

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|  |   |            |
|--|---|------------|
| APPLICATION OF KENERGY CORP. FOR       | ) |            |
| AUTHORIZATION TO ASSUME OBLIGATIONS    | ) | CASE NO.   |
| OR LIABILITIES IN RESPECT TO EVIDENCES | ) | 2007-00556 |
| OF INDEBTEDNESS                        | ) |            |

FIRST DATA REQUEST OF COMMISSION STAFF TO  
KENERGY CORP.

Kenergy Corp. ("Kenergy"), pursuant to 807 KAR 5:001 is to file with the Commission the original and 5 copies of the following information, with a copy to all parties of record. The information requested herein is due 10 days from the date of this request. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kenergy shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Kenergy fails or refuses to furnish all or part of the requested information, Kenergy shall

provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to the Application, page 1. Kenergy has identified interest rate swaps, caps, floors, collars, treasury locks, and forward rate agreements as the types of interest management products its Board of Directors have authorized to manage interest rate risk.

a. For each of the identified products, indicate whether the product is usually utilized when the debt carries a fixed, variable, or floating interest rate.

b. Is Kenergy requesting authorization to use any of the identified products irrespective of the type of interest rate on the debt, or are certain of the identified products to be used only in conjunction with specific types of interest rates?

2. Refer to the Application, page 2. Kenergy's Board of Directors has limited the use of interest rate management products to debt no greater than \$5,500,000. Kenergy notes in the application that it has pending before the Rural Utilities Service ("RUS") an application for a loan in the amount of \$31,622,000. How did Kenergy's Board of Directors determine that \$5,500,000 was the reasonable limit for examination of interest rate management products?

3. Refer to the Application, page 2. Kenergy states that if it is satisfied with its experience managing interest rate risk, it may want to increase the amount of funds covered by interest rate management products and to deal with entities other than CoBank in interest rate risk management transactions.

a. Explain in detail how Kenergy plans to determine its “satisfaction” with managing interest rate risk.

b. Provide citations to financial articles, texts, or other scholarly works which endorse the type of analysis to be used by Kenergy to determine its “satisfaction” with managing interest rate risk.

4. Refer to the Application, Exhibit 2, page 6. The treasury lock example on this page shows when Kenergy would pay CoBank and when CoBank would pay Kenergy.

a. Are there any costs to Kenergy, other than those shown in this example, associated with the use of a treasury lock? Explain the response.

b. If the situation required a payment from Kenergy, does Kenergy anticipate any problems making the payment?

5. Concerning the proposed treasury lock and the pending RUS loan:

a. Is the treasury lock specifically linked to the \$5,500,000 limit Kenergy’s Board of Directors has established or to the \$31,622,000 RUS loan? Explain the response.

b. If the Commission approves the proposed treasury lock and Kenergy’s Board of Directors agrees to raise the debt limit subject to interest rate management products to the full amount of the pending RUS loan, does Kenergy

believe the approved treasury lock could be applied to additional loan drawdowns from the RUS loan? Explain the response.

c. At what point in the process would Kenergy initiate the treasury lock agreements?

6. When does Kenergy expect to hear from RUS regarding its currently pending \$31,622,000 loan application?

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

DATED February 22, 2008

cc: All Parties