line 15 and footnote 6 per the Commission's mandated rate-making policy of using 2,080 hours. Kenergy's books are maintained on the accrual basis, and it would not be administratively cost effective to adjust all expenses to the cash basis for rate-making purposes. Also, it would not be advisable to use the cash basis for O&M expenses (excluding power costs) as it would open the door to shifting payments between years to enhance the test year for rate-making purposes. However, for revenues and power cost it is a simple adjustment and makes revenue/power cost normalization easier. The unbilled revenues accruals are estimates and it is preferred to use actual billed KWH units for rate-making purposes.

b) This is caused by the KW units at \$7.37 each increasing 28,056.

**Witness)** Steve Thompson



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**Item 16)** Regarding Exhibit 9, page 4, line 6: The test year KWH of 646,999 plus the 12,954 KWH for customer growth minus the 10,118 KWH loss for the customer transfer nets to 652,475. Please reconcile this to the number of 649,476 shown on this line.

**Response)** The math in the question and the cited number of 12,954 are incorrect. Also, the units are KW and not KWH. The correct amounts are 646,999 KW plus 12,594 KW minus 10,118 KW which is a total of 649,475 KW. The difference of 1 KW (i.e. 649,476 KW on line 6 of page 4 of Exhibit 6 vs. 649,475 KW) is due to rounding.

**Witness)** Jack Gaines



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**Item 17)** Regarding Exhibit 9, page 5, please provide the following information:

a) Why were the incremental annual customer charge and energy charge revenues associated with the 12 additional bills for the year-end customer growth (see Exhibit 9, page 11) not calculated and reflected on this schedule?

b) If the matter referenced in part (a) above represents an inadvertent oversight, please provide a revised exhibit with the inclusion of the 12 additional bills.

**Response a)** The one customer increase shown on Exhibit 9, page 11, actually reflects the transfer of one customer from the Three-Phase Under 1,000 KW Tariff to the Three-Phase Over 1,000 KW Tariff in November 2007. As shown, there were 12 customers billed on the Over 1,000 KW Tariff through October and 13 were billed in November and December. The ten months of billing units for January through October are removed from Three-Phase Under 1,000 KW (see column (g) of page 4 of Exhibit 9) and added to Three-Phase Over 1,000 KW (see column (e) of page 5 of Exhibit 9). The adjustments normalize the test year for the transfer and there is no growth adjustment applicable to Three-Phase Over 1,000 KW.

b) Not applicable.

**Witness)** Jack Gaines



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**Item 18)** Please reconcile the depreciation expenses for each distribution plant account shown on Exhibit 5, page 12 to the corresponding distribution plant depreciation expenses shown in the response to PSC 1-37, pages 2 and 3.

**Response)** The depreciation expense amounts shown on PSC 1-37, pages 2 and 3, are 2007 actual amounts. The amounts shown on Exhibit 5, page 12 are proforma amounts.

**Witness)** Steve Thompson



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**Item 19)** With regard to the PSC Assessment Tax adjustment on Exhibit 5, page 16, please provide the following information:

a) Please confirm that the difference between the per books test year and pro forma base rate assessable revenues is \$1,459,179, calculated as follows: increase in base rate revenues of \$1,683,227 less one-half of increase in base rate power costs of \$224,049. If you do not agree, explain your disagreement.

b) Applying the PSC assessment rate of .001706 to this base rate assessable revenue increase of \$1,459,179 results in incremental PSC assessment fees of \$2,489. Please confirm this. If you don't agree, explain your disagreement.

c) The per books test year assessable revenues amount to \$195,075,409 [calculation:  $(\$74,716,456 + \$281,018,827 + \$1,531,502) - (\$279,597,136 \text{ divided by } 2)$ ]. Applying the PSC assessment rate of .001706 to this assessable revenue amount of \$195,075,409 results in calculated PSC assessments of \$332,799. Yet, the actual per books PSC assessments amount to \$281,061. Please explain why there is a \$51,738 difference (which difference makes up almost the entire pro forma PSC assessment adjustment of \$52,250 requested in this case).

**Response) a)** Kenergy does not agree with this calculation. The assessable revenues for the PSC tax assessment for the period 7/1/07 – 6/30/08 are based on 2006 revenues and power costs, and the PSC tax booked for 7/1/06 – 6/30/07 were based on 2005 revenues and power costs.

b) Kenergy does not agree with conclusion. See response to (a).

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c) See response to (a).

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**Witness)** Steve Thompson

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**Item 20)** As shown on Exhibit 10, page 8, the test year per books Tax Expense – Other amount of \$295,302 (Exhibit 5, page 1, line 25) includes \$13,064 for income tax expenses. Please explain what these income taxes represent and why this \$13,064 amount should be reflected for ratemaking purposes.

**Response)** These income taxes represent the taxes paid on income booked in accounts 454.100 (cell phone tower lease) and 454.120 (fiber lease). Since this income is included for rate-making, associated expenses should also be included.

**Witness)** Steve Thompson



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**Item 21)** With regard to Kenergy's Uncollectible expenses, please provide the following information for the test year and each of the years 2003 through 2006:

- a) Uncollectible reserve starting balance
- b) Uncollectible expense accruals booked in account 904.000
- c) Bad debt charges
- d) Uncollectible reserve ending balance
- e) Operating revenues subject to uncollectible charges
- f) Ratio of uncollectible accruals to operating revenues subject to uncollectible charges
- g) Ratio of bad debt charges to operating revenues subject to uncollectible charges

**Response a-g)** Item 21, pages 2-11 of 11, contain the above referenced information.

**Witness)** Steve Thompson

2000100 Kenergy Corp. 01/01/2007 - 12/31/2007

Uncollectible Receivables - Credit (144) (Ref Page: 5)

	Notes Receivable	Consumer Acct. Receivable	Other Acct. Receivable	Total
Balance Beginning of Year	\$0.00	\$122,451.36 (item a)	\$0.00	\$122,451.36
Add:				
Prov for Uncollectibles for year	\$0.00	\$143,187.55	\$0.00	\$143,187.55
Collection of Accounts Written off	\$0.00	\$57,809.53	\$0.00	\$57,809.53
Less:				
Accounts Written Off	\$0.00	\$190,264.12 (item c)	\$0.00	\$190,264.12
Adjustments: (explain)				
Balance End of Year (same as page 1 line 25)	\$0.00	\$133,184.32 (item d)	\$0.00	\$133,184.32

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Item 21

$$\begin{array}{r}
 \text{(item f)} \\
 200,997.08 \\
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 354,342,273.08
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$$\begin{array}{r}
 \text{(item g)} \\
 190,264.12 \\
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 354,342,273.08
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 = .0005$$

2000100 Kenergy Corp. 01/01/2007 - 12/31/2007  
 Statement of Income for the Year (Ref Page: 13)

	No. of Consumers	Kilowatt Hrs. Sold	Amount
<b>OPERATING REVENUES</b>			
Residential Sales (440)			
Rural (440)	44,758	768,698,111	
Seasonal (440)			\$50,041,714.66
Towns and Villages (440)			
Total (440)	44,758	768,698,111	\$50,041,714.66
Irrigation Sales (441)			
Commercial and Industrial Sales (442)			
Small (442)	8,772	277,086,328	
Large (442)	31	8,280,670,228	\$17,300,099.13
Total (442)	8,803	8,557,756,556	\$283,935,980.84
Public Street and Highway Ltng. (444)	76	1,582,374	\$301,236,079.97
Sales to Public Bldgs. and Auth. (445)	700	45,221,575	\$219,014.45
Sales for Resale (447)			\$2,845,464.00
Total Sales of Electricity	54,337	9,373,258,616	<i>(item e)</i> \$354,342,273.08
<b>OTHER OPERATING REVENUES</b>			
Forfeited Discounts (450)			
Miscellaneous Service Revenues (451)			\$485,476.25
Rent From Electric Property (454)			\$363,570.13
Other Electric Revenues (456)			\$666,652.29
Total Other Operating Revenues			\$15,803.11
Total Electric Operating Revenues			\$1,531,501.78
<b>OPERATING EXPENSES</b>			
Total Operation and Maintenance Exp. (from pg. 15 line 38)			\$340,042,624.34
Depreciation Expense (403)			
Amortization Expense (pg. 16 line 5) (405-407)			\$7,415,078.21
			\$0.00

Page 1 of 11

2000100 Kenergy Corp. 01/01/2006 - 12/31/2006  
 Uncollectible Receivables - Credit (144) (Ref Page: 5)

Balance Beginning of Year	\$0.00	\$158,436.46	\$0.00	\$158,436.46
Add:				
Prov for Uncollectibles for year	\$0.00	\$98,550.00	\$0.00	\$98,550.00
Collection of Accounts Written off	\$0.00	\$59,695.92	\$0.00	\$59,695.92
Less:				
Accounts Written Off	\$0.00	\$194,231.02	\$0.00	\$194,231.02
Adjustments: (explain)				
Balance End of Year (same as Page 1 line 25)	\$0.00	\$122,451.36	\$0.00	\$122,451.36

158,145.92

$$\frac{\$158,145.92}{\$322,565,999.59} = .000480$$

$$\frac{\$194,231.02}{\$322,565,999.59} = .000602$$

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 Item 21

2000100 Kenergy Corp. 01/01/2006 - 12/31/2006  
 Statement of Income for the Year (Ref Page: 13)

OPERATING REVENUES

Residential Sales (440)

Rural (440)

Seasonal (440)

Towns and Villages (440)

Total (440)

Irrigation Sales (441)

Commercial and Industrial Sales (442)

Small (442)

Large (442)

Public (442)

Public Street and Highway Ling. (444)

Sales to Public Bldgs. and Auth. (445)

Sales for Resale (447)

Total Sales of Electricity

OTHER OPERATING REVENUES

Forfeited Discounts (450)

Miscellaneous Service Revenues (451)

Rent From Electric Property (454)

Other Electric Revenues (456)

Total Other Operating Revenues

Total Electric Operating Revenues

OPERATING EXPENSES

Total Operation and Maintenance Exp. (from pg. 15, line 38)

Depreciation Expense (403)

Amortization Expense (pg. 16, line 5) (405-407)

44,420

710,953,060

\$43,955,864.12

44,420

710,953,060

\$43,955,864.12

8,624

258,457,951

\$15,837,727.91

31

8,365,158,238

\$259,910,317.38

8,655

8,623,616,189

\$275,748,045.29

75

1,512,198

\$204,207.44

710

42,795,674

\$2,657,862.74

53,860

9,378,877,121

\$322,565,979.59

\$441,089.90

\$336,338.88

\$479,148.80

\$15,022.14

\$1,271,599.72

\$323,837,579.31

\$314,582,585.76

\$6,227,513.88

Page 3 of 11

2000100 Kenenergy Corp. 01/01/2005 - 12/31/2005

Uncollectible Receivables - Credit (144) (Ref Page: 5)

Desc	Notes Receivable	Consumer Acct Receivable	Other Accts Receivable	Total
Balance Beginning of Year	\$0.00	\$261,059.96	\$0.00	\$261,059.96
Add:				
Prov for Uncollectibles for year				
Collection of Accounts	\$0.00	\$87,819.53	\$0.00	\$87,819.53
Written off	\$0.00	\$190,443.03	\$0.00	\$190,443.03
Less:				
Accounts Written Off	\$0.00	\$190,443.03	\$0.00	\$190,443.03
Adjustments: (explain)				
Balance End of Year (same as page 1 line 25)	\$0.00	\$158,436.46	\$0.00	\$158,436.46

$$\begin{array}{r} \$ 87,819.53 \\ \hline 288,006,157.86 \end{array} - 100,304$$

$$\begin{array}{r} \$ 190,443.03 \\ \hline 288,006,157.86 \end{array} =$$

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 Item 21

2000100 Kenergy Corp. 01/01/2005 - 12/31/2005

Statement of Income for the Year (Ref Page: 13)

	Avg. No. of Consumers	Kilowatt Hrs. Sold	Amount
<b>OPERATING REVENUES</b>			
Residential Sales (440)			
Rural (440)	45,016	732,465,304	\$45,323,132.19
Seasonal (440)			
Towns and Villages (440)			
Total (440)	45,016	732,465,304	\$45,323,132.19
Irrigation Sales (441)			
Commercial and Industrial Sales (442)			
Small (442)	8,143	293,504,994	\$17,983,700.76
Large (442)	31	8,320,547,108	\$224,495,056.65
Total (442)	8,174	8,614,052,102	\$242,478,757.41
Public Street and Highway Lting. (444)	74	1,522,413	\$204,262.26
Sales to Public Bldgs. and Auth. (445)			
Sales for Resale (447)			
Total Sales of Electricity	53,264	9,348,039,819	\$288,006,151.86
<b>OTHER OPERATING REVENUES</b>			
Forfeited Discounts (450)			\$427,335.97
Miscellaneous Service Revenues (451)			\$299,155.00
Rent From Electric Property (454)			\$517,186.97
Other Electric Revenues (456)			\$15,029.75
Total Other Operating Revenues			\$1,258,707.69
Total Electric Operating Revenues			\$289,264,859.55
<b>OPERATING EXPENSES</b>			
Total Operation and Maintenance Exp. (from pg. 15 line 38)			\$278,462,308.23
Depreciation Expense (403)			\$5,752,783.81
Amortization Expense (pg. 16 line 5) (405-407)			

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Uncollectible Receivables - Credit (144) (Ref Page: 5)

Desc	Notes Receivable	Consumer Acct. Receivable	Other Accts Receivable	Total
Balance Beginning of Year		\$413,807.54		\$413,807.54
Add:				
Prov for Uncollectibles for year				
Collection of Accounts Written off		\$83,424.07		\$83,424.07
Less:				
Accounts Written Off		\$236,171.65		\$236,171.65
Adjustments: (explain)				
Balance End of Year (same as page 1 line 25)		\$261,059.96		\$261,059.96

Page 8 of 11  
Item 21

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## Statement of Income for the Year (Ref Page: 13)

	Avg. No. of Consumers	Kilowatt Hrs. Sold	Amount
<b>OPERATING REVENUES</b>			
Residential Sales (440)			
Rural (440)	45,579	698,432,244	\$42,207,988.60
Seasonal (440)	0	0	\$0.00
Towns and Villages (440)	0	0	\$0.00
Total (440)	45,579	698,432,244	\$42,207,988.60
Irrigation Sales (441)	0	0	\$0.00
Commercial and Industrial Sales (442)			
Small (442)	6,260	235,020,692	\$13,946,002.47
Large (442)	30	8,381,287,332	\$221,554,564.38
Total (442)	6,290	8,616,308,024	\$235,500,566.85
Public Street and Highway Ltng. (444)	69	1,481,900	\$190,451.68
Sales to Public Bldgs. and Auth. (445)	654	43,223,142	\$2,600,473.53
Sales for Resale (447)	0	0	\$0.00
Total Sales of Electricity	52,592	9,359,445,310	\$280,499,480.66
<b>OTHER OPERATING REVENUES</b>			
Forfeited Discounts (450)			\$439,936.57
Miscellaneous Service Revenues (451)			\$265,660.60
Rent From Electric Property (454)			\$491,840.78
Other Electric Revenues (456)			\$13,609.14
Total Other Operating Revenues			\$1,211,047.09
Total Electric Operating Revenues			\$281,710,527.75
<b>OPERATING EXPENSES</b>			
Total Operation and Maintenance Exp. (from pg. 15 line 38)			\$270,974,080.13
Depreciation Expense (403)			\$5,589,176.08
Amortization Expense ( pg. 16 line 5) (405-407)			\$0.00
Taxes Other Than Income Taxes ( pg. 16 ) (408.1)			\$275,715.37
Total Operating Expenses			\$276,838,971.58

Uncollectible Receivables - Credit (144) (Ref Page: 5)

Desc	Notes Receivable	Consumer Acct. Receivable	Other Accts Receivable	Total
Balance Beginning of Year		\$475,004.96		\$475,004.96
Add:				
Prov for Uncollectibles for year		\$180,996.00	} 290,958.13	\$180,996.00
Collection of Accounts Written off		\$109,958.13		\$109,958.13
Less:				
Accounts Written Off		\$352,151.55		\$352,151.55
Adjustments: (explain)				
Balance End of Year (same as page 1 line 25)		\$413,807.54		\$413,807.54

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Item 21

$$\begin{array}{r}
 \$ 290,958.13 \\
 \hline
 \$ 278,403,846.12
 \end{array}
 = .001045$$

$$\begin{array}{r}
 \$ 352,151.55 \\
 \hline
 \$ 278,403,846.12
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 = .001264$$

Kenergy Corp. 01/01/2003

Statement of Income for the Year (Ref Page: 13)

	Avg. No. of Consumers	Kilowatt Hrs. Sold	Amount
<b>OPERATING REVENUES</b>			
Residential Sales (440)			
Rural (440)	44,967	688284127	\$41,020,076.70
Seasonal (440)	0	0	\$0.00
Towns and Villages (440)	0	0	\$0.00
Total (440)	44,967	688284127	\$41,020,076.70
Irrigation Sales (441)	0	0	\$0.00
Commercial and Industrial Sales (442)			
Small (442)	6,101	233005522	\$13,562,669.97
Large (442)	28	8370832413	\$221,159,027.42
Total (442)	6,129	8603837935	\$234,721,697.39
Public Street and Highway Ltng. (444)	137	1752253	\$201,776.15
Sales to Public Bldgs. and Auth. (445)	636	41300180	\$2,460,295.88
Sales for Resale (447)	0	0	\$0.00
Total Sales of Electricity	51,869	9335174495	\$278,403,846.12
<b>OTHER OPERATING REVENUES</b>			
Forfeited Discounts (450)			\$455,931.14
Miscellaneous Service Revenues (451)			\$277,396.00
Rent From Electric Property (454)			\$524,652.05
Other Electric Revenues (456)			\$12,957.13
Total Other Operating Revenues			\$1,270,936.32
Total Electric Operating Revenues			\$279,674,782.44
<b>OPERATING EXPENSES</b>			
Total Operation and Maintenance Exp. (from pg. 15 line 38)			\$267,916,807.88
Depreciation Expense (403)			\$5,274,278.68
Amortization Expense ( pg. 16 line 5) (405-407)			\$0.00
Taxes Other Than Income Taxes ( pg. 16) (408.1)			\$289,036.44
Total Operating Expenses			\$273,480,123.00

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**Item 22)** Please provide a detailed breakout of the nature and purpose of the expense components making up the total test year expense of \$67,059 in account 912.000.

<b>Response)</b>	Labor & OH's of Kenergy employees	\$57,638.93 <sup>1</sup>
	Office Supplies	\$ 272.38
	Postage Expenses	\$ 102.43
	Personal Computer Supplies/Expenses	\$ 252.35
	Tissue, Towels, Cups	\$ 140.43
	Coffee & Tea	\$ 88.17 <sup>2</sup>
	Retirement Gifts/Greeting Cards	\$ 304.88 <sup>3</sup>
	Safety & First Aid Expenses	\$ 505.54
	Phone/Internet Expenses	\$ 852.24
	Christmas Party	\$ 172.60 <sup>2</sup>
	Adm. Fees Section 125 Expenses	\$ 70.70
	Professional Fees & Dues	\$ 754.00
	Chamber/Farm City Breakfast/ACSI Expenses	\$ 66.52
	Seminars/Training Expenses	\$ 3,024.57
	Mileage Reimbursement	\$ 731.42
	Industrial & Commercial Resource Committee	\$ 604.41
	Client/Luncheon Expenses	\$ 155.36
	Promotional Give-Aways	\$ 63.87

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2	Kentucky Poultry Annual Dinner	\$ 150.00
3	Directory Advertising	\$ 47.79
4	Employee Breakfast Chats	\$ 5.09
5	Employee Service Awards	\$ 100.00 <sup>2</sup>
6	Employee Assistance Programs	\$ 42.10
7	Tuition Reimbursement	\$ 550.00
8	Ohio County Industrial Foundation	\$ 500.00 <sup>4</sup>
9	Cost Allocation to Direct-Served Customers(\$	134.38)
10	Other	(\$ 2.76)
.1		<u>\$67,058.64</u>

12 <sup>1</sup> Activities include Commercial & Industrial (C&I) outdoor lighting projects, C&I Resource  
13 meetings, responding to C&I customer inquiries, providing technical assistance, power contract  
14 management, preparing monthly newsletter, participation in employee service team meetings.

15 <sup>2</sup> Excluded for rate-making purposes per Exhibit 5, page 9a.

16 <sup>3</sup> A total of \$5.65 has been removed, and Kenergy agrees that the remaining \$299.23 should be  
17 removed for rate-making purposes.

18 <sup>4</sup> Should have been charged to Account 930.200, and listed in Item 34, pages 6-8 of the PSC  
19 First Data Request.

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21 **Witness)** Steve Thompson

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**Item 23)** With regard to the long-term debt interest annualization information on Exhibit 5, page 13 and the response to PSC 1-6, page 4, please provide the following information:

a) Provide the exact reasons for the \$87,624 difference in the proforma interest of \$2,806,543 and the actual test year interest of \$2,718,919 for the total RUS loans shown on Exhibit 5, page 13.

b) Please reconcile the proforma interest amounts (adding to \$2,678,895) for the RUS loans shown in the response to PSC 1-6, page 2 to the corresponding proforma interest amounts (adding to \$2,806,543) shown on Exhibit 5, page 5. In this regard, also explain the reason and derivation of the \$127,648 for the "increase for note renewed at 3.25" shown in the response to PSC 1-6, page 4, footnote (1).

c) Provide the exact reasons for the \$341,858 difference in the proforma interest of \$1,068,199 and the actual test year interest of \$726,341 for the total US Treasury loans shown on Exhibit 5, page 13.

d) Provide the exact reasons for the \$158,102 difference in the proforma interest of \$1,152,413 and the actual test year interest of \$1,310,515 for the total CoBank loans shown on Exhibit 5, page 13.

**Response a & b)** The Note 1B380 three-year interest term, which expired on 3/31/08 resulted in an increase of \$127,648 from test year amount (\$17,000,821 x .0075). The proforma interest rate used was the RUS municipal rate at 1/1/08 for a one-three year term, or 3.25%,

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compared to the previous rate of 2.50%. The proforma interest expense dropped \$40,024 from test year amounts due to principal payments made during the test year.

c) The proforma interest is higher than test year due to two new loans received in January and July 2007 being reflected for a full year in the proforma amount (Notes 1B390 and 1B391).

d) The two reasons for the decrease are principal payments made during the test year and the cash capital credit reduction increasing to 65 basis points from 50 during the test year.

**Witness)** Steve Thompson



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**Item 24)** The response to PSC 1-6, page 4, footnote (1) indicates that \$127,506 of Kenergy's proforma long-term debt interest expense increase adjustment of \$267,576 is the result of recognizing interest associated with a long-term debt issues on 4/1/08. Please explain why Kenergy believes it is appropriate to recognize post-test year interest expenses for ratemaking purposes in this case.

**Response)** There were no long-term debt issues on 4/1/08. Note 1B380 dated 2/1/01 had a three-year interest rate term that expired 3/31/08. The 1-3 year interest term rate on 1/1/08 was 3.25%

**Witness)** Steve Thompson



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**Item 25)** With regard to the test year interest expenses in account 431.200 – Commonwealth deposits of \$44,876, please provide the following information:

- a) Explain the nature and purpose of the interest expense amount.
- b) Explain the nature and purpose of the Commonwealth deposits.
- c) Why does Kenergy pay interest on these deposits?
- d) What are the monthly test year deposit balances; and
- e) How have these deposits been treated for ratemaking purposes in this case (e.g., have they been treated as a rate base deduction in this case?)
- f) The monthly interest expense became \$0 after September 2007. Please explain why.
- g) Explain why it is appropriate to continue to claim the interest expense of \$44,876 given that Kenergy has made a proforma adjustment to remove the \$39,317 interest income (see Exhibit 5, page 18) from the adjusted test year income because the deposit was refunded to the customer in October 2007.

**Response a-g)** Please refer to Exhibit 5, page 14, which explains that Kenergy is proposing to remove the \$44,876 test year expense for rate-making purposes because the \$1,000,000 customer deposit was refunded in October 2007. Kenergy is required by Kentucky law to pay 6% interest on customer deposits.

**Witness)** Steve Thompson



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**Item 26)** Please explain the nature and purpose of the total interest expense of about \$2,307 in account 431 associated with the two coal customers, Alco and Cardinal River and explain whether the expense is recurring in nature.

**Response)** These are deposits received from these customers to secure payment of electric bills, which Kenergy pays 6% interest by Kentucky law. These customers were active at 12/31/07.

**Witness)** Steve Thompson



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2 **Item 27)** Please provide Kenergy's monthly Short-Term loan balances (do not consider the  
3 current portion of LT debt as short-term debt for purposes of this request) from 1/1/03 through  
4 8/31/08.

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6 **Response)** Kenergy has not utilized line of credit borrowings during 2008.

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8 **Witness)** Steve Thompson

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**Item 28)** What would be the proforma long-term debt interest expense (as compared to the annualized interest expense level of \$5,916,079 shown in the response to PSC 1-6, page 4) if the end-of-test year 12/31/07 LT debt balances were to be priced out at the current interest rates applicable to these same 12/31/07 LT debt balances? Also, provide all calculations in the same format as per the response to PSC 1-6.

**Response)** The proforma interest expense would be the same amount, \$6,043,729, as shown on Exhibit 5, page 13 and PSC 1-6, page 4 of 4

**Witness)** Steve Thompson



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**Item 29)** With regard to Exhibit 5, page 18, please provide the actual interest amounts booked for each of the years 2003 through 2006 for CFC CTC's, Deferred Compensation earnings, and overnight and 30-day investments. Also, explain what represents the interest associated with CFC CTC's.

<b>Response)</b>	<u><b>2003</b></u>	<u><b>2004</b></u>	<u><b>2005</b></u>	<u><b>2006</b></u>	<u><b>2007</b></u>
CFC – CTC's <sup>1</sup>	95,144	95,144	95,144	95,144	95,144
Deferred Comp. Earnings <sup>2</sup>	279,672	141,756	74,699	163,813	112,191
Overnight and 30 Day Investments	48,590	50,758	147,746	144,835	109,004
ERC Loans	<u>619</u>	<u>1,106</u>	<u>882</u>	<u>708</u>	<u>359</u>
	424,025	288,764	318,471	404,500	316,698
RUS Cushion of Credit	<u>470,227</u>	<u>532,443</u>	<u>574,832</u>	<u>553,257</u>	<u>572,585</u>
Acct. 419.000 & 419.300	<u>894,252</u>	<u>821,207</u>	<u>893,303</u>	<u>957,757</u>	<u>889,283</u>

<sup>1</sup> Investments made as a member of the National Rural Cooperative Finance Corporation that pays 3% and 5% interest. See Exhibit 10, Investment footnote.

<sup>2</sup> These are earnings recorded for a frozen plan. See Exhibit 10, deferred compensation footnote. A corresponding amount is booked as an expense, therefore zero impact on margins.

**Witness)** Steve Thompson



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**Item 30)** With regard to Exhibit 5, page 19, please provide the following information:

a) At the end of 2006, the CoBank loan balance was \$24,802,799, which is fairly close to the 2007 ending balance of \$23,198,498. Applying the 1% and 35% formula to the 2006 ending balance of \$24,802,799 results in a derived non-cash capital credit amount of \$86,810. Please explain why this number (derived in the same manner as the proforma non-cash capital credit amount of \$81,195 for 2007) is so much lower than the actual per books amount of \$198,853.

b) Footnote (2) states that the "actual 2007 amounts will be known in mid-2008." Has the actual amount become available by now? If not, why not? If so, what is the actual amount as compared to the estimated amount of \$120,270 and when (year) will the difference between the actual amount and the estimated amount of \$120,270 be booked as "Adjust 2007 to Actual," similar to what was booked in 2007 for the 2006 true-up?

c) Explain whether the derived proforma amount of \$81,195 represents an estimate that could be different from the eventual actual amount which would then need to be true-up to the actual non-cash capital credit amount.

d) Please provide the actual true-up adjustments to true-up actual vs. originally estimated non-cash capital credits in each of the years 2003 through 2007.

**Response a)** The 2007 booked amount of \$198,853 contains an adjustment of \$78,583 to the estimated receivable at 12/31/06. Kenergy had used a 20% non-cash allocation while the actual non-cash allocation was 50%.

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b) Yes. The actual amount was \$120,250, with an adjustment of \$20 to be recorded in 2008.

c) It is my understanding that CoBank feels the 1% and 35% projections are very firm at this time.

d) Adjustments made to the estimated receivable from CoBank are as follows: 2007 – (\$20), 2006 - \$78,583, 2005 – (\$49,813), 2004 – (\$4,202), 2003 - \$10,419

**Witness)** Steve Thompson



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**Item 31)** Regarding response to PSC 1-34, page 6: Explain why the professional service expenses of \$1,259.38 have been removed for ratemaking purposes, but not the \$1,825.68 advertising expenses.

**Response)** Kenergy agrees that should the Commission find the expenses associated with these cases be removed for rate-making purposes, the advertising costs should be removed.

**Witness)** Steve Thompson



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**Item 32)** Please indicate Kenergy's Designated Delegate and Alternate Delegate to KAEC and Kenergy's Designated Delegate and Alternate Delegate to NRECA.

**Response)** The KAEC Designated Delegate was Glenn Cox and there was no Alternate Delegate. The NRECA Designated Delegate is Chris Mitchell and the Alternate is Randy Powell.

**Witness)** Sanford Novick



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**Item 33)** With regard to test year directors fees and expenses for KAEC annual meetings, please provide the following information:

a) Provide a schedule showing all test year KAEC annual meeting fees and expenses, in total and broken out by director.

b) Indicate which of these KAEC annual meeting expenses have been included and which have been removed for ratemaking purposes.

c) Explain the reasons for the KAEC annual meeting fees and expenses that have been included for ratemaking purposes.

**Response a-c)** See Item 30 of the PSC First Data Request, pages 11 – 50, column designated as “KAEC Mtg Exp Cox”. All of the \$3,048.63 has been included for rate-making purposes, consistent with prior Commission practice.

**Witness)** Steve Thompson



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**Item 34)** With regard to test year directors fees and expenses for NRECA annual meetings, please provide the following information:

a) Provide a schedule showing all test year NRECA annual meeting fees and expenses, in total and broken out by director.

b) Indicate which of these NRECA annual meeting expenses have been included and which have been removed for ratemaking purposes.

c) Explain the reasons for the NRECA annual meeting fees and expenses that have been included for ratemaking purposes.

**Response a-c)** See Item 30 of the PSC First Data Request, pages 11 – 50, column designated “Del/Alt Assoc Exp”. The total amount of \$4,630.29 represents expenses for the Delegate and Alternate to attend the NRECA annual meeting and has been included for rate-making purposes consistent with prior Commission practice.

**Witness)** Steve Thompson



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**Item 35)** Please identify any health insurance and/or FAS 106 expenses included in the total directors' fees and expenses requested in this case. If there are no such expenses, then please indicate what represents the directors' expenses identified in the response to PSC 1-30 as "Director Insurance," and provide the total of such Directors' Insurance expenses included in the test year.

**Response)** The \$23,881.02 amount shown on page 70 of Item 30 from PSC First Data Request represents directors and officers liability insurance.

**Witness)** Steve Thompson



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**Item 36)** The directors' fees and expenses include \$1,884 for CEO search expenses and \$7,500 for CEO meeting fees. The \$1,884 expense was removed for ratemaking purposes. Was the \$7,500 meeting fee amount also removed as part of the overall meeting fee removal of \$26,850? If not, why shouldn't this \$7,500 be removed?

**Response)** Yes.

**Witness)** Steve Thompson



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**Item 37)** Please explain the ratemaking inclusion of the following directors' fees and expenses listed in the response to PSC 1-30, pages 1-50 (if they have been excluded, please so indicate):

- a) Election envelopes and postage of \$852.19 (pages 25-27). Are these non-recurring and/or related to the CEO search?
- b) Postage for ballots of \$2,100.85 (page 27). Are these non-recurring and/or related to the CEO search?
- c) Meal in honor of Mark Bailey of \$280.82 (page 29)
- d) Summer school expenses totaling \$5,483.35 (page 31)
- e) Conference call URC nominations of \$270.22 (page 35)
- f) Winter school expenses totaling \$5,905.02 (pages 37-39-41-45-47)
- g) Director's orientation meeting meal of \$127.34 (page 43)

**Response a-b)** These have been excluded but are recurring and not related to the CEO search. After further review, Kenergy believes these should be included for rate-making purposes.

- c) Has been included for rate-making purposes. This is a non-recurring expense and Kenergy agrees that it should be removed for rate-making purposes.
- d) These expenses have been excluded consistent with prior Commission practice.
- e) This expense has been excluded.

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f) See response to (d).

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g) See response to (c).

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Witness) Steve Thompson

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**RESPONSE TO ATTORNEY GENERAL'S**  
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**CASE NO. 2008-00323**

1  
2 **Item 38)** Please provide a detailed breakout of the test year expense of \$122,520 in account  
3 921.000 for A&G General Expense.

4  
5 **Response)** Property Insurance \$ 5,491  
6 Property Taxes \$33,790  
7 Allocation to Direct Serves (\$5,033)  
8 Meter Base Sales \$ 741  
9 Office Supplies/Equipment \$17,300  
10 Postage Expense \$ 7,679  
11 PC Supplies/Maintenance \$ 5,994  
12 Courier Services \$14,503  
13 Tissue, Towels, Cups \$ 2,116  
14 Coffee & Tea \$ 1,326 <sup>1</sup>  
15 Retirement Gifts/Green Cards \$ 594 <sup>1</sup>  
16 Safety & First Aid Supplies \$ 5,457  
17 Phone/Internet Expenses \$12,604  
18 Christmas Party \$ 2,590 <sup>1</sup>  
19 Subscriptions \$ 2,745  
20 Adm. Fees Section 125 Plan \$ 1,061  
21 Professional Fees & Dues \$ 1,089  
22 Farm City Breakfast/ACSI Lunch \$ 482  
23 Seminars/Training Attendance \$11,552  
24 Mileage Reimbursement \$ 172  
25 Meetings/Meal Expenses \$ 2,512  
26 Directory Advertising \$ 717  
27 Employee Breakfast Chats with CEO \$ 110  
28 Employee Service Awards \$ 1,500 <sup>1</sup>  
29 Employee Assistance Counseling \$ 632  
30 Chamber of Commerce Dues/Expenses \$ 1,688  
31 Network Certification Exam \$ 225  
32 Affirmative Action Plan \$ 291  
33 CEO Search Expenses (\$ 7,402)<sup>2</sup>  
34 United Way Expenses \$ 161  
35 Other (\$ 167)  
36 \$122,520

37 <sup>1</sup> Excluded for rate-making purposes per Exhibit 5, page 9a.

**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
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**CASE NO. 2008-00323**

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<sup>2</sup> A \$10,000 error was discovered in Account 921 when performing this analysis involving CEO search expenses. See PSC First Data Request, Item 34, page 4 of 12, JE #87 and Control No. 226166 for \$10,000. The journal entry reversing the accounts payable was credited to 921 vs. 923. Kenergy has inadvertently removed an extra \$10,000 relating to the CEO search expenses on Exhibit 5, page 9.

**Witness)**      Steve Thompson



**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
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**Item 39)** Please provide the actual account 935.000 Maintenance of General Plant expenses for each of the years 2003 through 2006.

**Response)** 2006 - \$534,690  
2005 - \$492,082  
2004 - \$566,843  
2003 - \$513,240

**Witness)** Steve Thompson



**KENERGY CORP.**  
**RESPONSE TO ATTORNEY GENERAL'S**  
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**Item 40)** Please provide a breakout of the advertising expenses of \$296.94 in account 930.100 and \$241.06 in account 930.230 and indicate which of these expenses have been removed and which have been included for ratemaking purposes and explain why.

**Response)** See Item 40, page 2 of 2, for the breakdown of the \$296.94. The \$241.06 is an allocation from the source account of 930.200 to the non-operating and accounts established to collect the expenses associated with the direct-served customers.

**Witness)** Steve Thompson

KENERGY CORP.  
CASE NO. 2008-00323  
ACCOUNT 930.100 - GENERAL ADVERTISING EXPENSE  
FOR 12 MONTHS ENDED DECEMBER 31, 2007

Control Number	Vendor Name	Description	Dollar Amount	Advertising	Allocation to Other Accounts
223311	KAEC	January Ky Living Ad	\$ 33.74	33.74	
223230	Herald Ledger	Advertising-(Thank you to members for patience)	\$ 78.30	78.30	
		Allocation to Direct Serves & Non-Operating	\$ (0.52)		(0.52)
			\$ 111.52	Jan	\$ 112.04 \$ (0.52)
223626	Evansville Courier & Press	Non-Discrimination Ad	\$ 76.12	76.12	
		Allocation to Direct Serves & Non-Operating	\$ (0.10)		(0.10)
			\$ 76.02	Feb	\$ 76.12 \$ (0.10)
228749	Clarion Publishing	Newspaper Advertising (no description on inv)	\$ 57.50	57.50	
		Allocation to Direct Serves & Non-Operating	\$ (0.07)		(0.07)
			\$ 57.43	June	\$ 57.50 \$ (0.07)
233201	Crittenden Press	Advertising-Marion Office Hours	\$ 50.00	50.00	
		Allocation to Direct Serves & Non-Operating	\$ (0.06)		(0.06)
			\$ 49.94	Sept	\$ 50.00 \$ (0.06)
233575	Messenger & Inquirer	Advertising Finance Charge	\$ 2.25	2.25	
		Allocation to Direct Serves & Non-Operating	\$ (0.22)		(0.22)
			\$ 2.03	Oct	\$ 2.25 \$ (0.22)
		TOTAL	\$ 296.94		\$ 297.91 \$ (0.97)

Has been excluded for rate-making purposes as institutional advertising.



**KENERGY CORP.  
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**Item 41)** Please reconcile the Miscellaneous General expenses of \$334,438 shown on Exhibit 10, page 12 to the Miscellaneous General expenses of \$358,879 (total of \$572,437 less \$213,558 for directors' fees and expenses) in the response to PSC 1-30, page 2.

**Response)** The total of \$572,345.60 from PSC 1-30, page 2, represents the sum of all 930.200 accounts from Exhibit 10, pages 12 and 13.

930.200	-	\$334,438.46
930.210	-	\$211,950.96
930.220	-	\$ .02
930.221	-	\$ 7,503.10
930.230	-	\$ 241.06
930.231	-	\$ 3,656.89
930.240	-	\$ .18
930.241	-	<u>\$ 14,554.93</u>
		<u>\$572,345.60</u>

**Witness)** Steve Thompson



**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
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**Item 42)** What is the nature and purpose of the FOCUS bill staffers' expense of \$8,016 shown on PSC 1-30, page 5?

**Response)** The FOCUS bill staffer is a monthly newsletter designed to keep Kenergy members aware of cooperative business matters. The above-mentioned amount is the cost to print the newsletter.

April 2007 – Scholarship Information/Announcement of Annual Meeting Date/Explanation of Director Electric Process

July 2007 – Cooperative Year-End Financial Information

August 2007 – Director Election Results/Non-Regulated Activity Report/Customer Satisfaction Survey Results

October 2007 – Call Before You Dig Information/Explanation of Cooperative Business Principles

Please see attached samples.

**Witness)** Lisa Owen

April 2007

Henderson Chamber Names  
Kenergy & Ohio Valley Marine  
Industries of the Year

On Friday, March 9, Kenergy Corp., along with Ohio Valley Marine Service were honored as joint Industries of the Year by the Henderson Chamber of Commerce.

The awards luncheon was held at Wolf's Banquet & Convention Center, where Kenergy President & CEO Mark Bailey accepted the award on behalf of Kenergy. "This award is quite humbling and it acknowledges the efforts of the co-ops 160 employees. Our employees are very generous with their time and money in supporting community events," added Bailey.

Kenergy distributes electricity to 51,000 homes and businesses in 14 western Kentucky counties.



Your Touchstone Energy® Cooperative   
The power of human connections

**F O C U S**  
**News From Your Co-op**

**Kenergy to Award  
Scholarships at Annual Meeting**

Kenergy will award twenty (20) \$500 scholarships to eligible students by a random name drawing during the Kenergy Annual Meeting to be held on June 12, 2007 at the Henderson Fine Arts Center in Henderson.

Students, along with their parent(s) or legal guardian, must register for the scholarship at the Annual Membership Meeting and be present when the drawings are held.

Following registration, interested students' names will be submitted for the drawing.

Students must be a member-owner of Kenergy or have/his primary residence with the parent or legal guardian who currently receives electric service from Kenergy.





*Kenergy Director Election  
Process Underway*

William "Bill" Donan of Hanson has secured a petition to challenge current board member Chris Mitchell for the District 3 (Hopkins and Webster counties) position on the Kenergy Board of Directors.

Each of the district Member Resource Committee (MRC) Nominating Committees nominated only one candidate: District 1-Glenn Cox, District 3-Chris Mitchell, and District 5-William "Bill" Denton.

By virtue of being the only candidates nominated, incumbents Glenn Cox and Bill Denton, will retain their seats for another three-year term on the cooperative's 11-member board.

Kenergy's bylaws stipulate that any uncontested candidate will be declared the winner of the board seat without an election.

Running against each other in District 3 are incumbent Chris Mitchell, a self-employed farmer from Clay, and Bill Donan, an attorney from Hanson. Mitchell, who has represented District 3 on the board since 1997, currently serves as vice-chairman of the co-op's board.

Ballots for District 3 will be mailed in early May 2007.

**Please join us for Kenergy's  
Annual Meeting on Tuesday,  
June 12, 2007, at the Henderson  
Fine Arts Center.**

**Registration begins at 4:30 p.m.**

**Entertainment, Free Meal,  
Complimentary Gift**

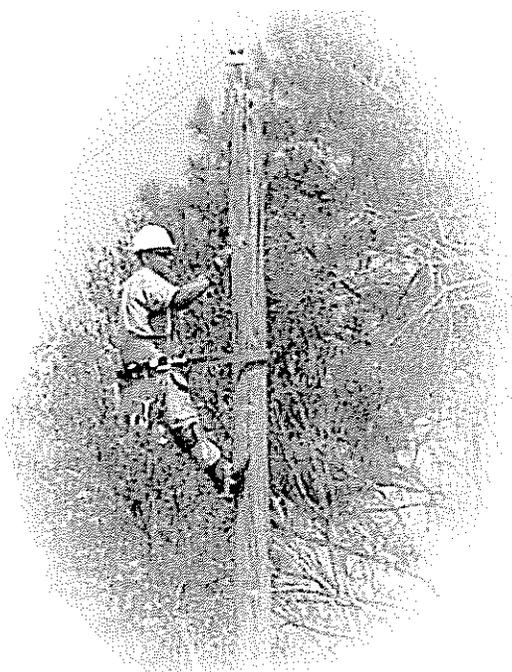


July 2007

Kenergy is proud to serve as your electric cooperative. The principles that have been guiding your cooperative for years still remain. Kenergy's mission is based on the following statement "Kenergy safely provides low-cost, reliable electricity and related services not readily available elsewhere".

Kenergy will continue to evaluate new technologies and their benefits to our customers, such as exploring new methods of controlling vegetation management and investing in our infrastructure to improve reliability and customer service. Please be assured that Kenergy will continue to look for ways to hold down cost without jeopardizing service to our members. It is a privilege to serve you.

.....A NOTE TO OUR MEMBERS.....



# Year-End Financials

2006



**STATEMENT OF OPERATIONS  
FOR THE YEARS ENDED  
DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
Electric Revenue	\$322,565,977	\$288,006,150
Miscellaneous	1,271,600	1,258,708
<b>TOTAL OPERATING REVENUE</b>	<b>\$323,837,577</b>	<b>\$289,264,858</b>
Cost of Purchased Power	\$295,460,224	\$259,986,490
Distribution Plant Expense	12,858,338	12,363,217
Customer Accounting & Collecting Expense	2,686,135	2,776,613
Customer Service & Information Expense	312,191	299,624
General Office, Administrative & General Expense	3,245,695	3,036,362
<b>TOTAL OPERATING EXPENSE</b>	<b>\$314,562,583</b>	<b>\$278,462,306</b>
Depreciation Expense	\$6,227,515	\$5,752,782
Interest on Long-Term Debt	5,265,708	4,198,637
Other Deductions	436,105	417,223
<b>TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$326,491,911</b>	<b>\$288,830,948</b>
Operating Margins (Loss)	(\$2,654,334)	\$433,910
Non-Operating Margins	1,059,988	1,056,598
<b>TOTAL MARGINS (Loss)</b>	<b>(\$1,594,346)</b>	<b>\$1,490,508</b>

**BALANCE SHEET**

<b>ASSETS</b>		
Total Utility Plant	\$217,727,353	\$209,103,179
Less Accumulated Provision for Depreciation	(48,193,715)	(45,328,490)
<b>NET UTILITY PLANT</b>	<b>\$169,533,638</b>	<b>\$163,774,689</b>
Investments	\$8,681,878	\$8,033,899
Cash & Cash Equivalents	1,515,630	1,378,839
Accounts Receivable	23,784,626	21,415,638
Other Assets	8,745,075	9,816,073
<b>TOTAL ASSETS</b>	<b>\$212,260,847</b>	<b>\$204,419,138</b>
<b>MEMBERS' EQUITIES</b>		
Memberships	\$240,185	\$275,480
Patronage Capital	48,753,412	51,234,702
Other	3,554,886	3,407,515
<b>TOTAL MEMBERS' EQUITIES</b>	<b>\$52,548,483</b>	<b>\$54,917,697</b>
<b>LIABILITIES</b>		
Long-Term Debt	\$117,705,836	\$113,756,489
Current Liabilities	39,126,954	32,520,870
Other	2,879,574	3,224,082
<b>TOTAL LIABILITIES</b>	<b>\$159,712,364</b>	<b>\$149,501,441</b>
<b>TOTAL MEMBERS' EQUITIES &amp; LIABILITIES</b>	<b>\$212,260,847</b>	<b>\$204,419,138</b>

August 2007

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## Thanks for the High Scores

Kenergy would like to thank our member-owners for helping us score an 87 in the recent Customer Satisfaction Index, which is 15 points higher than the national average for electric utilities.

We believe that the meaning of customer service goes beyond simply providing electricity to our 54,000 member-owners in an efficient and cost-effective manner. It means being a responsible corporate neighbor and being involved in the communities we serve.

You, the member-owners, are the voice of the cooperative and we appreciate what you are saying.

The logo for Kenergy, featuring the word "Kenergy" in a stylized, italicized font with horizontal lines to the left of the "K".

Your Touchstone Energy<sup>®</sup> Cooperative   
The power of human connections

# F O C U S

## News From Your Co-op

### 3 re-elected to co-op board

Glenn Cox, William Denton, and Chris Mitchell recently were re-elected to three-year terms on the Kenergy Board of Directors.

Cox, of Fredonia in Caldwell County, represents District 1, which is comprised of Caldwell and Lyon counties and portions of Crittenden and Hopkins counties. He is an agricultural producer and has served on the board since 1995.

Mitchell, of Clay in Webster County, has served on the board since 1997 as the director for District 3, which is comprised of Webster County and most of Hopkins County. He is a self-employed farmer.

Denton, of the Zion-Hebbardsville area of Henderson County, represents District 5-Eastern





Henderson County. Denton has served on Kenergy's board since 1994.

Other district board members are Dr. H.M. "Bo" Smith of Union County, Randy Powell of Henderson County, Larry Elder of Daviess County, James Grant of Hancock County, John Warren of Daviess County, Sandra Wood of McLean County, and William Reid of Daviess County.

**Always Call Before  
You Dig**

**One easy phone call to  
Kenergy's 24-Hour Dispatch  
Center for Line Location  
Services before digging can  
protect you from injury and  
save you time.**

**Call 1-800-844-4832 or  
270-926-4141**

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## Kenergy reports on non-regulated business activities

During 2006, Kenergy participated in the following non-regulated activities:

### Geothermal System Sales

As a distributor for geothermal systems, Kenergy sold equipment directly to area HVAC contractors for installation in homes.

### Long-Distance Telephone Service

Kenergy served as a sales agent for three long-distance phone companies through October, 2006.

### Internet Service

Kenergy served as a sales agent for two companies providing dial-up Internet service through October, 2006.

### Meter Base Surge Protection

Kenergy leased to members a device that is attached to the meter to provide an extra level of protection to the customer from damaging surges.

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Your Touchstone Energy<sup>®</sup> Cooperative   
*The power of human connections*

October 2007

# FOCUS

News From Your Co-op

## 811 Call Before You Dig

Whether it is a mailbox, shrubbery, or a pool or any other project that starts in the ground, the first thing you need to do is "Call Before You Dig." A new, federally mandated national Call Before You Dig number 811, was created to help protect you from unintentionally hitting underground utility lines while working outside.

No matter how small, every digging job requires a call. If you hit an underground utility line while digging, you can harm yourself or those around you, disrupt service to an entire neighborhood and potentially be liable for fines and repair costs.

(continued on next page)



Cooperation among cooperatives. Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, regional, national and international structures.

Concern for the community. While focusing on member needs, cooperatives work for the sustainable development of their communities.

Kenergy is proud to serve as your electric cooperative. The principles that have been guiding your cooperative for years still remain. Kenergy's mission is based on the following statement "*Kenergy safely provides low-cost, reliable electricity and related services not readily available elsewhere.*"

*It is a privilege to serve you.*

# Kenergy

Your Touchstone Energy® Cooperative   
The power of human connections



Along with the new 811 number, a national Call Before You Dig campaign has been launched to increase public awareness about the importance of using 811, to have utility lines marked before digging and protect America's vast underground infrastructure of pipelines, conduits, wires and cables.

The FCC (Federal Communications Commission) designated the new national 811 number to eliminate the confusion of multiple Call Before You Dig numbers across the country. The new number routes calls to one of 62 One Call centers located across the United States.

**Protect yourself.  
Call 811 Before you dig every time.**

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## We Appreciate Our Members.

October is National Cooperative Month. Celebrate belonging to your electric cooperative by reading more about the cooperative business model. It's a good thing!

*Voluntary and open membership.* Open to all without gender, social, racial, political, or religious discrimination.

*Democratic Member Control.* One member, one vote.

*Member Economic Participation.* Members contribute equitably to, and democratically control, the capital of the cooperative.

*Autonomy and Independence.* Cooperatives are autonomous, self-help organizations controlled by their members.

*Education, Training and Information.* Cooperatives provide education and training for members so they can contribute effectively to the development of their cooperatives. They inform the general public about the nature and benefits of cooperation.





**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
FIRST DATA REQUEST FOR INFORMATION**

**CASE NO. 2008-00323**

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**Item 43)** With regard to the Economic Development expenses listed in PSC 1-30, pages 6-8, please provide the nature and purpose of the following items and explain why they should be included for ratemaking purposes:

- a) Total Challenge Grant expenses of \$8,143
- b) Total lunches and other ED meeting meals and annual dinner attendance expenses of \$320.73
- c) ED Cabinet Conference of \$107.94
- d) Total Alliance payments of \$19,500
- e) KIED Scholarship of \$550
- f) Golf tournament of \$275
- g) KAEC Annual Conference of \$223
- h) Total recruiting assistance expenses of \$6,604

**Response)** Kenergy has created an economic development alliance with the communities we serve. This alliance promotes growth in these communities, which translates into growth in our system. The location of a business and the jobs it creates help the region prosper. But the peripheral benefit of new jobs is also tremendous; new homes are constructed and people spend their money to buy goods and services.

Kenergy's economic development initiatives are designed and implemented to help communities help themselves. Programs and funds are made available to assist communities in their job growth efforts.

**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
FIRST DATA REQUEST FOR INFORMATION**

**CASE NO. 2008-00323**

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2           **a)**     Kenergy provides dollar-for-dollar matching Challenge Grants for specific  
3 economic development projects. Projects must promote industrial sites and/or existing buildings  
4 for job creation projects. The grants may be used to recruit new industry through printed  
5 materials and/or web sites. The maximum possible funding is \$1,000 per project. Applicants  
6 must identify a specific project and submit a Kenergy Challenge Grant application. The project  
7 for funding must be located within the Kenergy 14 county service area.

8           **b)**     Meal expenses to attend luncheon meetings with regional economic development  
9 professionals, industrial prospects and annual meetings for regional economic development  
10 organizations.

11           **c)**     Expenses associated with attending the Kentucky Association of Economic  
12 Developers (KAED) spring conference.

13           **d)**     Kenergy provides semi-annual Alliance payments to regional economic  
14 development organizations that recruit new industry and provide services to existing industry in  
15 the 14 counties served by Kenergy. These organizations include: Greater Owensboro EDC,  
16 Northwest KY Forward, Madisonville-Hopkins County EDC, Caldwell-Lyon Partnership,  
17 Crittenden County EDC, Hancock County Industrial Foundation and Ohio County Industrial  
18 Foundation.

19           **e)**     Kenergy offers two tuition-only scholarships for the Kentucky Institute of  
20 Economic Development (KIED) to economic development professionals and community leaders.  
21 Kenergy provided one scholarship to KIED in 2007.

**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
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f) Kenergy supported the Pennyrile Area Development District (PADD) Industry Appreciation Luncheon and Golf Outing in 2007. This is an annual event sponsored by PADD to recognize existing industry in the PADD counties.

g) Expenses associated with attending the Kentucky Association of Economic Developers (KAED) Annual Meeting.

h) Kenergy reimburses regional economic development organizations up to one-half of out-of-pocket expenses for individuals participating in a national trade show and/or recruiting visits to new industry. Reimbursement shall be made on a first-come, first-served basis. Maximum participation will be limited to \$500 per individual attending a trade show or recruiting visit and shall never exceed a total of \$1,000 per trade show or recruiting visit.

**Witness)** David Hamilton



**KENERGY CORP.  
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**Item 44)** The other A&G expenses listed in PSC 1-30, page 9 include \$741.16 for door prizes and scholarship certificates and \$112 for Board Spouse gift. Have these expenses been included for ratemaking purposes and, if so, why would that be appropriate?

**Response)** Door prizes are awarded at Kenergy's annual meeting in June to members by method of random drawings. Employees are not eligible for prizes. Higher Education Scholarships are also awarded by random drawings at the annual meeting. The \$112 has been excluded for rate-making purposes.

**Witnesses)** Sanford Novick  
Lisa Owen



**KENERGY CORP.  
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**Item 45)** With regard to Exhibit 5, page 7, footnote (2), please provide the following information:

a) Actual monthly number of full-time employees (equivalent to the 155 FT employees referenced in the footnote) from 1/1/03 through to-date

b) 13-month average monthly number of FT employees for each of the years 2003 through the 2007 test year.

c) Actual number of full-time hours worked (equivalent to the 318,449 for 2007) for each of the years 2003 – 2007

**Response a-c)** Item 45, page 2 of 2 contains the above referenced information.

**Witness)** Keith Ellis

KENERGY CORP. CASE NO. 2008-00323 ITEM 45-AG FIRST DATA REQUEST						
	2003	2004	2005	2006	2007 (test year)	JAN. - SEPT. 2008
<b>Total # of Full-time employees per month (data is of the 12th day of each month)</b>						
Month 1	166	164	166	161	156	154
2	166	165	166	161	156	154
3	166	166	164	161	155	154
4	166	167	164	161	155	154
5	166	168	164	161	154	158
6	165	168	162	160	153	157
7	164	168	161	160	153	156
8	163	168	161	159	153	155
9	163	166	162	158	153	154
10	162	166	162	158	154	
11	162	166	162	157	154	
12	162	166	161	157	155	
<b>DECEMBER PREVIOUS YEAR</b>	166	162	166	161	157	155
<b>AVERAGE</b>	164	166	163	160	154	155
<b>FULL-TIME HOURS PAID (EXCLUDES OVERTIME)</b>	353,880	346,321	336,652	333,533	318,449	



**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
FIRST DATA REQUEST FOR INFORMATION**

**CASE NO. 2008-00323**

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**Item 46)** With regard to overtime hours and expenses shown on Exhibit 5, page 7, please provide the following information:

a) The 23,731 OT hours for which Kenergy is requesting rate recovery includes expenses associated with hours billed to other parties to the extent of \$45,043 ( $\$1,104 \times \$40.80 = \$45,043$ ). Isn't Kenergy reimbursed for those OT hours? If not, why not? If so, where are the off-setting reimbursed dollars for these OT hours reflected in the filing?

b) The 23,731 OT hours for which Kenergy is requesting rate recovery includes expenses associated with storm repairs to the extent of \$415,997 ( $\$10,196 \times \$40,809 = \$415,997$ ). Please explain why there is not a certain level of storm damage expense double count when recognizing these storm damage expenses as well as the storm damage expense normalization adjustment on Exhibit 5, page 11.

c) The four-year average OT hours of 18,908 shown at the bottom of the exhibit represents the average for the 4-year period 2003-2006 and does not include the 2007 test year. Please confirm that the 4-year average for 2004-2007, including the test year, is 17,058.

d) Please explain the reason for and derivation of the adjustment for additional OT hours of 2,074 (which, presumably can be found at the bottom of the exhibit but which the AG cannot replicate).

**Response a)** Yes, Kenergy is reimbursed for these 1,104 hours billed to outside parties. See Line 19, Accounts Receivable, Columns (e) and (k) for the exclusion of these dollars for rate-making purposes.

**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
FIRST DATA REQUEST FOR INFORMATION**

**CASE NO. 2008-00323**

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b) The storm damage expense normalization adjustment on Exhibit 5, page 11 only includes outside vendor expenses.

c) The five-year average for 2004-2007 is 17,618. See Line 49, which states 2007 is not a representative year due to budget constraints imposed.

d) The 2,074 was derived by subtracting the FEMA reimbursement of 764 from storm repair total of 2,838.

**Witness)** Steve Thompson



**KENERGY CORP.**  
**RESPONSE TO ATTORNEY GENERAL'S**  
**FIRST DATA REQUEST FOR INFORMATION**

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**Item 47)** With regard to the proforma test year deferred compensation expense of \$82,485 shown on Exhibit 5, pages 8 and 8d, please provide the following information:

a) Provide a description and explanation of the nature and purpose of the deferred compensation program for which these expenses are made.

b) Explain why the proforma expense of \$82,485 is 117.40% higher than the per books test year expense of \$37,942. In addition, explain why this expense level is to be considered annually recurring.

c) The deferred compensation is for the recently retired CEO and for "2 former Green River" employees. Please indicate what functions and titles these two former Green River employees had upon retirement.

d) Explain why it is appropriate to charge the ratepayers for this proforma expense of \$82,485.

**Response** a) The two benefit programs are defined as 457B and 401-K Plans. The 401-K Plan is described on page 8L of Exhibit 5. The 401-K Plan is available to all active employees except those who were employed by Henderson-Union Electric (Henderson-Union and Green River consolidated on July 1, 1999 to form Kenergy) See Exhibit 11, page 14, Pension Plans – Deferred Compensation Plan caption, for an explanation of the 457B Plan.

b) The proforma expense is higher than test year for two reasons:

**KENERGY CORP.  
RESPONSE TO ATTORNEY GENERAL'S  
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**CASE NO. 2008-00323**

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First, the 457B Plan expense during 2007 only includes expenses for one-half year related to the new CEO. (Since the former CEO left around mid-year, no 457 expense was incurred.) The proforma expense includes a full year for the new CEO.

Secondly, two vice presidents who were employed by the former Green River Electric were removed from the Defined Benefit Plan and Contribution Plan to the 457B Plan effective 1/1/08 to comply with ERISA regulations. (The plan dropped below 50 participants.) The proforma 457B expense includes contributions of \$31,000, which is higher than the allocated Defined Benefit expense. These expenses are recurring, as they follow proforma salary expense.

c) These expenses are for the current CEO and vice presidents of Operations and Accounting. The caption on Exhibit 5, page 8d, line 24, should read: (CEO and 2 Active Employees who were Former Green River Employees Hired before 1/1/87).

d) The proforma expense of \$82,485 represent recurring cost related to pension benefits for three active employees approved by the Board of Directors and should be allowed for rate-making purposes.

**Witness)** Sanford Novick