

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENERGY CORPORATION)	
FOR REVIEW AND APPROVAL OF)	CASE NO.
EXISTING RATES)	2003-00165

THIRD DATA REQUEST OF COMMISSION STAFF TO
KENERGY CORPORATION

Kenergy Corporation (Kenergy) is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and eight copies of the following information, with a copy to all parties of record. The information requested herein is due on September 19, 2003. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to Item 4(c) of Kenergy s response to the August 8, 2003 Data Request of Commission Staff (Staff s Second Request). Does Kenergy agree that the \$50,000 IRS threshold is currently established by federal regulations?

2. Refer to Kenergy s response to Item 6(b) of Staff s Second Request.

a. Does Kenergy own any assets related to its non-regulated activities? If yes, describe the assets.

b. How does Kenergy's accounting system reflect the depreciation for non-regulated assets and appropriately match depreciation expense to non-regulated expenses?

3. Refer to Kenergy's response to Item 8 of Staff's Second Request. Provide a copy of the outside auditor's recommendation. Also, provide a copy of the referenced citation from the Rural Utilities Service Uniform System of Accounts.

4. Refer to Kenergy's response to Item 10(a) of Staff's Second Request. What steps does Kenergy plan to take to implement the recommendations of the Organizational Effectiveness Study over the period of 2003 through 2008? If Kenergy has already begun to implement the recommendations, identify the recommendation and when it was implemented.

5. Refer to Kenergy's response to Item 15 of Staff's Second Request.

a. Explain why Kenergy is participating in the Cushion of Credit program.

b. List the benefits to Kenergy resulting from participation in the program.

c. How was the program funded during the test year?

6. Refer to Kenergy's response to Items 18(a) and 18(b) of Staff's Second Request.

a. Did the wage study recommend providing Christmas and perfect attendance bonuses to Kenergy's employees?

b. Refer to Item 41, page 5 of 22. The wage study states, overall we feel that Kenergy pay structure is substantially in line with the external market place and at the same time has internal pay equity. Given that statement, why should the Christmas and perfect attendance bonuses be included for rate-making purposes?

c. Refer to the response to Item 18(b). Explain the meaning of the response They satisfy the criteria of being for the benefit of the members and being reasonable. Identify the criteria referenced in the response.

7. Refer to Kenergy s response to Item 21 of Staff s Second Request.

a. The financial forecast in part (b) of the response reflects a \$3 million increase in revenues in 2005, with that amount being shown as additional revenue until 2009 when it increases to \$6.4 million. Explain whether the fact that the same amount is shown for each of the years 2005 through 2008 means that, for purposes of the forecast, the increase in 2005 was assumed to occur at the beginning of the year.

b. Part (d) of the response indicates that consideration has been given, but nothing in depth at this point, to adjusting rates on or after September 1, 2004, but remaining revenue neutral on a total system basis. Explain whether the 2005 revenue increase shown in the financial forecast reflects that remaining revenue neutral on a total system basis is the part of this scenario that Kenergy has yet to consider in depth.

8. Refer to Kenergy s response to Item 26(b) of Staff s Second Request. Has there been any non-regulated construction work in progress since the creation of Kenergy? If yes, provide the originally requested information.

9. Refer to Kenergy's response to Item 27(c) of Staff's Second Request. Does the cost allocation manual (CAM) assume that all indirect costs must be allocated to all categories? If yes, explain why that is a reasonable assumption.

10. Refer to Kenergy's response to Item 37(b) of Staff's Second Request. Is health insurance part of the compensation for any professional service provider, other than the attorney? If yes, provide the name of the professional service provider and the amount for health insurance included in the test year.

11. Refer to Kenergy's response to Item 38 of Staff's Second Request.

a. Refer to part (a). The response indicates that Kenergy eliminated payment of medical insurance coverage for directors and elected to pay a monthly retainer in lieu of the medical insurance coverage. Kenergy has also indicated that during the test year four directors were participating in its medical insurance plans. Explain why Kenergy believes it is necessary to pay a monthly retainer when most of the directors have not elected to participate in Kenergy's medical insurance plans.

b. Refer to part (b)(2). Was Kenergy aware that the Commission has not normally allowed an additional monthly per diem for the chairperson for rate-making purposes?

c. Refer to part (b)(3). Was Kenergy aware that the Commission has not allowed payments for director emeritus in previous cases?

d. Refer to part (b)(6). Was Kenergy aware that the Commission has not normally allowed per diems, exceeding actual expenses, for directors' travel for rate-making purposes?

e. Refer to part (c). Was Kenergy aware that the Commission has not normally allowed the expenses for directors, other than the voting delegate and the alternate, to attend the Kentucky Association of Electric Cooperatives (KAEC) and National Rural Electric Cooperatives Association (NRECA) meetings for rate-making purposes?

f. Refer to part (e)(2). Is Melvin Gibson still participating in the dental program?

g. Refer to part (e)(6). Explain why Kenergy is not named as the beneficiary of the life insurance policy provided to the directors by Kenergy.

12. Refer to Item 23, page 2, line 41 of Kenergy s response to the First Data Request of Commission Staff and the response to Item 42 of Staff s Second Request.

a. Explain the reason why the payment to retirees is identified as vacation pay.

b. Explain why a temporary assignment would incur overtime.

13. Refer to Kenergy s response to Item 45(b) of Staff s Second Request. Regarding the Touchstone Energy[®] Cooperative (Touchstone) program, the response states, The branding program was designed to help cooperatives distinguish themselves as preferred providers of electricity in the utility marketplace. Kenergy benefits from the brand equity created by Touchstone Energy s national multi-media advertising campaign, which focuses on four core cooperative values integrity, commitment to community, accountability and innovation. Based on this response, does Kenergy agree that the Touchstone expenses should be excluded for rate-making

purposes as institutional advertising pursuant to 807 KAR 5:016, Section 4? If no, explain the response.

14. Refer to Kenergy's response to Item 47 of Staff's Second Request.

a. Refer to Line 11, Economic Development Institute. What is the professional economic development certification? Is Kenergy the only entity providing scholarships?

b. For each vendor referenced below, provide a detailed description of the purpose of the entity, the number of members in Kentucky at the end of the test year, the activities and projects during the last 5 years, the name of any Kenergy board member affiliated with the entity and identify the affiliation, and the number other electric utilities investor-owned, cooperative or municipal that are members.

- (1) Line 11 Economic Development Institute.
- (2) Line 17 Kentucky Industrial.
- (3) Line 21 Industry, Inc.
- (4) Line 27 Union Co. Economic Development.
- (5) Line 33 Henderson Co. EDC.
- (6) Line 38 Webster County Economic.
- (7) Line 47 Madisonville Hopkins County.
- (8) Line 85 Kentucky Council of Cooperatives.
- (9) Line 92 Leadership West KY Foundation.
- (10) Line 97 Nam Site Selection Network.
- (11) Line 100 West KY Corporation.
- (12) Line 104 Green River Economic Development Corporation.

(13) Line 186 Downtown Owensboro Inc.

c. Refer to Line 26. Describe the OE Cycle Project.

d. Refer to Line 51. Describe the Challenge Grant program.

Provide the criteria for participation, a list of the projects included in the grant, and a list of Kenergy's program partners.

e. Refer to lines 57, 59, and 62. Provide the name of the statewide economic development professionals conference, a list of Kenergy attendees, and the purpose of the conference.

f. Pertaining to the Homebuilders Association. Explain what is meant by the response that Kenergy maintains a booth to support our homebuilders.

g. Refer to lines 158, 168, 175, and 183. Were these items directly charged to the non-regulated activities? If no, explain why not.

15. Refer to page 3 of 3 of Kenergy's response to Item 48 of Staff's Second Request.

a. Refer to lines 6 and 8. Identify the Kenergy directors that attended the conference. Provide the seminar topics for the training and the conference dates.

b. Refer to line 13. Was this item directly charged to the non-regulated activities? If no, explain why not.

c. Refer to lines 14, 16, 19, 22, 24, 26, 40, and 49. Was Kenergy aware that the Commission has not allowed expenses for committees like the Credentials and Election Committee for rate-making purposes in previous cases?

16. Refer to pages 3 and 4 of 4 of Kenergy's response to Item 49 of Staff's Second Request.

a. For each vendor referenced below, provide a detailed explanation of the purpose of the entity, the number of members in Kentucky at the end of the test year, the activities and projects during the last 5 years, the name of any Kenergy board member affiliated with the entity and identify the affiliation, and the number other electric utilities investor-owned, cooperative or municipal that are members.

(1) Line 1 National Rural Economic Developers Association.

(2) Line 5 Kentucky Institute for Economic Development.

(3) Line 7 Hancock Co. Industrial Foundation.

(4) Line 10 Western KY Industrial Foundation.

(5) Line 24 McLean Co. Industrial Foundation.

(6) Line 36 Four Star Industrial Park.

(7) Line 39 Green River Area Development District.

(8) Line 55 Southwestern Indiana Small Business Development Center.

b. Refer to line 51. Explain the Challenge Grant program. Provide the criteria for participation, a list of the projects included in the grant, and a list of Kenergy's program partners.

c. Concerning Kenergy's economic development alliance, provide a list of the alliance partners, available programs, total test-year costs, the amount of funds available, and the distribution of those funds.

17. Refer to page 2 of 4 of Kenergy's response to Item 49 of Staff's Second Request. The response provided indicates the amount expensed was (\$33,881).

However, the supporting transactions listed on pages 3 and 4 of 4 total to \$15,772. Explain why the amounts do not match.

18. Refer to Kenergy's response to Item 50 of Staff's Second Request.

a. Was Kenergy aware that the following types of expenses have not been allowed for rate-making purposes by the Commission in previous cases?

- (1) Christmas gifts.
- (2) Gifts for a new baby.
- (3) Gifts due to death.
- (4) Gifts due to illness.
- (5) Washington Youth Tour.
- (6) Legislative breakfast.
- (7) Flowers.
- (8) Higher education scholarships.
- (9) Annual meeting door prizes and gifts.

b. Given the nature of the following expenses, why should the item be allowed for rate-making purposes? A citation to the Second Data Request of Commission Staff dated August 8, 2003, Item 18(b) is not responsive to this request.

- (1) Frankfort Youth Tour line 30.
- (2) Contribution to Hancock County High School's After Prom Party line 32.
- (3) Sponsorship of softball team lines 34 and 56.
- (4) Contribution to Special Olympics line 37.

(5) Contribution to Trinity High School's Project Graduation

line 38.

(6) Participation in M D Anderson Cancer Center functions line

42.

(7) Kentucky Wesleyan College basketball tickets lines 26 and

110.

19. Refer to Kenergy's response to Item 51 of Staff's Second Request.

a. Describe the purpose and function of the Member Resource Committee. Provide a description of the structure of the committee, how the committee members are selected, what their duties are, and how frequently the committee meets.

b. Explain the reasons the following expenses associated with the committee should be included for rate-making purposes. A citation to the Second Data Request of Commission Staff dated August 8, 2003, Item 18(b) is not responsive to this request.

(1) Lines 86 and 132 Gifts.

(2) Line 106 Decorations.

(3) Lines 123, 126, and 135 Entertainment.

20. Refer to Kenergy's response to Item 52 of Staff's Second Request.

a. Refer to parts (a) and (b)(1). For the following list of Other Meetings, identify the nature and purpose of each meeting, how frequently the meeting is held, and explain why the Other Meeting business cannot be conducted in conjunction with the regular board meeting.

(1) HR meeting.

- (2) Kenergy OE.
- (3) OE Cycle meeting.
- (4) Election meeting.
- (5) Pension meeting.
- (6) By-laws meeting.
- (7) Audit firm meeting.
- (8) Strategic planning.
- (9) OEC meeting.
- (10) Board effectiveness meeting.
- (11) Special board meeting, June 27, 2002.
- (12) BREC meeting, page 21 of 29, line 37.
- (13) Orientation meeting.
- (14) CFC Forum, July 15 through 17, 2002.
- (15) Meade County meeting, page 28 of 29, line 37.
- (16) Standard market design meeting.
- (17) MRC meeting.

b. Throughout the response, numerous references are made to Committee Meeting. Explain the nature and purpose of these meetings, how frequently the meetings are held, and why the business cannot be conducted during the regular board meeting.

c. Throughout the response, it appears that several directors attended the KAEC annual meeting. Other than the voting delegate and the alternate, explain why any expense for the other directors should be allowed for rate-making purposes. A

citation to the Second Data Request of Commission Staff dated August 8, 2003, Item 18(b) is not responsive to this request.

d. Throughout the response are references to attendance of specific conferences and meetings. Explain the purpose of the following meetings:

- (1) Dr. Smith NRECA Director Conference.
- (2) RCCU Director Conference.
- (3) NRECA Annual Directors Conference.
- (4) RCCU Board Agenda Meeting.

21. Refer to page 3 of 15 of Kenergy's response to Item 53 of Staff's Second Request. How frequently does Kenergy develop a new work plan? If other than annually, would Kenergy agree that it is reasonable to spread the expense over the number of years the work plan covers? If no, explain the response.

22. Refer to Kenergy's response to Item 53 of Staff's Second Request.

a. Refer to pages 4 through 7 of 15. Explain the following expenses:

- (1) Control number 141787 Big Rivers joint building project.

Was this cost capitalized in total? If no, explain the response.

- (2) Control numbers 144428, 143954, 147427, and 143952

Costs associated with the development of the CAM. Are the costs associated with the CAM recurring?

- (3) Routine work order processing. Explain why Kenergy is utilizing an outside service vendor to perform this function.

(4) Control numbers 146322 and 152082 Wage Survey. Are the costs associated with the wage survey recurring? How frequently does Kenergy conduct a wage survey?

b. Refer to page 8 of 15, line 7. Does the reference identified as (1) mean that these expenses are prior year expenses and should be removed for rate-making purposes?

c. Refer to page 12 of 15. Describe the nature of the Leach case and provide the status of the case. Are the costs associated with this case recurring?

d. Refer to page 13 of 15. Do the expenses associated with the Highland Mine case represent a recurring expense? Explain the response.

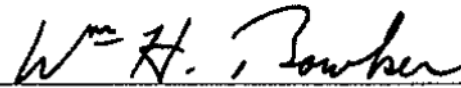
23. Explain the rationale for Kenergy's capitalization of the following expenses. A citation that the CAM requires the allocation will not be considered responsive to this request.

- a. Directors expense.
- b. Property taxes.
- c. Website maintenance.
- d. Professional services.

24. Refer to Kenergy's response to Item 9 of the First Data Request of Kentucky Industrial Utility Customers. Specifically, refer to the last sentence, which states that As Kenergy strives in the future to maintain rates so that all patrons are furnishing capital....

a. Is it correct, based on this reference and the results of Kenergy's cost-of-service study, that the current rates for residential and single-phase customers result in those customers not furnishing capital to Kenergy? Explain the response.

b. If the answer to part (a) above is yes, explain whether Kenergy's commitment to maintain its consolidation credit for a period of 5 years is the only reason for not proposing to adjust, or balance, its rates at this time.



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DATED September 5, 2003

cc: All Parties