

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENERGY CORP. FOR AN) CASE NO.
ADJUSTMENT IN EXISTING RATES) 2006-00369

O R D E R

On September 1, 2006, Kenergy Corp. ("Kenergy") applied to the Commission for authority to adjust its rates to produce additional annual revenue in the amount of \$3,919,603. Kenergy is a consumer-owned rural electric cooperative organized pursuant to KRS Chapter 279 and engaged in the distribution and sale of electric energy to approximately 53,000 customers in 14 counties in Kentucky.¹

To determine the reasonableness of Kenergy's proposal, the Commission suspended the proposed rates pursuant to KRS 278.190(2) for 5 months from their effective date up to and including February 28, 2007. The Kentucky Industrial Utility Customers, Inc. ("KIUC") and the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), sought and were granted full intervention in this proceeding.

On December 7, 2006, Kenergy notified the Commission that it had held discussions with the parties concerning the possibility of settling all the issues in this case and filed a motion for an informal conference. An informal conference was held on January 5, 2007 that was attended by representatives of the Commission Staff,

¹ The 14 counties are Breckinridge, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union, and Webster.

Kenergy, the AG, and KIUC to discuss the possibility of settlement. At the informal conference, Kenergy, the AG, and KIUC stated that they had reached a settlement in principle of all issues in the case. The Settlement Agreement and other supporting documentation were filed with the Commission on January 12, 2007. The Commission held a hearing on January 23, 2007, to take testimony on the reasonableness of the Settlement Agreement and to clarify the parties' positions on the new depreciation study.

After careful review of the January 12, 2007 Settlement Agreement, an examination of the record, and being otherwise sufficiently advised, the Commission finds that the terms are reasonable and that the rate design and terms of service provisions are in conformity with generally accepted rate-making standards. The Commission further finds that the Settlement Agreement, and the proposed rate schedules included therein, are reasonable and should be accepted.

As part of the settlement agreement approved in Case No. 2004-00446,² Kenergy agreed to file and seek approval of a new depreciation study within 5 years of the Commission's approval of that settlement agreement or in connection with its next rate case, whichever event occurred first. Kenergy included with its application in this proceeding a new depreciation study which proposed changes in its current depreciation rates. The Rural Utilities Service granted its approval of the new depreciation rates for a 5-year period ending in December 2011. While not specifically addressed in the January 12, 2007 Settlement Agreement, Kenergy's counsel stated at

² Case No. 2004-00446, The Application of Kenergy Corp. for a Reduction in Revenue and Adjustment in Existing Rates, final Order dated June 14, 2005.

the hearing that the proposed increase in revenues accepted in the Settlement Agreement reflect the change in depreciation expense as a result of the new depreciation study and requested that the Commission approve the depreciation study. Having reviewed the depreciation study and being otherwise sufficiently advised, the Commission finds that the study should be accepted and that the new depreciation rates should be approved. The Commission reminds Kenergy that any subsequent change in its depreciation rates must be approved by the Commission prior to the use of those revised depreciation rates for accounting or rate-making purposes.

IT IS THEREFORE ORDERED that:

1. The Settlement Agreement, attached as Appendix A, is adopted and approved in its entirety.
2. The rates set forth in the Settlement Agreement are approved for service rendered on and after March 1, 2007.
3. Kenergy shall seek from the Commission prior approval of any subsequent change in depreciation rates for accounting or rate-making purposes.
4. Within 20 days of the date of this Order, Kenergy shall file new tariffs reflecting the provisions of this Order.

Done at Frankfort, Kentucky, this 19th day of February, 2007.

By the Commission

ATTEST:


Executive Director

Case No. 2006-00369

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-00369 DATED February 19, 2007.

SETTLEMENT AGREEMENT

Filed January 12, 2007

RECEIVED

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

**JAN 16 2007
PUBLIC SERVICE
COMMISSION**

In the Matter of:)
)
THE APPLICATION OF KENERGY CORP.) CASE No. 2006-00369
FOR AN ADJUSTMENT IN EXISTING)
RATES)

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT is made and entered into as of the 11th day of January, 2007, by and among **KENERGY CORP.** (“Kenergy”), **ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY,** **BY AND THROUGH HIS OFFICE OF RATE INTERVENTION (“AG”)** and **KENTUCKY INDUSTRIAL UTILITIES CUSTOMERS, INC. (“KIUC”);**

WHEREAS:

- (1) On September 1, 2006, Kenergy filed with the Kentucky Public Service Commission (“Commission”) its application in the captioned case;
- (2) AG and KIUC were granted the right to intervene by orders of the Commission and are the only intervenors in this case;
- (3) Kenergy and AG have reached agreement with respect to Schedule 1 of Kenergy’s tariff in which the proposed customer charge will be reduced and the proposed energy charge will be increased a sufficient amount so that the projected revenue to be received by Kenergy from Schedule 1 customers

will be the same amount as set forth in the application, and the AG otherwise has no objections to the adjustments being sought by Kenergy herein;

(4) KIUC has no objections to the adjustments in rates being sought herein, including the aforementioned modifications of Schedule 1; and

(5) Kenergy, AG and KIUC desire to set forth in writing the terms and conditions of their agreement;

NOW, therefore, in consideration of the mutual promises and covenants of the parties hereto, **IT IS AGREED** as follows:

1. Schedule 1 as set forth in the application shall be modified to include a monthly customer charge of \$9.91 and an energy charge of \$0.059956. Attached as "Exhibit A" is a spreadsheet with calculations confirming that these charges produce the same average monthly bills for Schedule 1 customers as are set forth in Kenergy's application. Attached as "Exhibit B" is revised page 2 of "Exhibit 10" to the application which provides proof that these charges do not change the annual revenues Kenergy will receive from Schedule 1 customers.

2. Attached as "Exhibit C" is a revised Schedule 1 that Kenergy will issue and submit for filing upon approval of this settlement agreement by the Commission. The remaining tariff schedules that Kenergy proposes to file herein as set forth in the application (Schedule 2, Schedule 4 and Schedule 146) also will be issued upon approval of this settlement by the Commission. All tariff schedules shall show actual date of issue and effective date of March 1, 2007. The applicable rates will become effective in accordance with the terms of this agreement for service rendered on and after March 1, 2007.

3. The parties agree that this settlement represents a mutually satisfactory and reasonable resolution of all issues in this case, but it is understood by all parties that this settlement does not represent agreement on any specific theory supporting the appropriateness of any recommended adjustment to Kenergy's rates. Further, settlement of this case is in the best interest of the parties hereto as it will allow the parties to promptly resolve their dispute without expending further time and incurring additional expense in the pending case. Kenergy offers the testimony of its President and CEO Mark A. Bailey in support of the reasonableness of the rates resulting from this settlement, being attached as "Exhibit D."

4. This Settlement Agreement is conditioned upon and subject to express approval of the Commission. The terms and conditions of this Settlement Agreement are inseparable from one another and accordingly are not severable by the Commission. In the event the Commission fails to approve this Settlement Agreement in its entirety, then Kenergy, AG or KIUC may withdraw from this settlement by notifying the other parties and the Commission within 10 days of the Commission's action of such withdrawal and requesting the Commission to reinstate a procedural order and schedule a hearing in the subject case. In the event of such withdrawal this Settlement Agreement shall be deemed to be null and void and of no legal effect or consequence and the parties hereto shall be restored to status quo existing immediately prior to the execution of this

Settlement Agreement; moreover, none of the terms herein shall be binding upon any of the parties nor shall the Settlement Agreement, or any of its terms, be admissible in any judicial or administrative proceeding.

5. This Settlement Agreement constitutes the complete agreement and understanding by and among the parties hereto and any and all oral statements, representations or agreements made prior hereto or contemporaneously herewith shall be deemed to have been merged into this Settlement Agreement.

6. This settlement agreement may be signed in counterparts.

IN TESTIMONY WHEREOF, witness the hands of the parties hereto this day and date first above written.

KENERGY CORP.

By Mark A. Bailey
Mark A. Bailey
(printed name)
President and CEO
(title)

**KENTUCKY INDUSTRIAL UTILITIES
CUSTOMERS, INC.**

By _____

(printed name)

(title)

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KENERGY CORP.

By _____


Mark A. Bailey

(printed name)

President and CEO

(title)

**KENTUCKY INDUSTRIAL UTILITIES
CUSTOMERS, INC.**

By  _____

Michael C. Kurtz

(printed name)

Lawyer

(title)

**ATTORNEY GENERAL OF THE
COMMONWEALTH OF KENTUCKY,
BY AND THROUGH HIS OFFICE
OF RATE INTERVENTION**

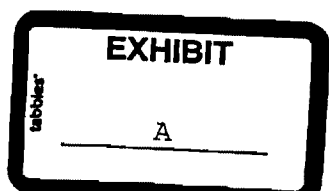
By 

Lawrence W. Code
(printed name)

Assistant Attorney General
(title)

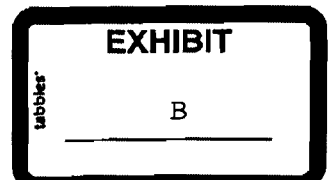
KENERGY CORP.
Case No. 2006-00369

	<u>kWh</u>	<u>Normalized Present Revenue</u>	<u>Proposed Revenue</u>	<u>Settlement</u>
1 Residential kWh and Revenues From Summary of Revenue	720,600,499	\$ 44,193,771	\$ 47,549,715	\$ 47,549,715
2				
3 Number of Customers	44,205	44,205	44,205	44,205
4				
5 Test Year Averages per Month	1,358,44456	\$ 83.31	\$ 89.64	\$ 89.64
6				
7 Present, Proposed & Settlement Rates				
8				
9 Facilities Charge		7.91	12	9.91
10 Energy Charge		\$ 0.056769	\$ 0.058417	\$ 0.059956
11 MDA		\$ (0.001235)	\$ (0.001235)	\$ (0.001235)
12				
13 Rate Calculations @ Average Consumption	1,358,44456			
14				
15 Facilities Charge		\$ 7.91	\$ 12.00	\$ 9.91
16 Energy Charge		\$ 77.12	\$ 79.36	\$ 81.45
17 MDA		\$ (1.68)	\$ (1.68)	\$ (1.68)
18 Total		\$ 83.35	\$ 89.68	\$ 89.68
19 Correction Factor From Consumption Analysis		x (0.0004557)	(0.0004557)	(0.0004557)
20 Correction Factor Adjustment		(0.04)	(0.04)	(0.04)
21				
22 Adjusted Average Monthly Bill		\$ 83.31	\$ 89.64	\$ 89.64



KENERGY CORP.
Case No. 2006-00369
RESIDENTIAL
CONSUMPTION ANALYSIS

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
		Present	Present	Normalized	Normalized	Normalized	Settlement Rates	Settlement
		(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Number of Bills							
2	Less YDL Only							
3	Customer Charge	\$7.91	\$ -	530,460	\$7.91	\$ -		\$ -
4	Three Phase Farm	\$7.91	\$ 4,253,579	0 x	\$7.91	\$ 4,195,939	\$9.91	\$ 5,256,859
5	Customer Charge		\$ 4,253,579	530,460 x		\$ 4,195,939		\$ 5,256,859
6			\$ 4,253,579					
7								
8	KWH Charge	\$ 0.056073	19,580,270					
9	KWH Charge	\$ 0.056400 (1)	3,217,842					
10	KWH Charge	\$ 0.056769	17,809,715	720,600,499 x	\$ 0.056769	40,907,770	\$ 0.059956	43,204,324
11								
12								
13			\$ 40,607,828			\$ 45,103,708		\$ 48,461,182
14								
15	Wholesale Discount Adjustment:							
16								
17		\$ (0.000850)	(611,940)	720,600,499 x	\$ (0.001235)	(889,792)	\$ (0.001235)	(889,792)
18								
19			\$ 44,249,467			\$ 44,213,917		\$ 47,571,390
20	Times Correction Factor		(0.00045565)			(0.00045565)		(0.00045565)
21			(20,162)			(20,146)		(21,676)
22								
23	Per Books		\$ 44,229,305			\$ 44,193,771		\$ 47,549,715
24								
25							As filed	\$ 47,549,372
26							Delta	\$ 343
27								





Henderson, Kentucky

FOR ALL TERRITORY SERVED

Community, Town or City

PSC NO. 1

Third Revised SHEET NO. 1

CANCELLING PSC NO.

Second Revised SHEET NO. 1

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

APPLICABLE

To entire territory served.

AVAILABLE

To all residential (single and three-phase) service.

TYPE OF SERVICE - Single or three-phase with secondary voltages available in the vicinity or agreed to by Kenergy.

MONTHLY RATE

- (I) Residential Customer Charge per delivery point... \$9.91
(I) Energy Charge per KWH... .059956

TAXES AND FEES

School Taxes added if applicable.
Kentucky Sales Taxes to be added to bill if applicable.

DATE OF ISSUE DATE EFFECTIVE March 1, 2007
ISSUED BY Signature of officer TITLE - President and CEO
ISSUED BY AUTHORITY OF PSC ORDER 2006-00369

EXHIBIT
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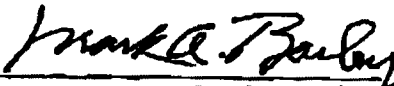
application. Other than these changes, the adjustments being sought by Kenergy in its application remain the same.

Q6. With these changes to Schedule 1 do you believe that Kenergy still will have rates that are fair, just, reasonable and nondiscriminatory?

A. Yes, I do. The reason Kenergy requested a \$12.00 customer charge for Schedule 1 customers is that the cost of service study showed that the actual cost for this item was in the \$18.00 to \$20.00 range, and the proposed increase was a step in getting the customer charge more in line with actual cost. The agreed upon increase from \$7.91 to \$9.91 is just a smaller step, but since the Schedule 1 customers as a class will continue to pay the same amount of revenues to Kenergy, I continue to believe that Kenergy will have rates that are fair, just, reasonable and nondiscriminatory.

Q7. Does this conclude your testimony at this time?

A. Yes.



Mark A. Bailey