

DORSEY, GRAY, NORMENT & HOPGOOD

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February 1, 2016

Mr. Jeff DeRouen  
Public Service Commission  
Post Office Box 615  
Frankfort, Kentucky 40602

Re: Kenergy Application for General Adjustment in Rates  
2015-00312

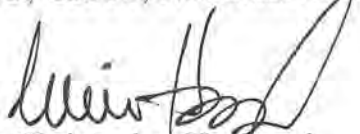
Dear Mr. DeRouen:

Enclosed for filing are Kenergy's responses to the Attorney  
General's Supplemental Data Requests.

Very truly yours,

DORSEY, GRAY, NORMENT & HOPGOOD

By

  
J. Christopher Hopgood  
Counsel for Kenergy Corp.

JCH/cds

Encls.

cc:


Attorney General

Office of Rate Intervention

CASE NO. 2015-00312

VERIFICATION

I verify, state and affirm that the data request responses to the Attorney General's supplemental request for information 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.

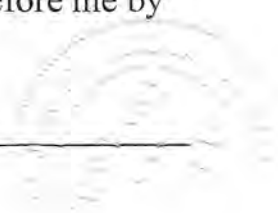

  
Steve Thompson, Vice President - Finance

STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me by Steve Thompson, this 1st day of February, 2016.

My commission expires 3-20-2016


  
  
Notary Public, KY. State at Large  
#458992

(seal)

CASE NO. 2015 -00312

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION  
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, Vice President, Administrative Services & Human Resources

STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me by Keith Ellis, the 29<sup>th</sup> day of January, 2016.

My commission expires 5-24-19  
\_\_\_\_\_

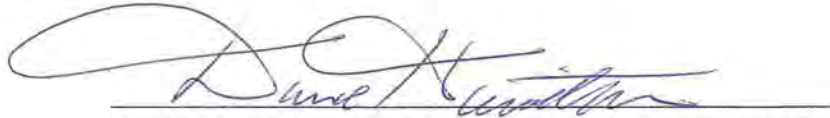
  
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Notary Public, KY. State at Large

CASE NO. 2015-00312

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.

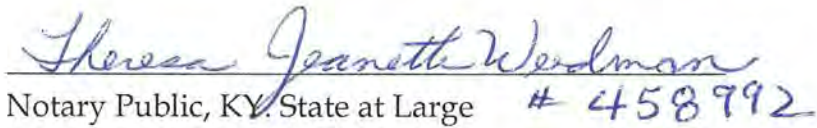


David Hamilton, Vice President - Member Services

STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me by David Hamilton, this 1<sup>st</sup> Day of February, 2016.



Notary Public, KY, State at Large # 458992

My commission expires: 3-20-2016

(seal)

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
SUPPLEMENTAL REQUEST FOR INFORMATION  
2015-00312 RATE APPLICATION**

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**Item 1)** Reference Kenergy's Response to AG 1-2 and provide updates to all invoices from outside experts, consultants, and legal counsel related to the current rate case. Please provide these on an ongoing basis throughout the pendency of the case.

**Response)** Please refer to Kenergy Corp's First Supplemental Response to the Commission Staff's First Request for Information Item 34c, filed under separate cover letter.

**Witness)** Steve Thompson

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
SUPPLEMENTAL REQUEST FOR INFORMATION  
2015-00312 RATE APPLICATION**

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**Item 2)** Reference Kenergy's Response to AG 1-3 and provide the Board of Directors ("BOD") meeting minutes for every BOD meeting between January 2011 and the present where rates were discussed. Please provide copies of the BOD meeting minutes in its entirety and not just portions of the documentation.

**Response)** Please see pages 2 through 19 of this response.

**Witness)** Steve Thompson

KENERGY CORP.  
EXCERPT FROM JANUARY 13, 2011  
MINUTES OF MEETING OF BOARD OF DIRECTORS

The President requested board approval to proceed with filing with the KPSC a notice of intent to file on February 1 for a rate increase on or about March 1. He advised that approval of the actual rate case filing will be requested at the February board meeting. Director John Warren moved that the request be approved. Motion was seconded by Director Allan Eyre and carried by unanimous vote.

KENERGY CORP.  
EXCERPT FROM FEBRUARY 8, 2011  
MINUTES OF MEETING OF BOARD OF DIRECTORS

Vice President of Finance Steve Thompson along with CEO Sandy Novick and consultant Jack Gaines presented management's recommendation on a rate increase for Kenergy customers, including the flow through of a rate increase being proposed by Big Rivers. Staff and Mr. Gaines responded to questions of the board and after lengthy discussion, Director Sandra Wood moved, seconded by Director John Warren that the rate filing be approved. Director Allan Eyre moved, seconded by Director Brent Wigginton that the motion be amended to include that the customer charge be increased from \$10.50 to \$13, while the energy charge be reduced to a level sufficient that the overall rate increase would not change. The amendment was approved by unanimous vote. The board then voted to adopt the following resolution with Director Bob White voting nay.

Whereas, the Board has a policy of maintaining an equity to total capital ratio between 30% and 40%;

Whereas, the Board has accepted a long range financial plan of achieving at least 35% equity to total capital in order to strengthen Kenergy financially as well as to allow the recommencement of capital credit retirements;

Whereas, Kenergy's operating costs have risen due to a new Board approved depreciation study as well as increased payroll overhead costs and depreciation costs;

Whereas, the Board has adopted a philosophy of seeking more frequent but smaller rate increases to minimize the impact on members of any single rate increase;

Whereas, the last Kenergy retail rate increase went into effect in February, 2009; and,



Whereas, Big Rivers Electric Corporation (BREC), Kenergy's wholesale power supplier is expected to file for a general increase in its wholesale power rates to Kenergy on or about March 1, 2011;

Now, Therefore, Be It Resolved that the Board authorizes management to file with the Kentucky Public Service Commission (KPSC) to seek approval to flow through in its rates, the BREC approved rate increase as well as to seek approval for a 2.45% increase in the non-direct served revenues and a 0.48% overall general increase in Kenergy's revenues.

KENERGY CORP.  
EXCERPT FROM APRIL 12, 2011  
MINUTES OF MEETING OF BOARD OF DIRECTORS

CEO Sandy Novick gave an update on Kenergy's pending rate case.

KENERGY CORP.  
EXCERPT FROM MAY10, 2011  
MINUTES OF MEETING OF BOARD OF DIRECTORS

CEO Sandy Novick advised the board of an issue with the number of pole replacements budgeted for 2011 and gave an update on Kenergy's rate case. The CEO also reported on his attendance at the NRECA Legislative Conference.

KENERGY CORP.  
EXCERPT FROM JUNE 7, 2011  
MINUTES OF MEETING OF BOARD OF DIRECTORS

CEO Sandy Novick, Attorney Hopgood and Vice President of Finance Steve Thompson gave an update on Kenergy's pending rate case filing.

KENERGY CORP.  
EXCERPT FROM JULY 12, 2011  
MINUTES OF MEETING OF BOARD OF DIRECTORS

CEO Sandy Novick reported on the Big Rivers rate case.

KENERGY CORP.  
EXCERPT FROM DECEMBER 11, 2012  
MINUTES OF MEETING OF BOARD OF DIRECTORS

CEO Greg Starheim presented details of the rate case BREC intends to file on or about January 15, 2013. Communications Manager Renee Beasley Jones presented and discussed with the board a communication plan for the BREC/Kenergy 2013 rate case filing.

KENERGY CORP.  
EXCEPT FROM FEBRUARY 11, 2013  
MINUTES OF MEETING OF BOARD OF DIRECTORS

Attorney Chris Hopgood reviewed with the board a proposed resolution for blanket authority to approve all Big Rivers flow through rate increases. The board discussed the issue and it was the consensus that all flow through rate increase filings should be presented for their consideration and approval. Director Allan Eyre moved that the following resolution be adopted, which applies only to the current flow through rate increase. Motion was seconded by Director Brent Wigginton and carried by unanimous vote.

WHEREAS: Kenergy Corp. does not generate power.

WHEREAS: Any increase in the cost of Kenergy Corp.'s power supply must be passed on to Kenergy Corp.'s members; and

WHEREAS, the board of directors authorizes management of Kenergy Corp. to file a flow through application due to the recent big Rivers rate increase application.

NOW, THEREFORE, BE IT RESOLVED, that Kenergy Corp's management is authorized to seek approval of a rate increase in the amount of the power supplier's rate increase so long as the retail rate increase is proportionately apportioned among all classes.

KENERGY CORP.  
EXCERPT FROM JULY 9, 2013  
MINUTES OF MEETING OF BOARD OF DIRECTORS

Following the adoption of the agenda, the Chairman called upon Vice President of Finance Steve Thompson who stated that the board would be asked to approve to resolutions in connection with the loan application. He then introduced Aaron Johnson of RUS who reviewed details of the RUS loan application process and documents to be executed in connection with the loan application.

Director Bill Denton moved, seconded by Director Billy Reid, that the following resolution be adopted. Motion carried by unanimous vote.

**WHEREAS**, The Ten (10) Year Financial Forecast for the period of 2013 through 2022 as prepared and included with this loan application is an acceptable projection of the financial trend and conditions of Kenergy Corp.; and

**WHEREAS**, the Board of Directors of Kenergy Corp. has reviewed the attached Long Range Financial Forecast prepared by Kenergy's staff; and

**WHEREAS**, the Financial Forecast includes estimates taken from a previously Board approved Load Forecast and four-year Construction Work Plan, both of which have been approved by the Rural Utilities Service (RUS); and

**WHEREAS**, the Long Range Financial Forecast is based upon Board approved policies, operating rules and plans and sets forth appropriate management goals, all of which are acceptable to the Board of Directors as an overall plan of operations;

**NOW, THEREFORE, BE IT RESOLVED** that the Board of Directors of Kenergy Corp. hereby approves and accepts the Ten Year Long Range Financial Forecast, as proposed, as a plan of operations, and has reviewed the projected rates which are included in the Forecast and is committed to take whatever action may be necessary to implement such rate changes as may be required, on a timely basis to achieve the goals outlined therein.



KENERGY CORP.  
EXCERPT FROM OCTOBER 8, 2013  
MINUTES OF MEETING OF BOARD OF DIRECTORS

Manager of General Accounting Travis Siewert reviewed with the board a draft public notice for the Alcan rate case, stating that the second filing will not occur until an order is received in the first rate filing. John Warren moved that the board approve the rate filing based on the preliminary numbers. Motion was seconded by Billy Reid and carried by unanimous vote.

KENERGY CORP.  
EXCERPT FROM NOVEMBER 12, 2013  
MINUTES OF MEETING OF BOARD OF DIRECTORS

Before entering the regular portion of the agenda, the board met with representatives from three industrial members including Domtar, Kimberly-Clark and Aleris based on their request to present concerns and perspectives of the Big Rivers Electric rate increases. The industrial members made a presentation to the board.

KENERGY CORP.  
EXCERPT FROM FEBRUARY 19, 2014  
MINUTES OF MEETING OF BOARD OF DIRECTORS

Vice President of Finance Steve Thompson reported on the rate increase that went into effect on February 1, and the use of BREC reserve funds to offset this increase to members. Members will not see the actual increase on bills until April 2015 when reserve funds are depleted.

KENERGY CORP.  
EXCERPT FROM MARCH 11, 2014  
MINUTES OF MEETING OF BOARD OF DIRECTORS

Vice President of Member Services David Hamilton presented to the board issues that have arisen with the Energy Efficiency Program, which was established in 2012 for the three member cooperatives under a BREC rate case. He explained that due to increasing member demand for the program and projections that Kenergy will exceed budgeted expenditures, BREC has frozen support for Kenergy's weatherization program. Mr. Hamilton stated that discussions have been held with BREC and the other member co-ops, including an informal conference held with PSC staff. Kenergy staff advised that based on PSC input, Kenergy could pursue a DSM (Demand Side Management) rider on retail bills to provide additional funding for Energy Efficiency/Demand Side Management Programs. The issue was discussed at length. It was the consensus of the board not to pursue a DSM rider at this time based on concerns that the action would place additional burden on members at a time when they are already experiencing exceptional rate increases due to wholesale power rate increases and concerns over the equity of all members funding the program that benefits a relatively small number of recipients. Director Allan Eyre asked for further discussion on the issue and did not feel the board should let the issue die. Director Elder requested a summary of incentives that have been paid to date, including the types of structures involved in the audits. Staff agreed to provide that information.

Attorney Hopgood reviewed with the board items covered in his written legal report, including the rehearing in the Century rate case.

KENERGY CORP.  
EXCERPT FROM MAY 16, 2014  
MINUTES OF MEETING OF BOARD OF DIRECTORS

After adoption of the agenda, the Chairman called upon Mark Bailey, CEO of Big Rivers, who provided an update on the April 25, 2014, Alcan Rate Case Order. This was followed by a presentation by Bob Berry on the Wilson Forward Sale.

KENERGY CORP.  
EXCERPT FROM MAY 12, 2015  
MINUTES OF MEETING OF BOARD OF DIRECTORS

Vice President of Finance and Accounting Steve Thompson provided a financial overview for March and covered items in the management report related to finance and accounting, including plans to request the board's approval of a resolution at the June meeting to file a rate application later in the year.

KENERGY CORP.

EXCERPT FROM JUNE 9, 2015

MINUTES OF MEETING OF BOARD OF DIRECTORS

Vice President of Finance and Accounting Steve Thompson presented to the board details supporting the need for Kenergy to consider preparation of a new increase in base rates based on degrading financial performance. Upon motion by Glenn Cox, seconded by Chris Mitchell, and by unanimous vote, the board approved the following resolution regarding preparation of a rate case application.

**WHEREAS**, the Long Range Financial Forecast (LRFF), approved by the Board on July 9, 2013, in conjunction with the \$43,000,000 2013-2017 construction work plan projected a \$2,200,000 – 2.5% adjustment in non-dedicated revenues (excluding power cost) in late 2015,

**WHEREAS**, the Board approved an expenditure of approximately \$10,000,000 related to the automated metering infrastructure on October 14, 2014 that was not included in the LRFF,

**WHEREAS**, the 2015 operating budget base case approved by the Board on December 9, 2014 projected an operating times interest earned ratio of .99 while the Rural Utilities Service loan contract minimum is 1.10 when applying the two best of latest three calendar years,

**WHEREAS**, the 2015 operating budget includes \$100,000 for the cost of outside consultants, attorney and legal notices to prepare and file a rate application,

**WHEREAS**, the most recent (10) ten months of actual results (July 2014 – April 2015) and the next (2) two months of budgeted results (May 2015 – June 2015) when adjusted for estimated proforma adjustments indicate a revenue increase of approximately \$2,900,000 (2.3%) utilizing the 2.00 times interest earned ratio approach currently allowed by the Kentucky Public Service Commission,

**NOW, THEREFORE, BE IT RESOLVED** that management of Kenergy Corp. is directed and authorized to employ JDG Consulting, LLC; and Welsh Group, LLC to prepare cost of service and depreciation studies and develop proposed rates to be reviewed with the Board on October 13, 2015 with a projected filing date of December 2, 2015.

KENERGY CORP.  
EXCERPT FROM SEPTEMBER 8, 2015  
MINUTES OF MEETING OF BOARD OF DIRECTORS

Vice President of Finance and Accounting Steve Thompson presented for the board's consideration documentation supporting the filing of a rate application. Director Steve Henry moved, seconded by John Warren, that the following resolution be approved. Motion carried by unanimous vote.

WHEREAS, management was authorized and directed on June 9, 2015, to engage the necessary consultants who, along with staff, would prepare the necessary information required for a rate application filing and submit the proposed revenue increase to the board.

WHEREAS, management has submitted to the board information detailing an overall revenue increase of \$2,563,868 and 1.9%.

WHEREAS, the board recognizes Kenergy's contractual obligation to its creditors, including the obligation to maintain a Times Interest Earned Ratio (TIER) and operating TIER that averages a minimum not less than 1.25 and 1.10 when the two highest of the three preceding years are considered.

NOW, THEREFORE, BE IT RESOLVED that management of Kenergy is authorized and directed to notify Kenergy's members and other parties at the appropriate time of Kenergy's proposed revenue increase (including any subsequent minor changes made) and to file an application for a general adjustment in rates, and further that management has the authority to negotiate a settlement of the retail rate adjustment.



**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
SUPPLEMENTAL REQUEST FOR INFORMATION  
2015-00312 RATE APPLICATION**

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**Item 3)** Reference Kenergy's Response to AG 1-4 and explain why the company did not provide information as to the potential and actual rate increases, including pass through increases, to the members of the cooperatives at the annual meetings between 2011 and 2015.

**Response)** Kenergy's answer to the initial data request focused on the retail rate increase at issue. The last Kenergy retail rate increase was in 2011. However, since the 2011 Annual Meeting, Big Rivers' CEO has discussed the rate issues in his address to the Kenergy membership and made himself and other Big Rivers personnel available to the membership to answer questions about its rate cases.

Refer to Item 3 pages 2-49 for copies of Annual Meeting speeches made by Big Rivers' CEO and materials that were made available to Kenergy member-owners. In addition to Annual Meeting speeches, Kenergy has enclosed copies of letters to commercial and industrial members, public notices that ran in local newspapers and copies of Member Matters newsletters that provided information on the Big Rivers Electric wholesale rate increases.

**Witness)** David Hamilton

## Kenergy 2015 Annual Meeting

### **“Embracing Technology – Improving Service” Greg Starheim**

- Good evening everyone. I am so pleased to welcome you to the 2015 Kenergy Annual Meeting! And, thank you to Dr. Kristin Williams, President of Henderson Community College and the rest of the HCC staff, for allowing us use this great facility for our meeting tonight.
- For those of you who may be first-timers to this this meeting, I offer you a special welcome. You should know that this is an important annual event for the cooperative .....
- .... both to conduct official business as required of Kenergy as required by our bylaws and give us the opportunity to update you what is going on in our industry and the state-of-the-utility.

(pause)

- We recognize that you rely on Kenergy to deliver a critical service that has enormous impact on the quality of your life – and we take that responsibility very seriously. But your interest in Kenergy goes beyond receiving electric service (and paying

an electric bill each month). As a consumer receiving electric service from electric cooperative, you are also our owner. And, we exist for one reason and one reason only - and that is to provide you with reliable, safe and affordable electric service on a not-for-profit basis.

- This very simple and straight-forward business model.

(pause)

- 2015 marks the 15<sup>th</sup> year anniversary of the formation of Kenergy as an electric utility. That's 15 years since 2 very respected organizations merged – that is the Green River Electric Cooperative and the Henderson-Union Electric Cooperative - joined together to form Kenergy. An organization that is very strong, very respected and one that I am honored to be affiliated with.
- The strength of Kenergy, however, doesn't come from its size or financial strength. It comes from the values of our employees. And I can tell you, that the 150 folks that make up Kenergy's work-force are tops. We are blessed to have a group of folks that are extremely professional, extremely

capable and extremely committed to providing exceptional serving you all, our members.

- I hope you would agree with me that these folks do an excellent job. I would ask that Kenergy employees stand or raise their hands and be recognized.
- There are also a group of folks that are vitally important to Kenergy's success – and that is the Board of Directors. These are individuals who you, our members, demographically elect to serve. The Board provides very important governance and oversight functions and establish the strategic direction to the business. A little later, I will share some details on Kenergy's strategic plan but now I'd like to introduce each of our directors one-by-one. For the sake of time, I'd ask you hold your applause till I finished with introducing the entire board.

(SEE SEPARATE PAGE)

- **ALSO WITH US TONIGHT IS CHRIS HOPGOOD,**  
KENERGY'S ATTORNEY FROM THE LAW-FIRM OF  
DORSEY, KING, GRAY, NORMENT & HOPGOOD.

- I WOULD ALSO LIKE TO WELCOME MR. BOB BERRY, PRESIDENT & CEO OF BIG RIVERS ELECTRIC CORPORATION – KENERGY’S EXCLUSIVE WHOLESALE ENERGY PROVIDER. A LITTLE LATER, BOB WILL DISCUSS THE VERY DIFFICULT CHALLENGES THAT BIG RIVERS HAS FACED OVER THE COUPLE YEARS AND PROVIDE AN UPDATE ON THE HARD WORK THEY ARE DOING TO HELP KEEP OUR WHOLESALE ELECTRIC COSTS AS LOW AS POSSIBLE. WHOLESALE POWER REPRESENTS OVER 90% OF KENERGY’S COST – SO OBVIOUSLY KENERGY IS VERY DEPENDENT ON BIG RIVERS SUCCESS. THANK YOU FOR BEING HERE TONIGHT, BOB. AND ALSO, THE OTHER BIG RIVER’S EMPLOYEES THAT HAVE JOINED US THIS EVENING.
- (PAUSE)
- I WOULD ALSO LIKE TO WELCOME REPRESENTATIVES FROM THE KENTUCKY ASSN OF ELECTRIC COOPERATIVES OR “KAEC” – OUR STATE TRADE ASSOCIATION. MR. **CHRIS PERRY**, PRESIDENT & CEO IS HERE TONIGHT AND WILL SAY A FEW WORDS A LITTLE LATER. CHRIS AND HIS TEAM PLAY A VERY IMPORTANT

ROLE IN SUPPORTING KENERGY AND THE OTHER 25  
ELECTRIC COOPERATIVES IN THE COMMONWEALTH IN  
NUMEROUS AREAS. WE RELY ON THEM FOR OUR  
SUCCESS. THANK YOU, CHRIS, AND TO THE REST OF  
THE KAEC TEAM.

(PAUSE)

- A KEY PRINCIPAL OF THE COOPERATIVE BUSINESS MODEL IS COMMUNICATION AND EDUCATION WITH MEMBERS. KENERGY'S **MEMBER ADVISORY COUNCILS** PLAY A KEY ROLE IN THAT EFFORT. PERIODICALLY - TYPICALLY QUARTERLY – WE MEET WITH REPRESENTATIVES FROM EACH OF OUR MEMBERSHIP CLASSES – INCLUDING RESIDENTIAL MEMBERS, COMMERCIAL MEMBERS AND LARGE-INDUSTRIAL MEMBERS – TO GET DISCUSS CONCERNS, SUGGESTIONS AND IDEAS OF HOW KENERGY CAN IMPROVE THE SERVICE WE PROVIDE. I UNDERSTAND THERE ARE SOME MEMBERS HERE TONIGHT WHO SERVE ON THESE COUNCILS – IF YOU ARE A MEMBER OF EITHER OUR MAC, CRC AND IRC COMMITTEES, WOULD YOU PLS STAND AND BE RECOGNIZED FOR THE

SERVICE YOU PROVIDE TO THE ORGANIZATION. THANK YOU, FOLKS.

(Pause)

- Each year, Kenergy offers the opportunity for 11<sup>th</sup> grader sons and daughters to apply for a program called the Legislative Youth Conference. As part of this program, Kenergy selects 5-6 students in a highly competitive application process to participate in and represent Kenergy in a learning experience about the electric utility industry and government. Selected student-leaders get to meet with industry leaders and government officials in Frankfort and Washington to discuss critical issues facing our industry (AND THERE ARE MANY TODAY), about the electric utility and cooperative program and about state and national government. We have a very impressive group of students this year which I'd like to introduce to you – and I'd ask that each of you stand when I call your name:

- Billy Bell – Lewisport
- Luke Ramsey - Hawesville
- Kayla Guthrie – Philpot
- Elaine Leslie – Owensboro
- Txomina (pronounced “ZO-ME-NA) Young – Owensboro

- The next introduction is a very special .... And that is an introduction of Kenergy's MEMBER OF THE YEAR ....  
(continue from other sheet)
- Turn things over to Brent Wigginton, Sec for business meeting.

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### BUSINESS UPDATE

- Thank you, Brent (Chris).
- OVER THE NEXT FEW MINUTES, I'D LIKE TO GIVE YOU BRIEF UPDATE ON HOW KENERGY HAS PERFORMED OVER THE PAST YEAR AND THE PRIORITIES AND CHALLENGES WE SEE LOOKING FORWARD.  
  
(PAUSE)
- FINANCIALLY, KENERGY FINISHED THE YEAR WITH \$472M IN TOTAL REVENUES AND NET MARGINS OF \$5M.



- BEING AN ELECTRIC COOPERATIVE, THESE MARGINS HAVE BEEN DISTRIBUTED TO ALL OF YOU ON KENERGY'S BOOKS AND REPRESENT YOUR OWNERSHIP INTEREST IN KENERGY.
- OVER TIME, THESE FUNDS ARE RETURNED TO MEMBERS WHEN THE FINANCIAL CONDITIONS PERMIT. IN FACT, EARLIER THIS YEAR THE KENERGY BOARD APPROVED A \$3M RETIREMENT OF EQUITY BACK TO OUR MEMBERS. IF YOU WERE A MEMBER OF KENERGY IN 1984, 1985 & 1986, YOU SHOULD SEE EITHER THIS IN A CREDIT ON YOUR JUNE ELECTRIC BILL.
- THIS IS A GREAT DEMONSTRATION OF VALUE OF BELONGING TO A COOPERATIVE! IF WE COLLECT MORE IN OUR RATES THAT WE NEED TO KEEP THE COOPERATIVE STRONG, WE GIVE IT BACK TO MEMBERS.

(PAUSE)

- OPERATIONALLY, 2014 WAS GOOD YEAR IN OTHER AREAS AS WELL. WE ACCOMPLISHED A GREAT DEAL – INCLUDING ....

- CONNECTING UP 698 NEW SERVICES TO THE KENERGY SYSTEM.
- CONSTRUCTING OVER 47 MILES OF NEW POWER LINE.
- CLEARING OVER 1,100 (1,123) MILES OF RIGHT-OF-WAY VEGETATION GROWTH AND .....
- REPLACING OVER 600 (624) OF DEFECTIVE POLES.
- THESE ACTIVITIES GET TO THE CORE OF THE WORK THAT OUR FOLKS DO TO PROVIDE A HIGH LEVEL OF RELIABLE SERVICE TO YOU ALL.

(PAUSE)

- SPEAKING OF SERVICE RELIABILITY, IN 2014, THE AVERAGE KENERGY CONSUMER EXPERIENCED 126 MIN OF POWER OUTAGES AND JUST FEWER THAN 2 OCCURANCES. THIS IS NOT BAD PERFORMANCE BUT IT'S CERTAINLY NOT WHERE WE ASPIRE TO BE.
- CONSISTENT WITH OUR STRATEGIC GOALS OF ACHIEVING "BEST-IN-CLASS" PERFORMANCE IN OUR INDUSTRY, KENERGY IS MAKING SIGNIFICANT

INVESTMENTS TO IMPROVE SERVICE RELIABILITY AND OVERALL SERVICE TO YOU.

- OUR MEMBERS – THIS INCLUDES A MAJOR INVESTMENT IN ADVANCED METERING THAT WILL ALLOW KENERGY STAFF TO DETECT OUTAGES IMMEDIATELY AT THEIR OCCURANCE – WITH NO COMMUNICATION NECESSARY FROM MEMBERS – AND TAKE ACTION QUICKLY TO RESTORE POWER PROMPTLY.

(PAUSE)

- 2014 WAS NOTEWORTHY FOR OTHER REASONS AS WELL.
- IN BUSINESS THAT IS UNFOREGIVING AND FULL OF HAZARDS, WE WERE PLEASED TO BE RECOGNIZED FOR OUR STRONG SAFETY PERFORMANCE BY RECEIVING THE GOVERNOR'S SAFETY AWARD. THIS AWARD IS PROVIDED TO BUSINESSES FOR ACHIEVING >500,000 WORK-HOURS WITHOUT A LOST-TIME ACCIDENT. AGAIN, A GREAT TESTIMONY TO KENERGY EMPLOYEES.

(PAUSE)

- SOME OF YOU MAY HAVE NOTICED OUR THEME FOR THIS ANNUAL MEETING TONIGHT – “EMBRACING TECHNOLOGY – IMPROVING SERVICE”. WE THOUGHT THAT THIS WAS APPROPRIATE GIVEN THE LEVEL OF INVESTMENT KENERGY HAS MADE OVER THE PAST YEAR TO BETTER TO OUR MEMBERS. THIS HAS INCLUDED:
  - NEW WEB APPLICATIONS THAT ALLOW OUR MEMBERS TO REPORT METER READINGS, PAY THEIR BILLS AND CONDUCT OTHER TRANSACTIONS 24X7 ANYWHERE THEY HAVE INTERNET ACCESS AND USING WHATEVER MOBILE DEVICE THEY PREFER.
  - A “TEXT MESSAGING” PLATFORM THAT ALLOWS MEMBERS TO TEXT IN OUTAGES AND FOR US TO COMMUNICATE OUTAGE STATUS AND OTHER IMPORTANT COMMUNICATIONS OVER TEXTING.
  - A RE-DESIGNED CORPORATE WEBSITE TO ALLOW MEMBERS AND BUSINESS PARTNERS ACCESS INFORMATION FASTER.
  - FIELD DEPLOYED SOFTWARE AND ELECTRONIC DEVICES THAT OUR LINEMAN USE TO WORK MORE EFFICIENTLY.

- A NEW STATE-OF-THE-ART OUTAGE MANAGEMENT SOFTWARE SYSTEM THAT ALLOWS KENERGY TO MANAGE AND RESTORE POWER DURING SEVERE OUTAGE EVENTS MORE QUICKLY.

(PAUSE)

- THIS IS VERY EXCITING STUFF – CLEARLY, KENERGY IS NO LONGER JUST A BUSINESS OF POLES & WIRES BUT IN INFORMATION TECHNOLOGY COMPANY. TECHNOLOGY THAT WE EMBRACE TO BETTER IMPROVE THE SERVICE WE PROVIDE TO YOU.

(PAUSE)

- TO WRAP UP, I WOULD LIKE SHARE SOME THOUGHTS ON THE FUTURE.
- THE ELECTRIC UTILITY INDUSTRY IS VERY MUCH IN TRANSITION. EPA REGULATIONS ARE FORCING MANY POWER PLANTS TO SHUTDOWN BEFORE THE END OF THEIR USEFUL LIFE.
- CONCERNS OVER CLIMATE CHANGE IS RESULTING IN STATES TO EMBRACE RENEWABLE RESOURCES OF ENERGY.

- CONSUMERS ARE CONSIDERING DISTRIBUTED-GENERATION INCLUDING SOLAR RESOURCES AS A MEANS OF GENERATING THEIR OWN POWER INSTEAD OF BUYING IT OFF THE GRID.
- ADVANCES IN BATTERY AND OTHER STORAGE TECHNOLOGIES ARE BEING ADVANCED.
- INFORMATION TECHNOLOGIES ARE AVAILABLE THAT WILL ALLOW UTILITIES SUCH AS KENERGY TO OPERATE MORE EFFICIENTLY, OFFER NEW SERVICES TO MEMBERS AND TO PROVIDE YOU, THE CONSUMER, INFORMATION TO ALLOW YOU MAKE INFORMED DECISIONS.
- AS A MEMBER-OWNED ELECTRIC COOPERATIVE, KENERGY WILL BE EVALUATING ALL OF THESE DEVELOPMENTS ON YOUR BEHALF AND WITH THE INTENT OF PROVIDING YOU RELIABLE, SAFE AND AFFORDABLE ELECTRIC SERVICE TO THE BEST OF OUR ABILITY.
- THANK YOU.

### END

## 2014 ANNUAL MEETING

### GS COMMENTS

#### OPENING REMARKS:

THANK YOU, BOB – AND GOOD EVENING, EVERYONE.

WELCOME TO THE 2014 KENERGY ANNUAL MEETING. THIS IS A MEETING, AS CALLED FOR IN OUR BYLAWS, TO CONDUCT THE OFFICIAL BUSINESS OF THE COOPERATIVE – AN ORGANIZATION WHICH YOU OWN - AN ORGANIZATION WHICH YOU CONTROL (THROUGH ELECTION OF DIRECTORS TO THE BOARD) - AND, MOST IMPORTANTLY, AN ORGANIZATION WHICH YOU DEPEND ON EACH AND EVERY DAY TO PROVIDE A BASIC LIFE NECCESITY TO HELP YOU LIVE YOUR LIVES – THAT BEING “ELECTRICITY”.

I HOPE YOU WILL AGREE THAT OUR EMPLOYEES DO A GREAT JOB IN DOING JUST THAT EACH AND EVERY DAY (IN ALL WEATHER CONDITIONS). WE ARE VERY FORTUNATE TO 150 DEDICATED EMPLOYEES WHO WORK HARD TO ENSURE THAT YOUR LIGHTS STAY ON AND THAT YOU RECEIVE OUTSTANDING CUSTOMER SERVICE.

IT HAS BEEN MY PRIVELEDGE TO WORK WITH THESE FOLKS OVER THE LAST COUPLE YEARS AND I THANK THEM FOR ALL OF THEIR HARD WORK – INCLUDING FOR THE COUNTLESS HOURS YOU SPENT PREPARING FOR TONIGHT’S EVENT.

(PAUSE)

I WOULD LIKE TO RECONGIZE SOME OTHER INDIVIDUALS HERE TONIGHT – STARTING WITH KENERGY’S BOARD OF DIRECTORS. I WILL INTRODUCE EACH OF THE DIRECTORS STARTING FROM YOUR FAR LEFT. WHEN I CALL YOUR NAME, PLS STAND AND REMAINING STANDING UNTIL ALL ARE CALLED. (FOR SAKE OF TIME, I WOULD ASK THAT YOU HOLD YOUR APPLAUSE TILL THEY ARE ALL INTRODUCED.)

To your right: Chairman Bob White, District 2  
John Warren, District 7  
Allan Eyre, Industrial  
Glenn Cox, District 1  
Brent Wigginton, District 9  
Randy Powell, District 4

To your left: Billy Reid, District 8  
Larry Elder, District 6  
Bill Denton, District 5  
Chris Mitchell, District 3  
Jonathan Ayer, District 10

**ALSO WITH US TONIGHT IS CHRIS HOPGOOD**, KENERGY’S ATTORNEY FROM THE LAW-FIRM OF DORSEY, KING, GRAY, NORMENT & HOPGOOD.

(PAUSE)

I WOULD ALSO LIKE TO WELCOME MR. MARK BAILEY, PRESIDENT & CEO OF BIG RIVERS ELECTRIC CORPORATION – KENERGY’S EXCLUSIVE WHOLESALE ENERGY PROVIDER. A LITTLE LATER, MARK WILL DISCUSS THE VERY DIFFICULT CHALLENGES THAT BIG RIVERS HAS FACED OVER THE PAST YEAR AND PROVIDE AN UPDATE ON THE HARD WORK THEY ARE DOING TO HELP KEEP OUR WHOLESALE ELECTRIC COSTS AS LOW



AS POSSIBLE. THANK YOU FOR BEING HERE TONIGHT, MARK. AND ALSO, THE OTHER BIG RIVER'S EMPLOYEES THAT HAVE JOINED US THIS EVENING.

(PAUSE)

I WOULD ALSO LIKE TO WELCOME REPRESENTATIVES FROM THE KENTUCKY ASSN OF ELECTRIC COOPERATIVES OR "KAEC" – OUR STATE TRADE ASSOCIATION. MR. BILL CORUM, PRESIDENT & CEO IS HERE TONIGHT AND WILL SAY A FEW WORDS A LITTLE LATER. BILL AND HIS TEAM PLAY A VERY IMPORTANT ROLE IN SUPPORTING KENERGY AND THE OTHER 25 ELECTRIC COOPERATIVES IN THE COMMONWEALTH IN NUMEROUS AREAS. WE RELY ON THEM FOR OUR SUCCESS. THANK YOU, BILL, AND TO THE REST OF THE KAEC TEAM.

(PAUSE)

A KEY PRINCIPAL OF THE COOPERATIVE BUSINESS MODEL IS COMMUNICATION AND EDUCATION WITH MEMBERS. KENERGY'S MEMBER ADVISORY COUNCILS PLAY A KEY ROLE IN THAT EFFORT. PERIODICALLY - TYPICALLY QUARTERLY – WE MEET WITH REPRESENTATIVES FROM EACH OF OUR MEMBERSHIP CLASSES – INCLUDING RESIDENTIAL MEMBERS, COMMERCIAL MEMBERS AND LARGE-INDUSTRIAL MEMBERS – TO GET DISCUSS CONCERNS, SUGGESTIONS AND IDEAS OF HOW KENERGY CAN IMPROVE THE SERVICE WE PROVIDE. I UNDERSTAND THERE ARE SOME MEMBERS

HERE TONIGHT WHO SERVE ON THESE COUNCILS – IF YOU ARE A MEMBER OF EITHER OUR MAC (MRC), CRC AND IRC COMMITTEES, WOULD YOU PLS STAND AND BE RECOGNIZED FOR THE SERVICE YOU PROVIDE TO THE ORGANIZATION. THANK YOU, FOLKS.

KENERGY'S OUTREACH TO MEMBERS EXTENDS INTO MANY AREAS BESIDES OUR ADVISORY COUNCILS. YOU WILL FIND OUR EMPLOYEES ENGAGED IN THE COMMUNITIES IN A NUMBER OF WAYS – INCLUDING HOSTING COMMUNITY EVENTS AND VISITING SCHOOLS TO TALK ABOUT ELECTRICITY, SAFETY AND DISASTER PREPAREDNESS.

KENERGY ALSO SUPPORTS THE KENTUCKY LEGISLATIVE YOUTH TOUR – A PROGRAM WHERE EXCEPTIONAL 11<sup>TH</sup> GRADE STUDENTS - SONS OR DAUGHTERS OF KENERGY MEMBERS - ARE SELECTED TO PARTICIPATE IN AN EDUCATIONAL PROGRAM WITH OTHER KIDS FROM ALL OVER KENTUCKY AND THE NATION. STUDENTS SPEND TIME IN BOTH FRANKFORT AND WASHINGTON VISITING WITH ELECTED OFFICIALS AND LEARNING ABOUT OUR LEGISLATIVE PROCESS AND KEY ISSUES FACING OUR INDUSTRY. WE ARE PLEASED TO SPONSOR 7 STUDENTS THIS YEAR WHICH ARE WITH US TONIGHT. PLS STAND WHEN I CALL YOUR NAMES:

- |                     |                            |
|---------------------|----------------------------|
| 1. LINDSY HOWE      | REYNOLDS STATION           |
| 2. COREY MERRITT    | PHILPOTT                   |
| 3. CHARLOTTE MORRIS | WHITESVILLE                |
| 4. CASSIE PAYNE     | LEWISPORT                  |
| 5. HEATHER RAMSEY   | HAWESVILLE                 |
| 6. ALLYSA ROBINSON  | OWENSBORO                  |
| 7. NICK STARHEIM    | OWENSBORO (KY BOY'S STATE) |

ON FRIDAY, THESE STUDENTS WILL TRAVEL TO OUR NATION'S CAPITAL TO JOIN UP OTHER YOUTH DELEGATES FROM CO-OPS ACROSS 48 STATES AS PART OF THE PROGRAM. HAVE FUN AND ENJOY.

AT THIS TIME, I WILL TURN THINGS OVER TO BILLY REID - BOARD SECRETARY - TO PROCEED WITH THE BUSINESS MEETING.

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**PRESIDENT & CEO COMMENTS:**

THANKS, BILLY.

FOR THE NEXT FEW MINUTES, I'D LIKE TO PROVIDE A BRIEF UPDATE ON THE "STATE-OF-THE -COOPERATIVE". LAST YEAR I REPORTED THAT KENERGY HAD FINISHED 2012 WITH A STRONG YEAR. AND, I'M PLEASED TO ANNOUNCE TONIGHT THAT 2013 WAS ALSO ANOTHER STRONG YEAR FOR KENERGY IN VIRTUALLY ALL AREAS.

SOME OF YOU MAY HAVE NOTICED OUR THEME FOR THIS ANNUAL MEETING TONIGHT – "HEALTH & SAFETY". WE THOUGHT THAT THIS WAS APPROPRIATE GIVEN THE LEVEL OF IMPORTANCE THAT WE PLACE ON SAFETY AT KENERGY. OUR EMPLOYEES WORK IN A HAZARDOUS AND UNFOREGIVING INDUSTRY – ONE WHERE THERE ARE FEW 2<sup>ND</sup> CHANCES. FOR OUR MEMBERS, KENERGY IS ABOUT FLIPPING THE SWITCH AND THE LIGHT COMING ON. BUT FOR US, IT'S ALSO ABOUT OUR EMPLOYEES GOING HOME SAFELY EACH NIGHT TO THEIR FAMILIES.

OVER THE LAST YEAR, I'M PLEASED THAT OUR EMPLOYEES ACCOMPLISHED JUST THAT – IN FACT, AS OF TODAY, KENERGY IS CELEBRATING 731 DAYS WITHOUT EXPERIENCING A SERIOUS INJURY. OUR EMPLOYEES WERE RECOGNIZED FOR THERE DILGENCE ON SAFE WORK PRACTICES WHEN, IN MARCH, KENERGY WAS AWARDED THE GOVERNOR'S SAFETY AWARD BY THE KENTUCKY LABOR CABINET.

WHILE IT'S ALWAYS GREAT TO STOP AND RECOGNIZED SUCCESS, SAFETY IS AN AREA WHERE THERE IS NEVER A POINT OF BEING "GOOD ENOUGH". THAT IS WHY, WE CONTINUE OUR DAILY FOCUS TO ENSURE WE DON'T GET CARELESS WHILE ALSO LOOKING FOR WAY TO IMPROVE OUR SAFETY PROGRAM.

(PAUSE)

2013 WAS A STRONG YEAR FOR US IN OTHER AREAS AS WELL. IN ALL, WE ACCIEVED VIRTUALLY ALL OF OUR OPERATIONAL OBJECTIVES – INCL

- CONNECTING UP 626 NEW SERVICES TO THE KENERGY SYSTEM.
- WE CONSTRUCTED 40 MILES OF NEW POWER LINE.
- WE CLEARED VEGITATION FROM OVER 1,100 (1,108) MILES OF RIGHT-OF-WAY.
- WE REPLACED 658 DEFECTIVE POLES.
  
- ALL MEASURES THAT ARE ESSENTIAL FOR US TO CONTINUE TO PROVIDE HIGHLY RELIABLE SERVICE TO YOU ALL.
  
- ONE OF OUR CORE METRICS IS SERVICE RELIABILITY – HOW RELIABLE IS ELECTRIC SERVICE. OVERALL, OUR PERFORMANCE

WAS GOOD IN THIS AREA - THE AVERAGE CONSUMER ONLY EXPERIENCING 109 MIN AND JUST UNDER 2 OUTAGE OCCURANCES THROUGHOUT THE ENTIRE YEAR. BUT, WE CAN DO BETTER AND WE HAVE PUT IN-PLACE A 5-YEAR PLAN TO ACHIEVE A GOAL OF IMPROVING OUR SERVICE RELIABILITY TO "BEST-IN-CLASS" STANDARDS.

FINANCIALLY, KENERGY FINISHED THE YEAR STRONG AS WELL - WITH \$505M IN REVENUE AND NET MARGINS JUST OVER \$6M (\$6.1M). THESE MARGINS WERE DISTRIBUTED TO ALL OF YOU ON KENERGY'S BOOKS EARLIER THIS YEAR REPRESENTING YOUR ADDITIONAL OWNERSHIP INTEREST IN KENERGY.

I HAVE OTHER NEWS REGARDING YOUR EQUITY IN KENERGY.

EARLIER THIS YEAR THIS BOARD DETERMINED THAT KENERGY'S FINANCIAL POSITION WAS STRONG ENOUGH TO RETURN A PORTION OF EQUITY TO OUR MEMBERS – THIS IS CALLED A "GENERAL RETIREMENT OF CAPITAL CREDITS". THIS MONTH, MEMBERS WHO RECEIVED ELECTRIC SERVICE FROM KENERGY IN 1983 & 1984 WILL SEE EITHER A CREDIT ON ELECTRIC BILLS OR PAPER CHECK IN THE MAIL. THE TOTAL AMOUNTS TO OVER \$3M THAT WILL BE RETURNED TO MEMBERS – A GREAT DEMONSTRATION OF VALUE OF BELONGING TO A COOPERATIVE!

(PAUSE)

NOW LET'S TALK ABOUT CHALLENGES WE FACE. OVER THE COUPLE YEARS, YOU HAVE ABOUT THE DECISION BY CENTURY ALUMINUM AND ALCAN TO TERMINATE POWER CONTRACTS THEY HAD WITH US AND

BIG RIVERS. THAT HAS LED TO SERIOUS CHALLENGES TO BIG RIVERS THAT MARK BAILEY WILL SPEAK TO A JUST A MINUTE.

INSTEAD OF BIG RIVERS SUPPLYING THEIR POWER SUPPLY, THE SMELTERS REQUESTED US TO PROVIDE THEM SUPPLY FROM THE OPEN "WHOLESALE POWER MARKET POWER". AFTER EXTENSIVE STUDY AND NEGOTIATION, WE HAVE BEEN ABLE TO ACCOMMODATE THEM AND CONTINUE TO SUPPLY THEM UNDER THAT ARRANGEMENT TODAY. WE HOPE THAT IT MAKES THEIR OPERATIONS PROFITABLE AND HELPS KEEP THEM VIABLE WELL INTO THE FUTURE.

DUE TO THIS CHANGE, BIG RIVERS HAD HAD TO FILE FOR WHOLESALE POWER RATE INCREASE TO KENERGY AND THEIR OTHER MEMBER-OWNERS. OVER THE LAST YEAR, WE HAVE SEEN THE EFFECT OF THAT.

IN AUGUST 2013, THE FIRST RATE CASE WENT INTO EFFECT – THIS WAS ASSOCIATED CENTURY HAWEVILLE SMELTER LEAVING THE BIG RIVERS SYSTEM.

THEN, ON FEBRUARY 1<sup>ST</sup>, 2014, THE SECOND RATE INCREASE WENT INTO EFFECT – THIS ONE RELATED TO THE SEBREE SYSTEM LEAVING THE BREC SYSTEM.

WE HOPE THESE INCREASES ARE TEMPORARY. BIG RIVERS IS WORKING HARD TO MIGATE THE EFFECTS OF THE SMELTERS LEAVING THEIR SYSTEM.

NOW, I'D LIKE TO TURN IT OVER TO MARK BAILEY TO PROVIDE AN UPDATE ON THE EFFORTS BIG RIVERS IS MAKING TO RESPOND TO THESE CHANGES – MARK?

## KENERGY 2014 ANNUAL MEETING

Thank you, Greg for inviting me to participate in Kenergy's 2014 Annual Meeting.

- I appreciate the opportunity to discuss matters of importance to all of us who are electric cooperative members.
- As many of you know, for the past couple of years, Big Rivers has been dealing with a difficult and challenging situation involving Kenergy's two largest industrial customers – Century Aluminum's Hawesville and Sebree smelters.
- These two industries are the largest electric loads in the Commonwealth.
  - The two smelters combined consumed nearly **61% of the peak demand** of Big Rivers' generating system and paid approximately **64% percent** of Big Rivers' annual revenue, or **~\$360 million**.

[PAUSE]

We knew from the beginning, there was **NO** easy solution to deal with their issues.

- Our board, staff as well as our counterparts at Kenergy dedicated countless hours to seek reasonable and equitable solutions to this challenge while minimizing costs to you.
- Unfortunately, there was no way to avoid a rate increase to address this troubling situation.
- Cost cutting alone, such as the idling of our Coleman Station in Hancock County which occurred about a month ago couldn't eliminate the financial deficiency created by these two customers' departure from our system.
- The public struggled to understand why cost cutting alone couldn't cover the revenue loss from the smelters' departure.
- It was hard to fathom the huge investments Big Rivers made 40 years ago still needed to be paid for.
- The rate increase would have been necessary had the smelters closed, whether they bought power from others on the open market, or whether we granted them the rate concessions they demanded.
  - In fact, if we had agreed to the rate concessions they demanded, the rate increase would have been even higher.



- In addition, that approach would have locked in higher rates indefinitely, and may have led to additional increases later.
- In order to retain the economic benefits of the smelters' continued operation to our region while minimizing the amount of rate increase that would be necessary, we proposed and worked out a solution that enabled Kenergy to buy their power from the open market.
- In addition, this strategy was the only solution that provided an opportunity to reduce the rate increase over time as Big Rivers is successful selling power the smelters used to purchase to other buyers.
- As a part of the plan we also proposed that the PSC allow Big Rivers to accelerate use of Reserve Funds established in 2009 to mitigate future rate increases to delay a portion of the recent rate increase.
  - The PSC agreed to this proposal.
- Based on our recent rate order, the residential customers' current retail rates "*system wide*" are ~ **9.2 cents per kwh** (*14th vs. other 50 utilities' 2012 data*); **AND...** those customers will be shielded from the remaining increase until **July 2016** - and at that time,

- Even under a “*worst case scenario*” where we have no success selling the power the smelters were previously buying, rural customers “system wide” would be paying about **12.68 cents per kWh**; again we are talking about in **July 2016**.
- We know you work hard for your money, and as not-for-profit electric cooperatives owned by you – our Members - the last thing we want to do is increase rates.

[PAUSE]

- Speaking of smelter replacement power sales, on a more positive note, I'll provide you with a very quick update on our success so far...
- Earlier in the year, we executed contracts to sell **67 MW** to three municipal utilities in Nebraska.
  - These contracts have been submitted to the Kentucky PSC for review and approval.
- We are hopeful that another Nebraska utility will sign on later this year which would expand the total electricity sale to **110 MW**.

- In addition, this past February, our Energy Services group secured an **8-month forward sale** that has enabled us to profitably keep our Wilson power plant operating until at least **March 2015**.
  
- As was the case with Coleman Plant, we originally thought we would have to idle Wilson in February of this year after the smelters quit buying our power, to reduce costs and reduce the magnitude of the rate increase until either the power markets strengthened or we could sell Wilson's output under a bilateral arrangement.
  - Wilson Plant employs approximately 100 individuals,
  
  - It burns about **1.2 million tons** of western Kentucky coal per year worth about **\$56 million/annually**.
  
- We estimate this forward sale will provide a total benefit of **\$23 million** to our Members, which is a direct benefit to you, the consumer-owners.
  - About **\$17 million** of that figure involves contribution to fixed costs as well as a **\$6.8 million** FAC (Fuel Adjustment Clause) benefit for the Members which means a reduction in your monthly electric bill.

- In addition, the Wilson “Forward Sale” covered the cost of a 42-day, **\$4.5 million** planned outage at the plant that helps keep reliability high.
- So, not only was this forward sale good for the Wilson employees and our Members, it was also good for our regional economy as well.
- In addition, to those activities, Big Rivers is also a finalist for several other utilities’ power purchase proposals to which we have provided bids.
  - We are confident that in time; given our low generation costs, we’ll be able to acquire new customers which will help lower or eliminate entirely the upcoming rate increase.
  - I hope by this time next year, there will be more good news to report on this front.

[PAUSE]

- I’m sure by now you’ve heard that the EPA unveiled last week their latest regulation to reduce utility carbon emissions by 30% by 2030.

- Big Rivers along with every other coal-fired utility in the nation are closely reviewing this proposal.
  
- I noted earlier we idled our Coleman Station in Hawesville last month.
  - While that's an unfortunate situation as that plant employed around **100 positions** and contributed approximately **\$120 million per year** to the local economy.
  
  - There may be a silver lining for us because with Coleman idled, Big Rivers' CO2 emissions dropped 25% and it could shield Big Rivers from most, if not all of the other proposed EPA environmental regulations on the horizon.
  
  - In addition, since 2009, we've improved our generating fleet's efficiency by 3.8%, which in addition to reducing your electric bill... It allows us to burn **less fuel reducing** our carbon footprint.
  
- We are also planning to convert our Reid coal-fired unit located in Sebree, to natural gas which will provide additional fuel diversity and lower that plants carbon emissions by 43%.

- Furthermore, Big Rivers and Kenergy are implementing cost-effective **energy efficiency programs** which help save customers' money while reducing carbon emissions as well.
- Long story short, we have and continued to take a proactive approach in dealing with our environmental obligations and the real good news is the costs have already been reflected in the rate increases I mentioned earlier.

[PAUSE]

- That's just a brief glimpse into some of the major items Big Rivers has been dealing with this past year. To keep tonight's agenda on schedule; I'll close my remarks...
- As always, it's a pleasure to address this group.
- I appreciate your attention and thank the Kenergy board for inviting me here this evening.
- Thank you and have a good night...

## KENERGY 2013 ANNUAL MEETING

Thank you, Greg for inviting me to participate in Kenergy's 2013 Annual Meeting.

- It's always a pleasure to discuss matters of importance to all of us as electric utility customers.
- During his remarks, Greg noted the contract terminations of the two aluminum smelters; Century Aluminum and Rio Tinto Alcan, which will occur over the next 7-1/2 months.
- He also observed these are huge loads; and in fact they are huge, by any electric utility's standards especially so for utilities the size of Kenergy and Big Rivers.
- The two smelters together consume nearly 850 megawatts of electricity which about **61% of the peak demand** of Big Rivers' total System.
- They also provided approximately 64 percent of Big Rivers' annual revenue, or **~\$360 million** in 2012.

**[PAUSE]**

From the beginning, the smelter situation has been complex and **NO** easy solution has ever existed to deal with their issues.

- We've dedicated countless hours to seek reasonable and equitable solutions to this problem while minimizing costs to you.
- We understood the importance of the smelter jobs and the economic impact of the smelters' existence in our region.
- As non-profit cooperatives owned by you - our customers - Big Rivers and Kenergy were facing a rate increases regardless of what happened with the smelters.
- This would have been necessary had the smelters closed, whether they bought power from others on the open market, or whether we granted them the rate concessions they demanded.
  - In fact, had we had granted the rate concessions they demanded, the rate increase would have been even higher.
  - Rate concessions would have also locked in higher rates indefinitely,



- Whereas freeing the smelters to buy on the market offered Big Rivers and its 3 Member cooperatives the chance to sell the power the smelters had been buying to others...
  - Which offered the chance to lower rates later to levels closer to where they are today.
- That's why we proposed over a year ago the solution to allow them to go to buy their power from the market.

[PAUSE]

- Century accounts for approximately **\$205 million** in annual revenue.
- In anticipation of their departure in August this year, earlier this year we requested an annual revenue increase of ~ ***\$74.5 million***.
- That means - in addition to this rate increase - we will cut costs approximately ***\$131 million*** to address the *financial void* created by Century leaving the system.

The rate increase we requested would increase Retail rates System Wide an average of:

➤ Approximately **19%** for *residential and commercial accounts*, and

.....

➤ Approximately **17%** for *large industrials*.

- We know you work hard, and as non-profit electric cooperatives owned by you – our Members - the last thing we want to do is increase rates.
- We are not taking this rate increase lightly... but even with this increase our industrial electric rates will **continue** to be some of the lowest rates in the Commonwealth and in the U.S.

In fact, if the Century rate increase is granted:

- Industrial rates will rise to approximately **5 cents per kWh**.
  - That's still nearly **30%** below the current *national average industrial rate* of **6.52 cents per kWh**.

- Residential rates will increase to ~ **9.6 cents per kWh**, which is still less than middle of the pack in Kentucky.

[PAUSE]

I mentioned cost cutting earlier, we have taken and are continuing to evaluate “Cost Cutting” actions involving:

- Debt refinancing that cut interest expense,
- Re-negotiation of fuel and chemical contracts,
- Improving power plant efficiency thus lowering fuel costs,
- Making employee benefits changes with employees share an increasing portion of costs,
- Avoiding filling vacancies – in fact, we are currently down 39 employees, and if necessary.....
- Idling one or more generation facilities with additional staff reductions.

However, cost cutting *alone* cannot address the financial deficiency created when the two smelters no longer buy power from the Big Rivers' System.

- Even if we idle plants, we still have to service the debt owed on those plants; and....

- Pay property taxes on them; and...
- Maintain insurance coverage.

Some say Big Rivers ought to just go to our lenders and ask them to forgive our debt, but it's just not that simple.

- All electric utilities are capital intensive and Big Rivers is no exception.
- Sure, we owe millions of dollars in debt as does every other electric utility in the country, but
- Big Rivers owes proportionally less debt than just about every other electric G&T in the country.
  - In fact our latest data shows in 2011, Big Rivers had the 5<sup>th</sup> lowest debt ratio of 40 G&T's in the nation.
- All coal-fired utilities in the nation including Big Rivers are facing significant capital spending additions to comply with new EPA regulations.

- How do you think our lenders would react if we were to go to them and ask that they forgive our debt and then turn-around and ask them for additional loans?
  - How would you react if you were one of those lenders?
  - Clearly, that is not an option for us.

[PAUSE]

**In the meantime, Big Rivers and its Member-Owners are working aggressively to replace the 850 MW smelter load.**

To give you some detail regarding our Load Replacement efforts:

- We've had multiple discussions with various electric utilities to supply them power from **10MW - 400MW**,
- Additionally, Big Rivers and its 3 Members have engaged in discussions with **"new"** Economic Development prospects with electric load anywhere from **2MW - 200MW** or **more...**

- Furthermore, we've also had discussions with other electric utilities and a business regarding the **lease or sale** of some of our generating units.

**I feel confident...**In time; we'll be successful in selling this power and in mitigating this rate increase.

**[PAUSE]**

To this point, I've devoted most of the discussion to Century departing our system, because it's the first of the two large customers that will soon be leaving.

- Alcan accounts for approximately **\$155 million in annual revenue** to our financials.

**In an effort to blunt the impact of the 2<sup>nd</sup> (Alcan) rate increase...**

- Which will be filed later this month, Big Rivers and its Members will propose to ...
- Accelerate use of approximately **\$120 million** in **Reserve Funds** which were established in July 2009 when the Unwind closed to reduce future rate increases to ....

- Eliminate the need for the second rate increase (Alcan) until June 2015 for the residential members and about a year for Industrial members **(April 2014)**.
  - By exhausting all of the reserve funds and deferring the Alcan rate increase for the next two years - it will allow Big Rivers and its Members an opportunity to implement our load replacement strategy, thus .....
  - Perhaps negating the need for that rate increase entirely, and depending how much replacement load comes and how quickly it comes, ...
    - Even possibly leading to a lowering of the Century rate increase.
  - Keep in mind, there are still a lot of approvals required to implement this short-term strategy, but ....
  - I wanted to give you a glimpse of our plans to lessen the impact of the loss of our two largest industrial consumers.
- So with those remarks, I'll close.

- Thanks again Greg, for having me this evening.

THANK YOU.....



## Big Rivers Electric Corporation – non-profit, Member-owned wholesale energy supplier to Kenergy has filed for a general rate adjustment

Big Rivers filed an application for a general adjustment of rates on January 15, 2013, primarily due to Century Aluminum terminating its retail electric service agreement with Kenergy and Big Rivers.

This termination of Century's retail electric service agreement creates a loss of approximately \$205 million in annual revenue for Big Rivers. Due to Century departing the Big Rivers system, we are requesting a rate adjustment of \$74,476,120 in total annual revenue.

As a non-profit electric cooperative, Big Rivers has no motivation to earn unnecessary profit. To alleviate the impact to members, major cost reductions are being made.

*COST CUTTING of \$130.5 MILLION reduced the rate increase request.*

### What is Big Rivers doing to reduce costs?

<ul style="list-style-type: none"> <li>• Refinanced debt</li> <li>• Reduced and deferred labor costs</li> <li>• Asked employees to pay more of benefit costs</li> <li>• Renegotiated coal and chemical contracts</li> <li>• Improved plant efficiencies</li> <li>• Idle power plant(s)</li> </ul>	}	<table style="margin: 0 auto;"> <tr> <td style="text-align: right;"><b>\$205 million</b></td> <td style="padding: 0 10px;">Lost Century Revenue</td> </tr> <tr> <td style="text-align: right;"><b>- 130.5 million</b></td> <td style="padding: 0 10px;">Net Cost Reductions</td> </tr> <tr> <td colspan="2" style="border-top: 1px solid black; text-align: right;"><b>\$ 74.5 million</b></td> </tr> <tr> <td colspan="2" style="text-align: right;">Revenue Increase</td> </tr> </table>	<b>\$205 million</b>	Lost Century Revenue	<b>- 130.5 million</b>	Net Cost Reductions	<b>\$ 74.5 million</b>		Revenue Increase	
<b>\$205 million</b>	Lost Century Revenue									
<b>- 130.5 million</b>	Net Cost Reductions									
<b>\$ 74.5 million</b>										
Revenue Increase										

### How much will retail electric rates increase in August 2013?

- Residential, commercial, and small industrial members → **19%** (Big Rivers system average)
- Large industrial members (served at the transmission level) → **17%** (Big Rivers system average)

**\$23.06 per month** = approximate monthly dollar impact to an average residential member of Kenergy (using 1,300 kWh/month)

### Why does the Century termination affect retail electric rates?

Unfortunately, cost cutting alone cannot address the financial deficiency created by the loss of this industry from the Big Rivers system. Even if we idle plants (built over 20 years ago), we still have to service the debt owed on those plants, pay property taxes, and maintain insurance coverage.

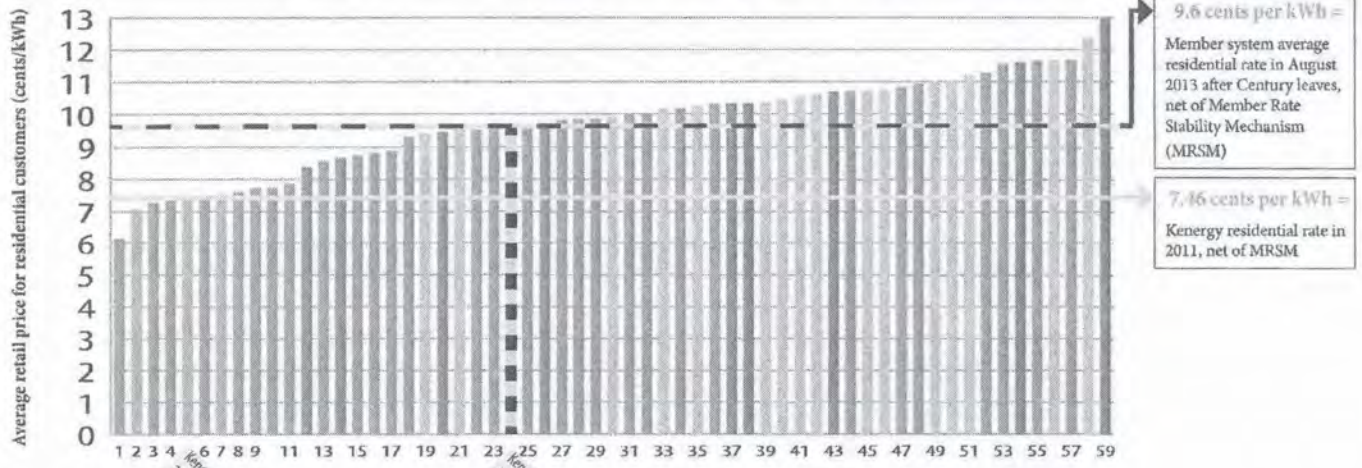
In addition to cost cutting, and in an effort to reverse the need for these rate increases in the long run, Big Rivers and its Member-Owners (Kenergy Corp., Meade County RECC and Jackson Purchase Energy Corporation) are working aggressively to replace the smelter load by:

- Entering into short-term and long-term purchase power agreements with other utilities
- Attracting existing/expanding or new loads to the system
- Selling or leasing generation assets
- Selling power into the wholesale market



## U.S. Energy Administration

### Residential customers in Kentucky - Average retail price of electricity in 2011



All utilities in Kentucky - Cooperatives, municipals, and investor-owned

1 Henderson City Utility Comm 6.13	11 City of Bardwell 7.89	22 City of Providence 9.51	32 City of Jellico 10.03	43 Pennyrile Rural Electric Coop - (TVA) 10.69	54 West Kentucky Rural ECC - (TVA) 11.62
2 JPEC (Big Rivers) 7.07	12 Duke Energy Kentucky 8.39	23 City of Franklin 9.53	33 Nolich Rural Electric Coop - (TVA) 10.16	44 City of Fulton 10.71	55 City of Princeton 11.66
3 City of Benham 7.28	13 Barbourville Utility Comm 8.58	24 Kenergy (Big Rivers) August 2013 9.6	34 City of Glasgow 10.17	45 Big Sandy Rural Elec Coop - (TVA) 10.72	56 Jackson Energy Coop - (TVA) 11.66
4 City of Falmouth 7.35	14 Kentucky Utilities Co * 8.67	25 City of Paducah 9.66	35 South Kentucky Rural ECC - (TVA) 10.24	46 Fleming-Mason Energy Coop - (TVA) 10.75	57 City of Hickman 11.67
5 Kenergy (Big Rivers) 2011 7.46	15 Corbin City Utilities Comm 8.75	26 Kentucky Power Co 9.66	36 City of Murray 10.31	47 City of Bowling Green 10.84	58 Grayson Rural Electric Coop - (TVA) 12.37
6 City of Nicholasville 7.50	16 Madisonville Municipal Util 8.83	27 City of Russellville 9.81	37 Warren Rural Elec Coop - (TVA) 10.32	48 City of Benton 10.95	59 Hickman-Fulton RECC - (TVA) 13.01
7 Menifee County RECC (Big Rivers) 7.53	17 City of Paris 8.89	28 City of Owensboro 9.84	38 In-County Elec Member Coop - (TVA) 10.33	49 Inter County Energy Coop - (TVA) 11.00	
8 City of Frankfort 7.62	18 City of Olive Hill 9.32	29 City of Hopkinsville 9.85	39 Farmers Rural Electric Coop - (TVA) 10.35	50 Clark Energy Coop Inc - (TVA) 11.00	
9 City of Berea Municipal Utility 7.73	19 Salt River Electric Coop - (TVA) 9.39	30 Cumberland Valley Electric - (TVA) 9.92	40 Shelby Energy Co-op - (TVA) 10.42	51 Licking Valley Rural ECC - (TVA) 11.21	
10 City of Bardstow 7.75	20 Louisville Gas & Electric Co * 9.45	31 Williamstown Utility Comm 10.01	41 Owen Electric Coop Inc - (TVA) 10.52	52 City of Mayfield Plant Board 11.29	
	21 Taylor County Rural CC - (TVA) 9.50		42 Blue Grass Energy Coop - (TVA) 10.62	53 City of Vanceburg 11.58	

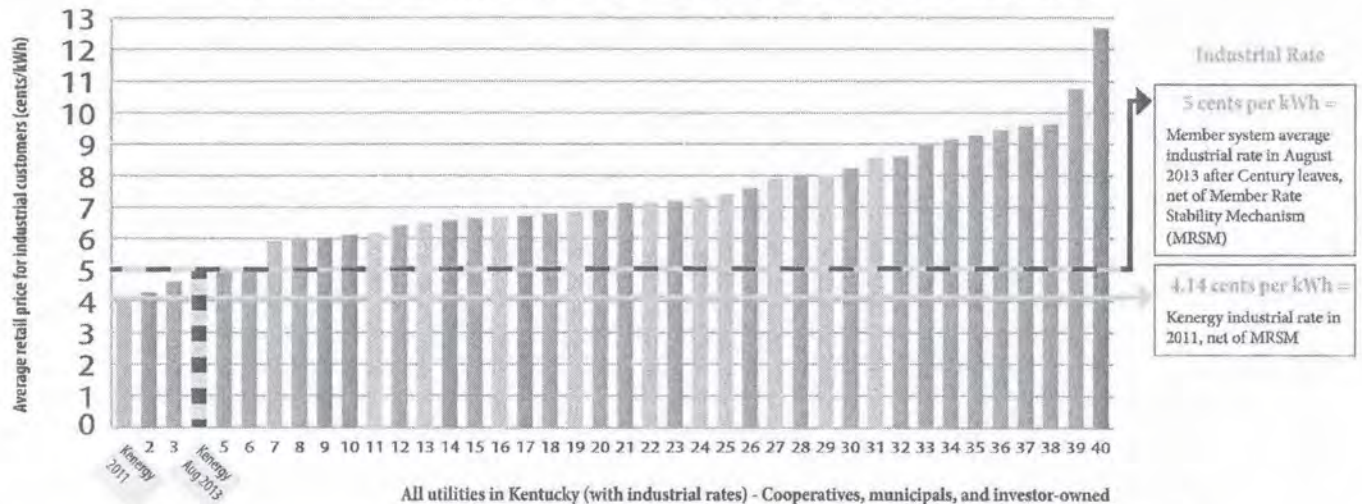
Source: <http://www.eia.gov/electricity/data.cfm#sales>

\* KU and LG&E are adjusted for rate increases in 2011 and 2012

Big Rivers Electric Corp. Members  
 Municipal utility  
 Investor-owned utility  
 East Kentucky Power Co-op  
 Tennessee Valley Authority

## U.S. Energy Administration

### Industrial customers in Kentucky - Average retail price of electricity in 2011



All utilities in Kentucky (with industrial rates) - Cooperatives, municipals, and investor-owned

1 Kenergy (Big Rivers) 2011 4.14	6 Henderson City Utility Comm 5.08	13 Grayson Rural Electric Coop - (TVA) 6.47	20 Barbourville Utility Comm 6.91	27 Licking Valley Rural ECC - (TVA) 7.90	34 City of Fulton 9.16
2 Ameren Electric Energy Inc 4.27	7 JPEC (Big Rivers) 5.39	14 Louisville Gas & Electric Co * 6.57	21 City of Franklin 7.13	28 City of Glasgow 8.01	35 City of Vanceburg 9.27
3 Corbin City Utilities Comm 4.62	8 City of Hopkinsville 5.99	15 City of Frankfort 6.54	22 Inter County Energy Coop - (TVA) 7.13	29 Cumberland Valley Electric - (TVA) 8.02	36 City of Benton 9.45
4 Kenergy (Big Rivers) August 2013 5.00	9 Kentucky Power Co 6.03	16 Blue Grass Energy Coop - (TVA) 6.68	23 City of Owensboro 7.19	30 City of Bowling Green 8.23	37 City of Mayfield Plant Board 9.57
5 City of Bardstow 5.07	10 Kentucky Utilities Co * 6.12	17 Duke Energy Kentucky 6.70	24 Jackson Energy Coop - (TVA) 7.30	31 Clark Energy Coop Inc - (TVA) 8.57	38 City of Paducah 9.63
	11 Fleming-Mason Energy Coop - (TVA) 6.16	18 City of Berea Municipal Utility 6.78	25 Farmers Rural Electric Coop - (TVA) 7.43	32 City of Paris 8.61	39 City of Princeton 10.75
	12 City of Nicholasville 6.41	19 Big Sandy Rural Elec Coop - (TVA) 6.84	26 City of Murray 7.61	33 City of Russellville 9.01	40 Hickman-Fulton RECC - (TVA) 12.67

Source: <http://www.eia.gov/electricity/data.cfm#sales>

\* KU and LG&E are adjusted for rate increases in 2011 and 2012

Big Rivers Electric Corp. Members  
 Municipal utility  
 Investor-owned utility  
 East Kentucky Power Co-op  
 Tennessee Valley Authority



# MEMBER Matters

January 2015

**KENERGYCORP.COM**  
1.800.844.4832

## Commercial, industrial bills to climb

### Credits expected to end in July

**R**eserve funds that have fully offset last year's rate increase for industrial and commercial members are expected to end in July, eliminating a credit on Kenergy bills this class of members has received since Feb. 1, 2014.

Last year, the Kentucky Public Service Commission (PSC) adjusted the revenue and rates of Big Rivers Electric Corp. — Kenergy's wholesale energy supplier — to reflect the departure from Big Rivers' system of the Century Aluminum smelter in Sebree.

The Sebree smelter stopped purchasing power from Big Rivers on Jan. 31, 2014, the effective date of a contract allowing the smelter to buy electricity on the open market.

In its ruling, the PSC allowed Big Rivers to use reserve funds to offset the increase that was passed through to Kenergy members.

"Because the reserve fund for commercial and industrial members

will deplete this summer, we want them to be aware now so they can budget accordingly for the second half of 2015," said David Hamilton, Vice President of Member Services.

In its ruling, the PSC excluded schools, farms and churches from the commercial and industrial class, which allows those groups to receive credits until the spring of 2016.

In addition, residential members will continue to receive the credit on their bills until the spring of 2016.

However, nonresidential buildings, such as unattached garages, workshops and pump houses that are owned by residential members, will lose their credit along with commercial and industrial members in mid-2015.

Big Rivers' reserve funds were established in 2009 as part of a complex transaction under which the utility regained operating control of its power plants, which had been leased to a third party when Big Rivers went through a bankruptcy

proceeding in the mid-1990s. The funds were established for the purpose of reducing the impact of fuel and environmental cost increases.

Big Rivers estimates the reserve fund for the industrial and commercial class will be exhausted in or near July. The timeframe could change slightly due to fuel costs, environmental costs and usage.

Industrial and commercial members can estimate the impact of their increase once the credit is gone.

The MRSM/RER base rate credit will be zero, and the Member Rate Stability Mechanism credit will be greatly reduced.

#### *Kenergy offers lighting rebates*

*If businesses want to save on energy bills, they should consider upgrading their lighting.*

*Kenergy offers rebates to commercial and industrial members that switch to energy-efficient lighting.*

*Last year, one national retail store in Daviess County received a \$10,269 rebate and a kilowatt reduction of 29.34 when it changed to more efficient lighting.*

*A Hancock County grocer received a rebate check for \$5,456.*

*These are only two of many businesses Kenergy assisted last year.*

*Contact us to find out about Kenergy's lighting rebates and HVAC tune-up program for commercial and industrial members.*

*E-mail Kyle Heavrin at [kheavrin@kenergy-corp.com](mailto:kheavrin@kenergy-corp.com) or Todd Blackburn at [tblackburn@kenergycorp.com](mailto:tblackburn@kenergycorp.com).*

## 2015 DIRECTOR ELECTIONS

Prior to Kenergy's Annual Meeting on Tuesday, June 9, three members will be elected to represent Districts 2, 7 and 10.

A director must be a member of the cooperative and must reside in the district he or she represents.

To qualify for Kenergy's director elections, incumbents and other candidates must secure at least 15 members' signatures on a petition. Only members eligible to vote in a district are authorized to sign a petition nominating a member from that district.

All petitions must be submitted to Kenergy by 4 p.m. on Feb. 19.

Information about the election is available on Kenergy's website, or you may contact Debbie Hayden at 270-689-6101 or email [dhayden@kenergycorp.com](mailto:dhayden@kenergycorp.com).

### Example of commercial bill

Customer Charge		975.27
KWH Charge	346,560 KWH @ 0.05219	18,086.97
KWH Charge	346,560 KWH @ 0.04794	16,614.09
KWH Charge	17,280 KWH @ 0.04538	784.16
Demand Charge	1,732.8 KW @ 12.2	21,140.16
Power Factor for this billing cycle 92.90%		
Primary Metering Discount		-1,126.32
<b>MRSM/RER base rate credit</b>		<b>-6,423.22</b>
Fuel Adjustment Clause	710,400 KWH @ 0.0023592	1,675.98
Environmental Surcharge	710,400 KWH @ 0.0056858	4,039.19
Unwind Surcredit Adjustment	710,400 KWH @ -0.0001275	-90.58
<b>Member Rate Stability Mechanism</b>	<b>710,400 KWH @ -0.0091622</b>	<b>-6,508.83</b>
Non Fac.PA Rider	710,400 KWH @ 0.0005004	355.48
<b>Total Power Supply Adjustments</b>		<b>-528.76</b>
Rate Increase for 3% School Tax		1,465.67
6% Kentucky Sales Tax		3,060.48
<b>Total Taxes and Fees</b>		<b>4,546.15</b>
<b>Total Amount Due</b>		<b>54,068.50</b>



**Travis and Hallie Siewert of Niagara built an energy-efficient home and received a \$2,000 rebate from Kenergy, Page 2**

Kenergy will host Friday After 5 at the RiverPark Center on July 31. This event is free and open to the public. The classic rock group After Midnight will perform.

Visit our website: [kenergycorp.com](http://kenergycorp.com).  
It's open for business 24/7!

## Statement of Operations

In 2014, Kenergy posted another solid year financially.

Ending the fiscal year 2014, Kenergy reported \$5.0 million in net margins on \$472.5 million in revenue. Equity as a percentage of total capital was at 37.8 percent.

Last year, the cooperative returned another \$2.8 million in net patronage capital to its members.

The cold winter during the first quarter of 2014 was the largest driver of increased residential/commercial kilowatt hour sales, however overall kilowatt hour sales were down due to decreased industrial load.

As expected, in February 2014, the Century Sebree smelter stopped buying electricity from Kenergy's wholesale energy supplier Big Rivers Electric Corp. Kenergy continues its role as Century's retail electric utility with power supply from alternative sources.

When the smelters left Big Rivers' system, it created a massive loss of electrical load for Big Rivers. As a result, Big Rivers initiated wholesale power rate increases to its member-owners, including Kenergy, which were approved in part by the Kentucky Public Service Commission. In 2014, the entire increase related to Sebree smelter was offset by reserve fund credits on the bill.

### STATEMENT OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Electric Revenue	\$470,634,285	\$502,912,739
Miscellaneous	1,912,021	1,838,494
<b>TOTAL OPERATING REVENUE</b>	<b>\$472,546,306</b>	<b>\$504,751,233</b>
Cost of Purchased Power	\$432,874,394	\$464,332,315
Distribution Plant Expense	12,882,541	12,804,878
Customer Accounting & Collecting Expense	3,904,959	3,781,753
Customer Service & Information Expense	259,804	314,892
General Office, Administrative & General Expense	3,999,061	4,168,772
<b>TOTAL OPERATING EXPENSE</b>	<b>\$453,920,759</b>	<b>\$485,402,610</b>
Depreciation Expense	\$10,419,490	\$9,950,789
Interest on Long-Term Debt	4,677,863	4,831,795
Other Deductions	740,434	605,488
<b>TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$469,758,546</b>	<b>\$500,790,682</b>
Operating Margins (Loss)	\$2,787,760	\$3,960,551
Non-Operating Margins	2,235,760	2,138,246
<b>TOTAL MARGINS (Loss)</b>	<b>\$5,023,520</b>	<b>\$6,093,797</b>
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
Total Utility Plant	\$288,765,455	\$279,731,900
Less Accumulated Provision for Depreciation	(92,346,385)	(84,581,055)
<b>NET UTILITY PLANT</b>	<b>\$196,419,070</b>	<b>\$194,650,845</b>
Investments	\$6,160,371	\$6,021,176
Cash & Cash Equivalents	1,800,247	2,692,235
Accounts Receivable	23,489,181	34,199,578
Other Assets	17,719,730	18,150,755
<b>TOTAL ASSETS</b>	<b>\$245,588,599</b>	<b>\$255,714,589</b>
<b>MEMBERS' EQUITIES</b>		
Memberships	\$228,275	\$235,615
Patronage Capital	70,642,877	69,704,798
Other	6,850,735	5,531,226
<b>TOTAL MEMBERS' EQUITIES</b>	<b>\$77,721,887</b>	<b>\$75,471,639</b>
<b>LIABILITIES</b>		
Long-Term Debt	\$127,809,454	\$124,784,646
Current Liabilities	37,390,949	52,954,046
Other	2,666,309	2,504,258
<b>TOTAL LIABILITIES</b>	<b>\$167,866,712</b>	<b>\$180,242,950</b>
<b>TOTAL MEMBERS' EQUITIES &amp; LIABILITIES</b>	<b>\$245,588,599</b>	<b>\$255,714,589</b>



Want to beat the heat? Run appliances like dish washers and dryers late in the evening to keep the heat from affecting your comfort. Use cold water to wash clothes, and remember to unplug electric chargers, televisions, and any appliances when you are not using them.

Learn more ways to save at [TogetherWeSave.com](http://TogetherWeSave.com).



Manage your account anywhere!

Mark Your Calendar

**September 3**  
Member Appreciation Day

**September 7**  
Offices Closed



# MEMBER Matters

January 2016

**KENERGYCORP.COM**  
1.800.844.4832

[ HENDERSON, KY ]

## Residential bills to climb

### Credits expected to end midyear

Reserve funds that have fully offset the 2014 rate increase for residential members are expected to end later this year, eliminating a credit on Kenergy bills that residential member-owners have received since Feb. 1, 2014.

That's when the Kentucky Public Service Commission (PSC) adjusted the revenue and rates of Big Rivers Electric Corp. — Kenergy's wholesale energy supplier — to reflect the departure from Big Rivers' system of the Century Aluminum smelter in Sebree.

The Sebree smelter stopped purchasing power from Big Rivers on Jan. 31, 2014, the effective date of a contract allowing

the smelter to buy electricity on the open market.

In its ruling, the PSC allowed Big Rivers to use reserve funds to offset the increase that was passed through to Kenergy members. When the credit no longer pays for the increase, members' bills are expected to raise about 20 percent.

"We're pleased this reserve fund was available to absorb the rate increase for our residential class for more than two years," said Jeff Hohn, Kenergy's President and CEO. "Although the credit is expected to remain several more months, we want our members to know now the credit will end later this year so they can budget for higher bills."

Big Rivers' reserve funds were established in 2009 as part of a complex transaction under which the utility regained operating control of its power plants, which had been leased to a third party when Big Rivers went through a bankruptcy proceeding in the mid-1990s. The funds were established for the purpose of reducing the impact of fuel and environmental cost increases.

The reserve funds' lifespan is based on members' electric usage. The less electricity members use, for example, the longer the credit will last. If winter weather is prolonged and severe, the need for electricity will increase and the funds will deplete sooner.

## DIRECTOR ELECTIONS

Prior to Kenergy's Annual Meeting on Tuesday, June 14, three members will be elected to represent Districts 1, 3 and 5.

A director must be a member of the cooperative and must reside in the district he or she represents.

To qualify for Kenergy's director elections, incumbents and other candidates must secure at least 15 member-owners' signatures on a petition. Only member-owners eligible to vote in a district are authorized to sign a petition nominating a member from that district.

All petitions must be submitted to Kenergy by 4 p.m. on Feb. 25.

Information about the election is available on Kenergy's website, or member-owners may contact Debbie Hayden at 270-689-6101 or e-mail [dhayden@kenergycorp.com](mailto:dhayden@kenergycorp.com).

### Automated phone attendant!



Something new to serve you better

- Pay by check or credit/debit cards
- Enter meter readings
- Update phone numbers

**1.844.255.3679**



Read the first story in a four-part series about volunteer fire departments. We start with the Whitesville Fire Department, Page 2.

The amount and percent changes by rate class are as follows:

<u>Rate Class</u>	<u>Big Rivers Flow-Through Dollars</u>	<u>Retail Percent Change</u>
Residential Service	\$12,467,545	21.4%
All Non-Residential Single Phase	\$2,112,365	21.3%
Three-Phase (less than 1,000 KW)	\$3,070,275	21.5%
Three-Phase (1,001 KW & Over)	\$1,151,934	22.0%
Unmetered Lighting	\$353,381	20.9%
Other	\$146,602	21.8%
<b>Total Non-Direct Served</b>	<b>\$19,302,102</b>	<b>21.4%</b>

<u>Rate Class</u>		
Direct Served Customer Class A	\$25,875,095	16.6%
Direct Served Customers Class B	\$5,306,879	18.6%
Direct Served Customers Class C	\$3,173,189	20.9%
<b>Total Direct Served</b>	<b>\$34,355,163</b>	<b>17.2%</b>
<b>Total All</b>	<b>\$53,657,265</b>	<b>18.5%</b>

The effect of the proposed rates on the average monthly bill by rate class is as follows:

<u>Rate Class</u>	<u>Current Normalized Monthly Bill</u>	<u>Big Rivers Impact of Flow- through</u>	<u>Proposed Monthly Bill</u>	<u>Percent Change</u>
Residential Service	\$ 107.91	\$ 23.06	\$ 130.97	21.4%
All Non-Residential Single Phase	\$ 92.07	\$ 19.60	\$ 111.67	21.3%
Three-Phase (less than 1,000 KW)	\$ 1,170.29	\$ 252.01	\$ 1,422.30	21.5%
Three-Phase (1,001 KW & Over)	\$ 29,131.00	\$ 6,399.63	\$ 35,530.63	22.0%
Unmetered Lighting	n/a	n/a	n/a	n/a
Direct Served Customer Class A	\$12,951,610.33	\$2,156,257.92	\$15,107,868.25	16.6%
Direct Served Customers Class B	\$791,155.50	\$147,413.31	\$938,568.81	18.6%
Direct Served Customers Class C	\$74,562.44	\$15,554.85	\$90,117.29	20.9%

Any corporation, association, or person with a substantial interest in the matter may request to intervene by written request or motion, within thirty (30) days after the date of publication of this notice of the proposed rate changes, although the Kentucky Public Service Commission may grant intervention beyond the thirty (30) day period for good cause shown. The request to intervene shall be submitted to the Kentucky Public Service Commission, 211 Sower Boulevard, P. O. Box 615, Frankfort, Kentucky 40602 and shall set forth the grounds for the request, including the status and interest of the party. Interveners may obtain copies of the application by contacting Kenergy Corp., 6402 Old Corydon Road, Henderson, KY 42420, or by calling (800) 844-4832.

A copy of the application and any other filing is available for public inspection at Kenergy's office at the above stated address or at one of its branch offices at 315 Hawes Boulevard, Hawesville, KY 42348; 1441 U.S. Highway 231 North, Hartford, KY 42347; 2620 Brown Badgett Loop, Hanson, KY 42413; 703 South Main Street, Marion, KY 42064; or 3111 Fairview Drive, Owensboro, KY 42303.

By: Gregory J. Starheim, President and CEO

The amount and percent changes by rate class are as follows:

Rate Class	Before Accelerated MRSM & RER Credit <sup>(1)</sup>		After Accelerated MRSM & RER Credit <sup>(2)</sup>	
	Big Rivers Flow-Through Dollars	Retail Percent Change	Big Rivers Flow-Through Dollars	Retail Percent Change
	Residential Service	\$19,999,885	29.0%	\$0
All Non-Residential Single Phase	\$3,389,592	28.9%	\$0	0.0%
Three-Phase (less than 1,000 KW)	\$4,927,431	29.1%	\$0	0.0%
Three-Phase (1,001 KW & Over)	\$1,846,855	29.4%	\$0	0.0%
Unmetered Lighting	\$567,212	28.5%	\$0	0.0%
Other	\$235,055	29.3%	\$0	0.0%
Total Non-Direct Served	\$30,966,030	29.0%	\$0	0.0%

Rate Class	After Accelerated MRSM Only <sup>(3)</sup>	
Direct Served Customer Class A	N/A	N/A
Direct Served Customers Class B	\$10,222,420	30.8%
Direct Served Customers Class C	\$6,857,919	38.7%
Total Direct Served	\$17,080,339	33.5%
Total All	\$48,046,369	30.6%

The effect of the proposed rates on the average monthly bill by rate class is as follows:

Rate Class	Current Normalized Monthly Bill	Before Accelerated MRSM & RER Credit <sup>(1)</sup>			After Accelerated MRSM & RER Credit <sup>(2) (3)</sup>		
		Impact of Big Rivers Flow-Through	Proposed Monthly Bill	Percent Change	Impact of Big Rivers Flow-Through	Proposed Monthly Bill	Percent Change
Residential Service	\$127.79	\$37.00	\$164.79	29.0%	\$0.00	\$127.79	0.0%
All Non-Residential Single Phase	\$108.86	\$31.45	\$140.31	28.9%	\$0.00	\$108.86	0.0%
Three-Phase (less than 1,000 KW)	\$1,390.11	\$404.45	\$1,794.56	29.1%	\$0.00	\$1,390.11	0.0%
Three-Phase (1,001 KW & Over)	\$34,889.90	\$10,260.30	\$45,150.20	29.4%	\$0.00	\$34,889.90	0.0%
Unmetered Lighting	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Direct Served Customer Class A	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Direct Served Customers Class B	\$922,757.92	\$283,956.10	\$1,206,714.02	30.8%	\$0.00	\$922,757.92	0.0%
Direct Served Customers Class C	\$86,926.77	\$33,617.25	\$120,544.02	38.7%	\$0.00	\$86,926.77	0.0%

(1) Big Rivers has proposed accelerating the use of the Member Rate Stability Mechanism (MRSM) and the Rural Economic Reserve (RER) to offset the proposed base rate increase.

(2) The (MRSM) is expected to be exhausted in July of 2014 and the (RER) in April of 2015.

(3) Per the proposed Big Rivers tariff and previous Kentucky Public Service Commission order, the RER applies only to the non-direct served classes.

Any corporation, association, or person with a substantial interest in the matter may request to intervene by written request or motion, within thirty (30) days after the date of publication of this notice of the proposed rate changes, although the Kentucky Public Service Commission may grant intervention beyond the thirty (30) day period for good cause shown. The request to intervene shall be submitted to the Kentucky Public Service Commission, 211 Sower Boulevard, P. O. Box 615, Frankfort, Kentucky 40602 and shall set forth the grounds for the request, including the status and interest of the party. Interveners may obtain copies of the application by contacting Kenergy Corp., 6402 Old Corydon Road, Henderson, KY 42420, or by calling (800) 844-4832.

A copy of the application and any other filing is available for public inspection at Kenergy's office at the above stated address or at one of its branch offices at 315 Hawes Boulevard, Hawesville, KY 42348; 1441 U.S. Highway 231 North, Hartford, KY 42347; 2620 Brown Badgett Loop, Hanson, KY 42413; 3000 U.S. Highway 641, Marion, KY 42064; or 3111 Fairview Drive, Owensboro, KY 42303.

By: Gregory J. Starheim, President and CEO



P.O. Box 18 + 6402 Old Corydon Road  
Henderson, Kentucky 42419-0018  
1.800.844.4832

April 1, 2015

[Redacted]

Dear [Redacted]

As you are aware, the past two years have brought tremendous change to Kenergy, including increases in wholesale power rates. I am writing to remind you of two bill credits that will expire in August and a corresponding increase in [Redacted] security deposit.

Beginning in September, your electric bill will no longer include the RER-Business Adjustment and RER-Business Base Rate Credit, which have offset the entire February 2014 rate increase. Unfortunately, the reserve fund that provides those credits will be exhausted in August.

As a consequence, the loss of those credits will increase [Redacted] bill. You currently have provided Kenergy a bank letter of credit in the amount of [Redacted]. To ensure the cooperative's financial security, Kenergy requests a corresponding increase in [Redacted] two-month billing deposit to [Redacted]. Kenergy will accept a bank letter of credit from an A-rated bank or a cash deposit. Please remit the additional deposit amount by August 1, 2015.

Thank you for your patronage. If you have questions about Kenergy rates or security deposits, please don't hesitate to call David Hamilton at 270.689.6155 or me at 270.698.6104.

Sincerely,

Greg Starheim  
President and CEO





P.O. Box 18 • 6402 Old Corydon Road  
Henderson, Kentucky 42419-0018  
1.800.844.4832

September 4, 2015

Dear Member:

Last year, the Kentucky Public Service Commission (PSC) approved an increase in Big Rivers Electric Corporation's wholesale power rates. Big Rivers supplies Kenergy's electricity. That rate increase was due to the loss of electrical load that resulted from Century Aluminum's Sebree smelter no longer purchasing electricity from Big Rivers. In its ruling, the PSC required Kenergy to pass this rate increase to its member-owners.

As a temporary offset, the PSC ordered Big Rivers to use a special reserve fund to fully pay for last year's rate increase for non-residential members. That credit went into effect on March 1, 2014, and was designed to continue until the reserve fund's original balance was depleted. Unfortunately, that time has come. Although your monthly statement will continue to show credits from other funding sources, the loss of the special reserve fund credit will increase your monthly bill about 20 percent as early as October 2015.

To complicate matters, the PSC ruled that meters that serve farms, churches and schools are excluded from the non-residential class. However, some residential members, schools, farms and churches have separate metered buildings such as unattached garages and workshops that fall into the non-residential category. Again, any meters in the non-residential category will lose their credits in October and electric bills will go up.

Needless to say, all of us at Kenergy are unhappy with this situation, but as a member-owned cooperative, we feel it is essential to keep you, our owner, informed about circumstances that impact your bill. If you need further assistance understanding this complicated situation, please feel free to call.

Sincerely,

A handwritten signature in black ink that reads "Sanford Novick".

Sanford Novick  
Interim President and CEO

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
SUPPLEMENTAL REQUEST FOR INFORMATION  
2015-00312 RATE APPLICATION**

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**Item 4)** Reference Kenergy's Response to AG 1-5 to answer the following questions:

a. Why is the article titled "Kenergy Applies For Rate Increase" in the Member Matters, December 2015 issue not in larger print and/or a main article in the publication?

**Response)** Because Kenergy's member newsletter must be designed far in advance of being mailed in bill statements; the communications manager was not able to print notification of the proposed rate increase until the December edition. By that time, every newspaper in Kenergy's service area had published a story about the proposed rate increase, and Kenergy had spent more than \$60,000 purchasing display ads publicizing the rate increase. In addition, every TV station in the Tri-State area had covered Kenergy's proposed rate increase, and Kenergy had posted numerous informational pieces on its website, including a PDF of the ads that ran in newspapers, an FAQ and a link to the PSC rate case. Finally, by the time the story ran in the December member newsletter, Kenergy had already sent the press release about the proposed rate filing to at least 12,000 members via e-mail.

With all that publicity and information made available to members prior to the story in the member newsletter, an editorial decision was made to use the smaller copy box for the proposed rate increase announcement. The cooperative had two issues of great importance that merited placement on the front page — director elections and the rate increase.

Cooperatives are democratically controlled. Members must receive information about director elections so they can choose whether they want to challenge a current board member. There are strict timelines for members to submit petitions and have their names appear on the ballot during an election. Because the December issue was the first time Kenergy had announced which board seats would be up for re-election and the deadline for entering a race was February, we decided the

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1 election story should be placed in the spot that would accommodate director photos and extended  
2 copy. (It is important to realize some of our members do not receive the December newsletter until  
3 the first week of January, which makes the timeline for meeting director election petitions even  
4 tighter.)

5 Kenergy's newsletter is a template. The stories change monthly, of course, but the design  
6 does not. The front page contains two stories only. The template has been the same nearly five  
7 years. The communications manager, who earned a master's degree in journalism from the  
8 University of Iowa and who spent nearly 15 years as a reporter, makes editorial decisions, such as  
9 story placement, based on her experience, educational background and knowledge of Kenergy's  
10 membership.

11 Kenergy's graphic designer, who designs the newsletter, often adjusts font sizes to  
12 accommodate space considerations. The font size on the story about the proposed rate case was  
13 reduced to provide as much information as possible in the space allowed.

14 The story appears in a prominent location – the front page. The story contains the most  
15 important information, such as the proposed rate increase percentage, the increased amount average  
16 members will pay monthly and the main reason for the increase. In addition, the story asks members  
17 to go to the co-op's website, which is an endless news hole. Unfortunately, our member newsletter  
18 has limitations due to space. It is an issue we struggle with daily — as all newspapers across the  
19 U.S. struggle with limited columnar inches for copy. Newspapers nationwide consistently drive  
20 readers to their websites, where additional statistics, charts and graphics round out a story. That's the  
21 same technique Kenergy uses. The co-op's "responsive design" website is accessible with tablets,  
22 phones and desktop computers. We often write shorter stories — or "teasers" — about rebates,  
23 energy efficiency and electrical safety in the newsletter, but we guide members to learn more on our

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1 website. In fact, we publish our Annual Report and New-Member Handbook in electronic form only on  
2 our website. It is available in print by request only. This is an accepted practice at many businesses  
3 nationwide.

4 In closing, Kenergy not only meets but exceeds Kentucky Public Service Commission  
5 requirements for publicizing rate increases. As one example, the co-op is not required to host press  
6 conferences to publicize rate filings, but Kenergy does. The co-op invites all media from the entire  
7 service area and hosts a teleconference so media who can't be present can participate. At the end of  
8 the press conference, we e-mail press releases to all media as well. The cooperative is not required  
9 to post an announcement about rate filings to members via e-mail blasts, which Kenergy routinely  
10 does.

11  
12 **Witness)** David Hamilton

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1  
2 **Item 4)** Reference Kenergy's Response to AG 1-5 to answer the following questions:

3 b. Is Kenergy aware of the news report located at <http://www.14news.com/story/30355511/kenergy-looks-to-increase-rates-by-390month?>

4  
5 i. While referencing the above mentioned news report, confirm whether it  
6 accurately reflected that the CEO of Kenergy stated that he expects the PSC to  
7 approve the rate increase request, and that the Commission has always  
8 accepted the increase requests in the past.

9 ii. If these statements do not accurately reflect what the CEO stated then  
10 provide clarification of the same.  
11

12 **Response)** Kenergy can only verify President and CEO Jeff Hohn's direct quotes actually  
13 presented on camera. The CEO and staff cannot verify with 100 percent certainty any paraphrased  
14 remarks edited and presented by Channel 14 news' reporting staff in October. The portion of the  
15 newscast to which you refer is paraphrased.

16 However, regarding the paraphrased remarks that read, "But, the CEO says he does expect  
17 the PSC to approve the request" and "Hohn told us the commission has always accepted its increase  
18 requests in the past," Kenergy is not aware of any rate case in the last 25 years where the  
19 cooperative did not receive all or part of the increase requested. Given that history, it is reasonable to  
20 "expect," as the news report suggests, the PSC to grant all or part of the proposed increase.

21 In all communications with members and in press packets, Kenergy used the phrase  
22 "proposed rate increase." The co-op also couches remarks with phrases such as "if the PSC  
23 approves the proposed rate" or words to that effect. Please see Kenergy's notice (Exhibit 4 to the  
24 application), which states that "The rates contained in this notice are the rates proposed by Kenergy  
25 Corp., but the Public Service Commission may order rates to be charged that differ from the proposed  
26 rates contained in this notice."

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1           Finally, rate filings are expensive and time-consuming. The cooperative's leadership would  
2 never file an application for an increase if it was not confident the PSC would grant at least a portion  
3 of the request. To do so would not be a sound business decision.

4  
5 **Witness)**     David Hamilton

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**Item 5)** Reference Kenergy's Response to AG 1-9 to answer the following questions:

a. Explain why Kenergy has not conducted a study to compare the Company's salary, benefits, and raises per employee with the standard salary, benefits, and raises by the workforce in the counties which it services, including but not limited to the following counties: Daviess, Hancock, Henderson, Hopkins, McLean, Muhlenberg, Ohio, Webster, Breckimidge, Union, Crittenden, Caldwell, Lyon, and Livingston County?

**Response)** Kenergy focuses total compensation package on national, regional and state data which may include the counties we serve in similar industries. Many of our jobs are specific to utilities and our competition is OMU, HMP&L, Vectren, and KU.

This philosophy is similar to the Commonwealth of KY's personnel cabinet:- The state's compensation plan is determined by surveying and comparing the pay of outside agencies and other states that have employees performing similar duties and carrying similar responsibilities.

Source – <https://careers.kygov>

**Witness)** Keith Ellis

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1  
2 **Item 5)**

Reference Kenergy's Response to AG 1-9 to answer the following questions:

- 3 b. Kenergy asserts that the services of NRECA National Consulting Group has been  
4 secured to conduct a compensation study factoring national, regional, and state  
5 wages in similar industries, but not specific to the 14 county area Kenergy serves.  
6 i. Provide when the study will be completed, and if the study has already been  
7 finished then provide a copy of the same.  
8 ii. Provide Kenergy's most recent completed wage and salary study, and confirm  
9 whether Kenergy is relying on this study in its current wage and salary structure.  
10 iii. Explain the process that Kenergy utilizes when setting its wages and salaries.  
11 Does Kenergy base it upon national wages in addition to state and local wages?  
12 1. If so, does Kenergy agree that a review of local and state wages  
13 provides sufficient information required to attract and retain employees? Please  
14 explain why or why not.  
15 2. Does Kenergy admit that using national wages can create a situation  
16 where the Company is offering a much higher wage and salary than what is  
17 necessary to attract and retain employees in Western Kentucky? Please explain  
18 why or why not.  
19 3. Does Kenergy use the national information when setting all of its  
20 employees' salaries and wages or only certain employees and/or positions?  
21 Please explain in full detail.  
22

23 **Response)**

- 24 i) Study was completed in April 2014. Please reference Item 5b, pages 3-7 of 7.  
25 ii) Confirmed but Kenergy reduced the consultant recommended 3.2% increase in salary  
26 structure in favor of a 2% structure increase relative to budgetary constraints.  
27 iii) Kenergy utilizes an internal job factor and external market pricing to set salaries for  
28 positions. The compensation consultant used data to set market pricing based on the  
29



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1 internal worth of that position to Kenergy.

- 2 1) Kenergy agrees that a review of the market that comprises national, regional, & state  
3 data. State data that also include data secured from the compensation consultant  
4 provided by the Economic Research Institute (ERI). Kenergy also recognizes that it  
5 competes for employees in nearby Southern Indiana including the metropolitan Evansville  
6 area in addition to Western Kentucky which must be factored into in its compensation  
7 plan.
- 8 2) Kenergy does not solely depend on national data. It is merely one piece of information  
9 gathered by the compensation consultant to determined market pricing.
- 10 3) Kenergy did not secure the data, the National Consulting Group used national information  
11 – among other sources of information – to set the employee's salaries as determined by  
12 Kenergy's internal worth of the job.

13  
14 **Witness)** Keith Ellis  
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# Wage and Salary Report

## Kenergy Corp

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Omaha, NE 68116  
(402) 266-1185

July 17, 2014

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## **Executive Summary**

This report updates the distribution of salaries across and within established pay ranges for Kenergy for the purposes of determining internal and external pay equity and making adjustments to the current pay plan. Actual pay was compared to market rates within, and external to, the Rural Electric Cooperative community using State of Kentucky and Regional market data consistent with the previous study.

### *Assumptions*

This report is based on the following assumptions that were either explicitly stated by Kenergy or are based on standard business practices:

- Data for all positions is for base, cash compensation only; figures for benefits, bonuses and overtime have been excluded.
- Evaluations were based on a previous assessment with job descriptions supplied by Kenergy.
- No specific factors were assigned to account for years of service.
- The report does not estimate “internal value”; what the relative value of each job contribution is to the overall mission of the organization.
- Salary figures were used based on State of Kentucky and Region III data.
- The position of CEO is not included in the analysis due to the fact that this position falls outside the wage and salary plan, and consequently is beyond the scope of this project.
- Kenergy has identified the cooperative’s “market point” as the mid-point of the range.

### *Sources*

Statistical data was obtained from the NRECA 2014 National Compensation System for rural electric distribution systems. This information is aggregate salary data obtained from over 800 rural electric cooperatives and public power districts throughout the country who participate in the NRECA I&FS benefit programs.

Data was also taken from the Economic Research Institute’s (ERI) Salary Survey, July 2014 update. ERI is the most used salary survey system in existence today with over 10,000 corporate and consulting subscribers affecting over 100,000 organizations pay practices.

## Analysis

The wage and salary plan focuses on the following key issues:

- To ensure internal equity -- that jobs requiring the same levels of education, experience, knowledge and responsibility are compensated consistently throughout the organization.
- To ensure external equity -- that the Cooperative's jobs are compensated fairly in comparison with similar jobs in the appropriate job market.

The point factor system was previously used by management to evaluate all positions and to assign internal values. Positions were appropriately graded to reflect the current duties and changes in responsibilities as a result of the ever changing characteristics of a rural electric cooperative. The five factors of Knowledge, Supervision, Responsibility, Complexity, and Communication, were systematically applied to each position, resulting in an equitable internal ranking.

Using market data from the above sources, positions were matched to benchmark jobs described in the compensation surveys, consistent with job descriptions supplied by Kenergy. This study used salary data taken from NRECA's National Compensation System that was the State of Kentucky median or Region III median for rural electric distribution systems. Salary data taken from the Economic Research Institute Survey (July 2014, update version) was median data from the State of Kentucky area.

The COMPensate™ model was updated and polynomial regression analysis was used to integrate the external salary data with the internal point-factor rankings. The results of the regression analysis provide the equation coefficients from which the salary midpoint curve can be calculated and inserting these values into the midpoint calculations resulted in the creation of the salary line for the model. This analysis results in minimum, lower third, mid-point, upper third, and maximum salary points within each salary grade to insure continuity of internal equity. A compa ratio, the most statistically meaningful number in the practice of compensation analysis that is a measure of current salary to the mid-point of the range, was also calculated for each incumbent.

## Conclusions and Recommendations

One of the most important ratio's in compensation analysis is called the compa ration. The compa ratio is determined by taking the individual pay level divided by the midpoint of the grade. A compa ratio of 1.00 reveals an individual is at the midpoint of the grade and represents a "solid citizen" or an employee who is fully trained and performing all of the requirements of the position.

Based on the results of the regression analysis, overall salaries at Kenergy are at 1.054% of mid-point, which is solid progression from the previous assessment of 1.066% in April 2014. This is within acceptable ranges, and the list of outliers will most likely be reduced significantly over the next 12 – 24 months with normal market increases and the competition for skilled labor. Adjustments needed to bring some salaries in line with the new wage and salary plan may have a time line greater than one year to reach full implementation.

The results of this study also indicate that the market increased approximately .64% since the initial study in April 2014.

Overall, the compa ratios are moving closer to Kenergy's compensation philosophy of moving employees to the mid-point of the range once they are fully and adequately performing the functions of their position. Those with a compa ratio below the minimum of the grade should have their salary accelerated and those with a compa ratio above 1.15 should be slowed. In all cases, incumbent positioning within the salary range should reflect the individual's experience, history at the co-op, and performance on the job.

Please keep in mind that a movement in salary structure does not require a lockstep movement in individual salaries for that particular grade. Individual salary movements should always be at the discretion of management based upon your cooperative's criteria of performance and merit.

While wage and salary plans offer management an information management system and should drive the compensation philosophy of the organization, the study should be secondary to market conditions.

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1  
2 **Item 6)** Reference Kenergy's Response to AG 11(a), (b), (d), (e), (f), (g), (h), (i),(j), (l), (m), and  
3 (n). These answers are inadequate. Provide a detailed breakdown of all costs included in the pro  
4 forma adjustments. If possible, provide the detailed breakdown in the same spreadsheet as found on  
5 Kenergy's Application, Exhibit 9, page 13 where the columns have titles, includes the pro forma  
6 adjustment amount column, pro forma percent increase column, and all of the information is  
7 contained in one chart.

8  
9 **Response)** It appears that the Attorney General's Initial Request for Information Item 11, and the  
10 Attorney General's Supplemental Request for Information Item 6, refer to lines on the adjusted income  
11 statement rather than the actual adjustments themselves. Each pro forma adjustment may affect  
12 multiple income statement lines. The Labor adjustment is a good example of this. It is one  
13 adjustment, but it affects Distribution Operations, Distribution Maintenance, Customer Accounts,  
14 Customer Service, Sales, and Administrative and General lines on the income statement. The  
15 Adjustment Recap, Exhibit 5A, Pages 2-5A describes each adjustment, references the Exhibit 5A  
16 page number where details for the adjustment can be found, and shows which income statement lines  
17 the adjustment affects and by how much. The calculation of each individual pro forma adjustment,  
18 including test year amount, pro forma amount, and adjustment amount can be found in Exhibit 5A  
19 pages 6-21. Details for revenue adjustments can be found in the consumption analysis, Exhibit 9.  
20 Please note that all of this information has also been provided electronically in response to the  
21 Commission Staff's Second Request for Information Item 3 and Item 44.

22 As requested, Kenergy has attempted to modify the Adjustment Recap to include the columns  
23 contained in Exhibit 9, Page 13. Please see the revised exhibit attached to this response which has 5  
24 additional columns, (ah) through (al), with titles Test Year Amount, Normalized, Pro Forma Amount,  
25 Adjustment, and Percent. The total at the bottom of column (ak) corresponds to Exhibit 5A, Page 1,

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column (g), line 41.

**Witness)**     Steve Thompson



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ADJUSTMENT RECAP  
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(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	
Line No.	Description	Page No. Exhibit 5A	Non-Direct Revenue Base Rates	Non-Direct Revenue WAF's	Direct Served exc. Smelters Revenue Base rates	Direct Served exc. Smelters Revenue Sum of WAF's	Direct Served exc. Smelters Other charges	Smelters Revenue Base rates	Smelters Revenue Sum of other charges	Other Revenue	Non-Direct Power Cost Base Rates
1	Normalize Revenues - Yr end level	(1)	\$ 215,344		\$ 14,496		\$ -	\$ 84,206	\$ -		
2	Normalize Revenues - Wholesale factors	(1)		\$ 21,127,806		\$ 12,832,415					
3	Misc. revenues - normalization	(1)								\$ (11,121)	
4	Misc. revenues - proposed rates	(1)								\$ 11,633	
5	General distribution revenue increase	(1)	\$ 2,594,981		\$ (42,808)						
6	Normalize Power cost - Yr. end level	(1)									\$ 204,245
7	Normalize Power Cost - Wholesale factors	(1)									
8	Adjustment to coop usage - normalization	(1)									
9	Coop usage normalization	(1)									
10	Sycronize wholesale factors	(1)									
11	PSC tax assessment - normalization	(1) & 16									
12	PSC tax assessment - increase	(1) & 16									
13	Labor	6									
14	Labor Overhead	7									
15	Remove PSC Disallowed Expenses	8									
16	Remove Non-Recurring Expenses	9									
17	Normalize Vegetation management expenses	10									
18	Depreciation - Distribution Plant	11									
19	Interest on Long Term Debt	12									
20	Debt Refinancing	13									
21	Interest on Customer Deposits	14									
22	Adjust Test Year Rate Case Expense	15									
23	Non-Operating Margins - Interest	16									
24	Non-Cash Capital Credit	17									
25	Discontinued Geothermal Sales	18									
26	Bad Debt Expense	19									
27	Regulatory Asset Amortization	20									
28	Reclassify Acct 912 to 908	21									
29	TOTAL		\$ 2,810,325	\$ 21,127,806	\$ (28,312)	\$ 12,832,415	\$ -	\$ 84,206	\$ -	\$ 512	\$ 204,245
30	To Exh. 5A, pg.1, col. G		215,344	21,127,806	14,496	12,832,415	0	84,206	0	(11,121)	204,245
31	To Exh. 5A, pg.1, col. G		2,594,981		(42,808)					11,633	
32											

KENERGY CORP.  
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(a)	(b)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	
Line No.	Description	Page No. Exhibit 5A	Non-Direct Power Cost WAF's	Direct Served exc. Smelters Power Cost Base rates	Direct Served exc. Smelters Other charges	Direct Served exc. Smelters Power Cost Riders	Smelters Base rates flow through	Smelters Power Cost Sum of other charges	Office Use	Distribution Operations	Distribution Maintenance	Consumer Accounts
1	Normalize Revenues - Yr end level	(1)										
2	Normalize Revenues - Wholesale factors	(1)										
3	Misc. revenues - normalization	(1)										
4	Misc. revenues - proposed rates	(1)										
5	General distribution revenue increase	(1)										
6	Normalize Power cost - Yr. end level	(1)		\$ 0			\$ -	\$ -				
7	Normalize Power Cost - Wholesale factors	(1)	\$ 21,077,155			\$ 12,832,415						
8	Adjustment to coop usage - normalization	(1)						\$ 21,149				
9	Coop usage normalization	(1)							\$ 5,667	\$ 934	\$ 867	
10	Synchronize wholesale factors	(1)										
11	PSC tax assessment - normalization	(1) & 16										
12	PSC tax assessment - increase	(1) & 16										
13	Labor	6							\$ 26,261	\$ 40,856	\$ 38,065	
14	Labor Overhead	7							\$ 22,194	\$ 30,192	\$ 34,273	
15	Remove PSC Disallowed Expenses	8							\$ (32,151)	\$ (46,883)	\$ (32,500)	
16	Remove Non-Recurring Expenses	9							\$ 174,180	\$ (296,731)		
17	Normalize Vegetation management expenses	10								\$ 175,179		
18	Depreciation - Distribution Plant	11										
19	Interest on Long Term Debt	12										
20	Debt Refinancing	13										
21	Interest on Customer Deposits	14										
22	Adjust Test Year Rate Case Expense	15										
23	Non-Operating Margins - Interest	16										
24	Non-Cash Capital Credit	17										
25	Discontinued Geothermal Sales	18										
26	Bad Debt Expense	19										\$ 33,563
27	Regulatory Asset Amortization	20										
28	Reclassify Acct 912 to 908	21										
29	TOTAL		\$ 21,077,155	\$ 0	\$ -	\$ 12,832,415	\$ -	\$ -	\$ 21,149	\$ 196,151	\$ (96,453)	\$ 74,268
30	To Exh. 5A, pg. 1, col. C		21,077,155	0	0	12,832,415	0	0	\$ 21,149	\$ 5,667	\$ 934	\$ 867
31	To Exh. 5A, pg. 1, col. G									\$ 190,484	\$ (97,387)	\$ 73,401
32												

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(a) (b) (v) (w) (x) (y) (z) (aa) (ab) (ac) (ad) (ae)

Line No.	Description	Page No. Exhibit 5A	Customer Service	Sales	Administrative & General	Depreciation	Tax Expense Other	Interest Long Term Debt	Interest on Cust. Deposits and other	Other Deductions	Non-Op Interest	Non-Op Other
1	Normalize Revenues - Yr end level	(1)										
2	Normalize Revenues - Wholesale factors	(1)										
3	Misc. revenues - normalization	(1)										
4	Misc. revenues - proposed rates	(1)										
5	General distribution revenue increase	(1)										
6	Normalize Power cost - Yr. end level	(1)										
7	Normalize Power Cost - Wholesale factors	(1)										
8	Adjustment to coop usage - normalization	(1)										
9	Coop usage normalization	(1)			\$ 10,792							
10	Synchronize wholesale factors	(1)										
11	PSC tax assessment - normalization	(1) & 16					\$ 124,152					
12	PSC tax assessment - increase	(1) & 16					\$ 4,874					
13	Labor	6	\$ 1,761	\$ 1,024	\$ 34,264							
14	Labor Overhead	7	\$ 1,700	\$ 856	\$ 25,502							
15	Remove PSC Disallowed Expenses	8	\$ (2,536)		\$ (248,002)					\$ (99,355)		\$ 144
16	Remove Non-Recurring Expenses	9			\$ (26,378)					\$ (45,528)		\$ 40
17	Normalize Vegetation management expenses	10										
18	Depreciation - Distribution Plant	11				\$ 848,661						
19	Interest on Long Term Debt	12						\$ 715,706				
20	Debt Refinancing	13						\$ (277,943)				
21	Interest on Customer Deposits	14							\$ 1,690			
22	Adjust Test Year Rate Case Expense	15			\$ 33,333							
23	Non-Operating Margins - Interest	16									\$ 63,919	
24	Non-Cash Capital Credit	17										
25	Discontinued Geothermal Sales	18										\$ 490
26	Bad Debt Expense	19										
27	Regulatory Asset Amortization	20				\$ 388,472						
28	Reclassify Acct 912 to 908	21	\$ 122,695	\$ (122,695)								
29	TOTAL		\$ 123,620	\$ (120,815)	\$ (170,489)	\$ 1,237,133	\$ 129,026	\$ 437,763	\$ 1,690	\$ (144,863)	\$ 63,919	\$ 674
30	To Exh. 5A, pg.1, col. C				\$ 10,792		\$ 124,152					
31	To Exh. 5A, pg.1, col. G		\$ 123,620	-\$ 120,815	\$ (181,281)		\$ 4,874	437,763	1,690	(144,863)	63,919	674
32												

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(a) (b) (af) (ag) (ah) (ai) (aj) (ak) (al)

Line No.	Description	Page No. Exhibit 5A	Non-Cash Capital Credits	Margin Impact	Test Year Amount	Normalized	Pro Forma Amount	Adjustment	Percent
1	Normalize Revenues - Yr end level	(1)		\$ 314,045	\$ 444,720,292	\$ 445,034,337	\$ 445,034,337	\$ -	0.0%
2	Normalize Revenues - Wholesale factors	(1)		\$ 33,960,221	\$ (24,299,219)	\$ 9,661,002	\$ 9,661,002	\$ -	0.0%
3	Misc. revenues - normalization	(1)		\$ (11,121)	\$ 1,849,397	\$ 1,838,276	\$ 1,838,276	\$ -	0.0%
4	Misc. revenues - proposed rates	(1)		\$ 11,633		\$ 1,838,276	\$ 1,849,909	\$ 11,633	0.6%
5	General distribution revenue increase	(1)		\$ 2,552,174		\$ 454,695,339	\$ 457,247,513	\$ 2,552,174	0.6%
6	Normalize Power cost - Yr. end level	(1)		\$ (204,245)	\$ 92,461,320	\$ 92,665,565	\$ 92,665,565	\$ -	0.0%
7	Normalize Power Cost - Wholesale factors	(1)		\$ (33,909,570)	\$ (24,248,569)	\$ 9,661,002	\$ 9,661,002	\$ -	0.0%
8	Adjustment to coop usage - normalization	(1)		\$ 21,149	\$ 183,310	\$ 204,459	\$ 204,459	\$ -	0.0%
9	Coop usage normalization	(1)		\$ (18,259)		\$ (18,259)	\$ (18,259)	\$ -	0.0%
10	Synchronize wholesale factors	(1)		\$ -					
11	PSC tax assessment - normalization	(1) & 16		\$ (124,152)	\$ 592,331	\$ 716,483	\$ 716,483	\$ -	0.0%
12	PSC tax assessment - increase	(1) & 16		\$ (4,874)		\$ 716,483	\$ 721,357	\$ (4,874)	-0.7%
13	Labor	6		\$ (142,231)		\$ 7,714,971	\$ 7,857,202	\$ (142,231)	-1.8%
14	Labor Overhead	7		\$ (114,717)		\$ 3,797,865	\$ 3,912,582	\$ (114,717)	-3.0%
15	Remove PSC Disallowed Expenses	8		\$ 461,571			\$ (461,571)	\$ 461,571	#DIV/0!
16	Remove Non-Recurring Expenses	9		\$ 194,497			\$ (194,497)	\$ 194,497	#DIV/0!
17	Normalize Vegetation management expenses	10		\$ (175,179)		\$ 2,580,178	\$ 2,755,357	\$ (175,179)	-6.8%
18	Depreciation - Distribution Plant	11		\$ (848,661)		\$ 10,034,765	\$ 10,883,426	\$ (848,661)	-8.5%
19	Interest on Long Term Debt	12		\$ (715,706)		\$ 4,707,929	\$ 5,423,635	\$ (715,706)	-15.2%
20	Debt Refinancing	13		\$ 277,943		\$ 1,354,801	\$ 1,076,858	\$ 277,943	20.5%
21	Interest on Customer Deposits	14		\$ (1,690)		\$ 6,734	\$ 5,044	\$ (1,690)	-25.1%
22	Adjust Test Year Rate Case Expense	15		\$ (33,333)			\$ 33,333	\$ (33,333)	#DIV/0!
23	Non-Operating Margins - Interest	16		\$ 63,919		\$ 1,952,682	\$ 2,016,601	\$ 63,919	3.3%
24	Non-Cash Capital Credit	17	\$ (14,998)	\$ (14,998)		\$ 227,281	\$ 212,283	\$ (14,998)	-6.6%
25	Discontinued Geothermal Sales	18		\$ 490		\$ (490)	\$ -	\$ 490	-100.0%
26	Bad Debt Expense	19		\$ (33,563)		\$ 310,460	\$ 344,023	\$ (33,563)	-10.8%
27	Regulatory Asset Amortization	20		\$ (388,472)		\$ -	\$ 388,472	\$ (388,472)	#DIV/0!
28	Reclassify Acct 912 to 908	21		\$ -					
29	TOTAL			\$ (14,998)	\$ 1,116,870				
30	To Exh. 5A, pg 1, col. C								
31	To Exh. 5A, pg 1, col. G			(14,998)				\$ 1,088,803	
32									

**KENERGY CORP.  
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**Item 7)** Reference the Kenergy Response to AG 1-12 (a), (b), (c), and (d) and provide a detailed explanation for any raise over 10% per year for both 2014 and 2015.

**Response)**

2014 – Manager of Field Engineering received 16% raise due to promotion into position plus step increase.

2014 – Manager of Construction received 11% increase due to promotion into position previous year plus step increase.

2015 – Manager of Procurement / Contracts received 10% increase due to promotion into position in 2015 plus salary movement in grade later in year.

2015 – President & CEO received 15% increase due to agreement between CEO & Board of Directors.

**Witness)** Keith Ellis

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**Item 8)** Reference the Kenergy Response to AG 1-12 (a), (b), and (d). Please provide a comprehensive list that provides the following information: a full title for each column description, without abbreviation, an explanation of what each column represents, and the process and procedure of providing these amounts. For example please provide the full title for "Vac Max Amt" and provide a detailed explanation as to what the amounts under this column represent and how it is calculated. Another example would be to provide the full title for the "Srv Award Amt" and a detailed explanation of Kenergy's process and procedure for awarding the amounts. Please provide this information for all columns.

**Response)** Please reference item 8, pages 2-3 of 3.

**Witness)** Keith Ellis

	Full Title of Column	Explanation	Process/Procedure/Calculations
Regular Wages	Regular Wages	Hours paid at 1X rate of pay	Regular Pay, Vacation Pay, Sick Pay, Holiday Pay, Miscellaneous Leave, Accrued Leave
Overtime Amt	Overtime Amt	Hours paid at 1.5X or 2X rate of pay	Overtime and Double Time
Lump Amount	Lump Amount	Lump Sum Discretionary Bonus	Paid out to employees who were above the maximum in their pay grade. 25% of pay in discretionary bonus.
Incentive	Incentive	2014 Incentive plan payout	12-31-14 Employee Base Wage multiplied by 0.60%
Bonus	Bonus	Discretionary Bonuses	One time bonuses for employees that worked on special projects
Adjusted Dollars	Adjusted Dollars	Retroactive Pay Increases, Gross-Up for Taxes on Employee Gift Cards, Gross-Up for Taxes on Employee won trip for spouses expenses	No set process or procedure. Case by case basis at discretion of CEO.
Vac Max Amt	Vacation Carryover in excess of maximum allowed	2014 Vacation Carryover in excess of 360.0 hours	Vacation Carryover in excess of 360.0 hours multiplied by employee hourly rate as of 12-31-14
Life 50 Amt	Taxable Life over \$50,000	Taxable Life over \$50,000	Calculated using IRS formula (Publication 15-B page 13) Taxable Amount is calculated on 3X Base wage for employee, \$10,000. spouse life and \$10,000. per dependent child
Retirement Award	Retirement Award	As an expression of appreciation, a retiree receives a check, subject to applicable taxes, \$25 for every year worked up to \$1,000.00. A retiree is defined as any employee who reaches the age of 62 with a minimum of ten years of service; or 55 with a minimum of 20 years of service.	\$25.00 for every year worked
Srv Award Amt	Years of Service Award	Service awards are presented to employee in recognition of length of service. Service awards are subject to applicable taxes	\$100 after five years of service, the service award will increase by \$50 for every additional five years worked
Misc Taxable Benefit	Miscellaneous Taxable Benefits	Gift Cards, Spouse Expenses on Employee Randomly Won Company Trip	Gift card awarded for exceptional member service.
401k Admin.Fee	401k Administrative Fees	401k Administrative Fees paid to NRECA	The 2015 employer expense rate was 0.1297%, down from 0.1391% in 2014. The 2015 annual employer expense for the 401(k) Plan is based on active employee 401(k) Plan account balances as of July 1, 2014. The expense write-off is evenly distributed between all active employees.
Dental Ins.	Company Paid Dental Premiums	Premiums Paid to Health Resources Inc. for employee dental plan	Company monthly portion of dental premium for 2015: Single \$32.90/Family \$70.60 (Employee pays 50% of dependent premium)
EAP	Employee Assistance Program	Premiums Paid to Methodist Inova for Employee Assistance Program	Remit to Inova \$817.80 quarterly for Employee Assistance Program. This payroll write-off amount is evenly distributed to all active employee's as a company paid benefit.
General Liability	General Liability Insurance	Premium paid to Federated for General Liability Insurance	Amount paid to Federated, prorated by outside employee regular wages and overtime wages at regular rate.
401-K Match	401-K Match	401-k Plan Match Remitted to NRECA	Company Matches 100% of employee 401(k) contributions up to a maximum of 3%. 401(k) is calculated on base wages.
Life Insurance Premium	Company paid Life Insurance Premium	Premiums Paid to NRECA for Employee Life Insurance Premiums	Premiums are calculated on November 15th salaries from the previous year (11/15/14). In 2015 the rate was \$0.226/\$1,000 (increase of 1.8% from 2014). Calculation: 11-15-14 Annual Base Wage (rounded up to nearest 1,000) x3 x0.000226
Long Term Disability	Company Paid Long Term Disability Premium	Premiums Paid to NRECA for Employee Long Term Disability Premiums	Premiums are calculated on November 15th salaries from the previous year (11/15/14). In 2015 the rate was \$0.0613/\$100 (increase of 7.9% from 2014). Calculation: 11-15-14 Annual Base Wage x 0.0613/100

Medical Insurance	Company Paid Medical Insurance Premium	Premiums paid to East Ky Power for Self-Funded Medical plan plus administrative fees paid to HealthSmart for Self-Funded Medical plan	Company monthly portion of medical premiums for 2015: Single \$371.25; Employee/Spouse \$931.64; Employee/Child(ren) \$800.01; Family \$1,262.01 (Employee pays 10% of medical premium)
Defined Benefit Plan	Defined Benefit Pension Plan	Premiums and Administrative Fees paid to NRECA for the Defined Benefit Pension plan	Kenergy has three Defined Benefit Pension plan groups. 2015 Rates: 001 Group 20.03%; 002 Group 20.03%; 003 Group 17.87%. The rates are set by NRECA. Calculation: 11-15-14 Annual Base Wage x RS Plan group rate
Temp. Reinsurance Fee	Temporary Reinsurance Fee	Affordable Care Act Fees paid to IRS for Temporary Reinsurance fee and PICORI Tax	October 2014 paid Transactional Reinsurance Contributions totaling \$27,657.00 (\$63.00 for each individual participating in our medical plan); July 2014 paid PCORI fees totaling \$978.00 (\$2.00 for each individual participating in our medical plan). Benefit was company paid and payroll write-off was based on the tier of medical coverage the employee had each month of the year. 2015 bi-weekly write-offs: \$1.79 single tier; \$3.58 Employee/Spouse tier; \$5.37 Employee/Child(ren) tier; \$7.16 Family tier
Umbrella Policy	Umbrella Policy	Premium paid to Federated for Umbrella Policy	Amount paid to Federated, prorated by employee regular wages.
Tax Veh Amt	Taxable Vehicle Amount	Taxable income on personal use of company provided vehicle.	Calculated using IRS formula (Publication 15-B)



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**Item 9)** Reference the Kenergy Response to AG 1-12(c). This response is inadequate. Provide a list of Kenergy Board of Director's compensation including all benefits, potential awards, bonuses, monthly retainers, as well as the percent increase of compensation for each of the past five years. Please ensure to adhere to the list requirements in AG 2-8 (a) and (b).

**Response)** Please refer to the Application Exhibit 5B, pages 54-116. Totals for the column headings are found on pages 73, 94, and 115. This information was also provided electronically in response to the Commission Staff's Second Request for Information item 3.

The board meeting fee and monthly retainer has not increased during the past five years. The board is not eligible for potential awards or bonuses. As shown on Exhibit 5a, page 8, the following expenses have been excluded for rate making purposes:

Fees while attending other meetings	\$ 3,750
Directors' monthly retainer	\$85,800
Non-Delegate / Alternate expense	\$18,158
Chairman extra meeting fees	\$ 1,200
Member Access Committees	\$ 3,696

**Witness)** Steve Thompson

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**Item 10)** Reference Kenergy's Response to AG 1-13 to answer the following questions and provide separate data for 2014 and 2015.

a. What percentage of the wage employees received only the general raise?

**Response)** 2014- 60%  
2015- 64%

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 10)** Reference Kenergy's Response to AG 1-13 to answer the following questions and provide separate data for 2014 and 2015.

b. What percentage of the wage employees received the general raise and the merit raise?

**Response)** For 2014 – 29% of wage employees received both the general and merit.  
2015- 30% received both the general and merit increase.

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 10)** Reference Kenergy's Response to AG 1-13 to answer the following questions and provide separate data for 2014 and 2015.

c. What percentage of the wage employees received the general raise and the step increase?

**Response)** 2014- 9%  
2015 – 6%

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 10)** Reference Kenergy's Response to AG 1-13 to answer the following questions and provide separate data for 2014 and 2015.

d. What percentage of the wage employees received the general raise, the merit raise, and a step increase?

**Response)** 2014 – 2%  
2015 – 2%

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 10)** Reference Kenergy's Response to AG 1-13 to answer the following questions and provide separate data for 2014 and 2015.

e. What percentage of the salaried employees received only the general raise?

**Response)** 2014 – 40%  
2015 – 43%

**Witness)** Keith Ellis

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**Item 10)** Reference Kenergy's Response to AG 1-13 to answer the following questions and provide separate data for 2014 and 2015.

f. What percentage of the salaried employees received the general raise and the merit raise?

**Response)** 2014 – 46%  
2015 - 38%

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 10)** Reference Kenergy's Response to AG 1-13 to answer the following questions and provide separate data for 2014 and 2015.

g. What percentage of the salaried employees received the general raise and the step increase?

**Response)** 2014 – 7%  
2015 – 12%

**Witness)** Keith Ellis



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**Item 10)** Reference Kenergy's Response to AG 1-13 to answer the following questions and provide separate data for 2014 and 2015.

h. What percentage of the salaried employees received the general raise, the merit raise, and a step increase?

**Response)** 2014 – 7%  
2015 – 7%

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 11)** Reference Kenergy's Response to AG 1-13 to answer the following questions:  
a. Are the merit increases that Kenergy awards to an employee directly related to a performance evaluation? Please explain why or why not.

**Response)** Yes. A merit increase is directly related to an employee's performance evaluation. An employee with a sometimes exceeds or consistently exceeds will receive an additional pay increase for exceptional performance.

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 11)** Reference Kenergy's Response to AG 1-13 to answer the following questions:  
b. Provide Kenergy's policies and procedures for merit based increase awards and include how the amount of the increase is determined.

**Response)** There is not a specific policy and the amount of the increase is determined by Kenergy's budgetary constraints each year.

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 11)** Reference Kenergy's Response to AG 1-13 to answer the following questions:  
c. Does Kenergy provide the general wage and salary adjustment to all employees each and every year regardless of performance? Please explain why or why not.

**Response)** No. An employee who receives a Consistency Does Not Meet Expectations on their performance evaluation will not receive a salary adjustment. Also, if Kenergy's budget does not allow for salary adjustments, then no salary increases are awarded to employees.

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 11)** Reference Kenergy's Response to AG 1-13 to answer the following questions:  
d. Does Kenergy provide the same general raise to the wage and salaried employees? Please explain why or why not.

**Response)** Yes. All employees are treated the same regardless of exempt status.

**Witness)** Keith Ellis

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**Item 11)** Reference Kenergy's Response to AG 1-13 to answer the following questions:  
e. Provide Kenergy' s process and procedure for providing general raises to the wage and salaried employees and include how the amount of increase is determined.

**Response)** The response is the same as stated in AG 1-13 for salaried employees.

**Witness)** Keith Ellis

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**Item 11)** Reference Kenergy's Response to AG 1-13 to answer the following questions:  
f. What criteria does Kenergy require in order for an employee to obtain a step increase?

**Response)** The employee must be below the mid-point of the pay grade and perform up to standard or better.

**Witness)** Keith Ellis

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**Item 11)** Reference Kenergy's Response to AG 1-13 to answer the following questions:  
g. Provide Kenergy's process and procedure for awarding step increases and include how the amount of the increase is determined.

**Response)** The amount of the increase is determined by Kenergy's budgetary constraints and percentage away from the mid-point in the position and the individual employee's performance.

**Witness)** Keith Ellis



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**Item 11)** Reference Kenergy's Response to AG 1-13 to answer the following questions:  
h. Reference the Kenergy Response to AG 1-13 and confirm that there were no raises provided to employees in 2010. If raises were provided then please provide information of the same.

**Response)** Confirmed, no raises provided to employees in 2010.

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 12)** Reference Kenergy's Response to AG 1-14 (a) to answer the following questions:  
a. Provide a list of all rural electric cooperatives in Kentucky that has a comparable employee assistance program and explain how each program is funded.

**Response)** Kenergy does not have a list.

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 12)** Reference Kenergy's Response to AG 1-14 (a) to answer the following questions:  
b. Provide a list of all investor owned utilities in Kentucky that has a comparable employee assistance program and explain how each program is funded.

**Response)** Kenergy does not have a list. However, it is not uncommon for companies to provide an Employee Assistance Program. For example, the Commonwealth of KY provides an EAP to its employees. (see attached)

**Witness)** Keith Ellis

## Kentucky Employee Assistance Program

### WHAT?

Your Employee Assistance Program (KEAP) is a CONFIDENTIAL program for helping you deal with problems that may affect your job performance, your personal life, and your general well being. These problems may be emotional, financial, marriage/family, or substance abuse. This program is one of your employee benefits, and the assessment/referral service is available to your family at no cost.

### WHY?

We all need help at some point in our lives. KEAP can help employees lead more productive personal and professional lives. By utilizing KEAP services employees may be able to reduce absenteeism, tardiness, accidents, and health insurance costs.

### WHO?

Your EAP professionals are State employees who are trained in assessment and referral. It is the job of the EAP professional to help you identify any issues that may be interfering with your job and/or your life. Your EAP professional will assist you in finding the most qualified people to help you with your problem.



### HOW?

You may obtain services from your EAP in two ways:

- If you have a personal problem you may call or make an appointment. In the case of a self-referral no one will know that you contacted KEAP.
- When an employee's job performance is deteriorating, a supervisor may refer an employee to KEAP. Information is still confidential, as required by law.

### WHEN?

Your EAP maintains regular state hours. You are allowed to make contact with KEAP on state time with supervisor's prior approval. Or, if you choose not to make contact on state time other appointment times are available.

### WHERE?

You may contact your EAP by calling:

Personnel Cabinet  
(502) 564-5788  
Or  
Toll free 1-800-445-5327



### REMEMBER!!

Your EAP services are free. If you need other services your EAP professional will assist you in getting them at affordable rates which may involve your health insurance co-pays. All information about you and your participation in EAP is confidential as provided by law. Participation in EAP will not jeopardize your job or promotional opportunities.

**YOUR EAP CARES ABOUT YOU!!!**

## KEAP SERVICES

- **Assessment:** Each person seeking assistance will receive a confidential assessment with a trained EAP professional. The purpose of the assessment is to clearly identify the problem. The assessment may be conducted face-to-face or by telephone.
- **Referral:** Once a thorough assessment is conducted the EAP professional may make a referral to the most appropriate professional or resource and provide assistance in making contact with those resources. KEAP does not provide ongoing counseling.
- **Follow-up:** After making the referral, the EAP professional maintains intermittent contact with the employee to ensure that the process has gone smoothly and the needed services are being provided.
- **Crisis Intervention:** When critical incidents or workplace trauma occur, the EAP can provide crisis response. Psychological first aid services provide individuals with information about possible reactions that may follow a critical incident.
- **Grief Response:** When death affects a workgroup, KEAP is available to provide grief response groups.
- **Management Consultation:** Supervisors may consult with EAP professionals for guidance regarding employees and difficult workplace situations.

## Education:

- KEAP staff members are available for staff development training opportunities. One training session is designed to increase employee awareness of the Kentucky Employee Assistance Program.
- KEAP is available to provide a variety of educational opportunities on various life/work topics such as stress management, mental health topics, budgeting information and substance abuse concerns.
- Supervisory training is also available to educate management on how to make appropriate referrals to KEAP.

## For more information contact:

Kentucky Employee Assistance Program

Personnel Cabinet

403 Wapping Street

Bush Building, Suite 105

Frankfort, KY 40601

502-564-5788

Or

1-800-445-5327

# KENTUCKY EMPLOYEE ASSISTANCE PROGRAM



A confidential source for Kentucky State Employees  
for help with personal and work-related concerns.

502-564-5788

1-800-445-5327

<https://personnel.ky.gov/Pages/KEAP.aspx>

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
SUPPLEMENTAL REQUEST FOR INFORMATION  
2015-00312 RATE APPLICATION**

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**Item 13)** Reference Kenergy's Response to AG 1-14 (c), (d), (e), (f), and (g) to answer the following questions:

- a. Does Kenergy communicate with other rural electric cooperatives across Kentucky to determine if its employee paid premiums on dental, health, and life insurance are too low and should be raised?

**Response)** Kenergy does not have the most generous employee health insurance contribution among cooperatives in Kentucky. However, Kenergy has recently recognized that its employees need to contribute more to their health coverage and the employee's contribution has increased.

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 13)** Reference Kenergy's Response to AG 1-14 (c), (d), (e), (f), and (g) to answer the following questions:

- b. Provide a list of all rural electric cooperatives in Kentucky that has the equivalent or lower employee paid premiums on dental, health, and life insurance than what Kenergy currently offers to its employees. For each example, please provide the type of insurance and amount of premium paid.

**Response)** Kenergy does not have a list.

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 13)** Reference Kenergy's Response to AG 1-14 (c), (d), (e), (f), and (g) to answer the following questions:

c. Provide the policies and procedures associated with Kenergy's philosophy to maintain discretionary benefit costs between 43-46% of payroll.

**Response)** No set written policy. It is Kenergy's philosophy to maintain discretionary benefit cost between 43-46% of base payroll as a means of self-regulation on benefit cost containment.

**Witness)** Keith Ellis



**KENERGY CORP.  
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**Item 13)** Reference Kenergy's Response to AG 1-14 (c), (d), (e), (f), and (g) to answer the following questions:

d. Provide a list of all rural electric cooperatives in Kentucky that maintains discretionary benefit costs of 43% of payroll or higher.

**Response)** Kenergy does not possess a list.

**Witness)** Keith Ellis

**KENERGY CORP.  
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**Item 14)** Reference Kenergy's Response to AG 1-19. Please provide titles for columns (c), (d), and (e).

**Response)** The titles shown are, 107.2, 163, and 426 which represent account numbers.

**Witness)** Steve Thompson

**KENERGY CORP.  
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**Item 15)** Reference Kenergy's Response to AG 1-20 (b), (c), (d), and (e) to answer the following questions:

- a. Please provide a detailed overview of the territorial disputes that Kenergy has encountered causing it to expend legal fees.

**Response)** This dispute involved an adjacent electric utility over rights to serve a proposed development. A new long-term territorial agreement has now been reached. These costs have been excluded for rate making purposes.

**Witness)** Steve Thompson

**KENERGY CORP.  
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**Item 15)** Reference Kenergy's Response to AG 1-20 (b), (c), (d), and (e) to answer the following questions:

b. Provide a detailed overview of the sales tax dispute that Kenergy has encountered causing it to expend legal fees.

**Response)** This dispute involved the amount of sales tax applicable to software costs. These costs have been excluded for rate making purposes.

**Witness)** Steve Thompson

**KENERGY CORP.  
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**Item 15)** Reference Kenergy's Response to AG 1-20 (b), (c), (d), and (e) to answer the following questions:

- c. How did Kenergy determine to exclude \$3,821 of the website redesign costs for rate-making purposes, and exclude \$14,923 as non-recurring? Provide the process and procedure employed to exclude these amounts.

**Response)** Kenergy determined approximately 17% of its website content was not necessary in providing electric service. The website is projected to be redesigned every 5 years, so 1/5 of the \$14,923 was included for rate making purposes.

**Witness)** Steve Thompson

**KENERGY CORP.  
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**Item 15)** Reference Kenergy's Response to AG 1-20 (b), (c), (d), and (e) to answer the following questions:

d. Provide a detailed explanation of the Marion property as well as the loss that Kenergy sustained in regards to the property.

**Response)** Please refer to item 15d, Page 2-6. The loss was excluded for rate making purposes.

**Witness)** Steve Thompson

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENERGY CORP. FOR A	)	CASE NO.
CERTIFICATE OF PUBLIC CONVENIENCE AND	)	2011-00196
NECESSITY	)	

O R D E R

Kenergy Corp. ("Kenergy") filed an application on June 2, 2011, for a Certificate of Public Convenience and Necessity ("CPCN") to construct a district office and service facility in Marion, Kentucky. This new facility replaces an existing branch office in Marion, Kentucky that was originally built in 1954. The estimated construction costs of the proposed facility are as follows, not including a 10 percent contingency:

Building and Site <sup>1</sup>	\$2,000,595
Furnishings <sup>2</sup>	30,000
Communication System <sup>3</sup>	39,520
Oil Containment System <sup>4</sup>	20,000
Land <sup>4</sup>	50,000
Professional Service Fees <sup>5</sup>	<u>183,570</u>
Total	\$2,323,685

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<sup>1</sup> See Kenergy's Response to Commission Staff's Second Request for Information, Item 3.a., filed Sep. 26, 2011.

<sup>2</sup> Application, Direct Testimony of Tim Skinner at page 4.

<sup>3</sup> Kenergy's Supplemental Response to Commission Staff's First Request for Information, Item 4, filed Aug. 12, 2011.

<sup>4</sup> Kenergy's Response to Commission Staff's First Request for Information, Item 4.

<sup>5</sup> Kenergy's Supplemental Response to Commission Staff's First Request for Information, items 4 and 16 (Fees estimated at: engineering - \$17,770, architectural - \$160,000, and legal - \$5,800).

The existing Marion facility has a 2,790 square-foot office building with a 950 square-foot attached storage structure, and two other buildings on the site that are serving as a warehouse and garage with a combined 5,600 square feet of floor space. According to Kenergy, it maintains approximately 1,322 miles of electric distribution line and serves approximately 9,444 customers in its Marion service territory, which consists of Livingston, Lyon, Caldwell, Hopkins, Webster, Union and Crittenden counties. The number of customers in its Marion district represents approximately 15.5 percent of Kenergy's total customer base.

Kenergy indicates that there are currently 15 employees working at the Marion office and service center facility. This district office is over 50 miles from the next closest Kenergy offices, which are located at Henderson and Hanson. Kenergy states that the present office structure has water, mildew and mold problems, contains asbestos, and is not in compliance with the Americans with Disabilities Act. The existing facility consists of three separate buildings at different floor elevations located in town on a 1.2 acre site which does not adequately accommodate material or equipment storage, or allow for any future expansion. Kenergy further states that service vehicles are parked in the open causing crew inefficiency and safety concerns, especially during loading and checking equipment in preparation for their field duties.

Limited site space of the present in-town location, along with its changes in grade, cause storage and mobility problems hindering the effectiveness and efficiency of the center. The present facilities have different work elevations and the finished floor of the office area is lower than the highway with the parking area sloping toward the office building, which causes drainage problems. The existing office would require



extensive refurbishing, and many of the inadequacies with the facility cannot be addressed by any reasonable and cost-effective renovation.

The proposed facility will be located on a 7.46 acre site along Highway 641, south of Marion, just beyond the city limits. The new location will continue to ensure that no Kenergy customer is more than approximately 40 miles from a Kenergy office, and will enable a continued rapid response of crews in addressing problems. The proposed building is a 24,644 square-foot, one-story structure consisting of a 5,844 square feet of office space and an 18,800 square-foot covered service area. The covered service area is designed to include a materials warehouse, a heated garage and shop, and a covered vehicle parking port. The building will be constructed to meet all applicable building codes using non-hazardous materials and will be designed to meet LEED ("Leadership in Environmental Efficiency Design") standards.<sup>6</sup> The LEED compliant design incorporates such items as an efficient geo-thermal heating system with efficient variable frequency drives and a programmed modulating HVAC system that adjusts for indoor and outdoor conditions. The efficient design has low-flow water restrictive plumbing fixtures, sensor lighting controls, and LED trough lighting fixtures. Materials used will have a high recycled content, and the building will have high R-value insulation installed. In addition, energy efficiency is designed into external features with no exterior landscape irrigation system being utilized and the roofing will be light in color and reflective.

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<sup>6</sup> Kenergy's Response to Commission Staff's Second Request for Information, Item 5.

Based on the application, and being otherwise sufficiently advised, the Commission finds that the construction of Kenergy's proposed building facilities is needed to adequately provide service to its customers and would not result in wasteful duplication of facilities. The estimated cost of the facility construction is reasonable according to the testimony and cost tabulation provided by the project architect. There are no Crittenden County zoning or planning requirements for this new construction, but it will be designed to meet all relevant Commonwealth of Kentucky and Crittenden County building codes<sup>7</sup> and is estimated to have less of an impact on Kenergy's rates<sup>8</sup> and be more efficient in keeping income requirements lower than demolition and reconstruction of an office and service facility on the existing site. Kenergy states that it will finance this district office construction from its cash reserves. Accordingly, the proposal should be approved.

The Commission also finds that, if the final construction of the facility exceeds ten percent of the estimated cost, Kenergy should file sufficient information with the Commission to explain and justify the additional cost. Further, the Commission finds that Kenergy should file copies of any permits related to the proposed new construction within 30 days of obtaining such permits.

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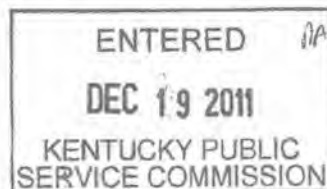
<sup>7</sup> Kenergy's Response to Commission Staff's Second Request for Information, Item 6.

<sup>8</sup> Application at page 5. See also, Kenergy's Supplemental Response to Commission Staff's First Request for Information, Item 19.


IT IS THEREFORE ORDERED that:

1. Kenergy is granted a CPCN to construct the new facility as proposed and described in its application.
2. Any substantial deviation from the construction shall be undertaken only with the prior approval of the Commission.
3. Kenergy shall file copies of any permits from a jurisdictional public authority within 30 days of obtaining those related to the proposed new construction and equipment.
4. Within 30 days of completion of the construction, Kenergy shall file the actual costs to construct the proposed facility.
5. If the final construction cost of the facility exceeds ten percent of the estimated cost, Kenergy shall file with the Commission, within 30 days of determining the final cost, sufficient information to explain and justify the additional costs.
6. Any documents filed in the future pursuant to ordering paragraphs three, four, and five herein shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission



ATTEST:

  
\_\_\_\_\_  
Executive Director

Case No. 2011-00196

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
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2015-00312 RATE APPLICATION**

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**Item 16)** Reference Kenergy's Response to AG 1-23 (a), (b), and (c) and provide a Depreciation Adjustment Exhibit, similar to Exhibit 5A, page 11, that includes the following: description, account number, balance as of 6/30/2015, current depreciation rate, the depreciation amount at current rates, the proposed depreciation rates, the depreciation amount at proposed rates, and impact of change.

**Response)** Please see page 2 of this response.

**Witness)** Steve Thompson

**Kenergy Corp.**  
**2015-00312 Rate Application**  
**Depreciation Adjustment - Distribution plant**

Line No.	(a) Description	(b) Account Number	(c) Balance 6/30/2015	(d) Current Depreciation Rate	(e) Proforma Depreciation Current rates	(f) Proposed Depreciation rates	(g) Depreciation at Proposed Rate	(h) Impact of change	(i)
1	Land and Land Rights	360.000	\$901,745	n/a	\$0	n/a	n/a		
2	Station	362.000	\$20,839,142	1.9%	\$395,944	1.9%	\$395,944	\$ (0)	
3	Supervisory Control	362.100	\$1,700,394	5.0%	\$85,020	5.0%	\$85,020	\$ (0)	
4	Microwave Equipment	362.200	\$481,561	5.0%	\$24,078	5.0%	\$24,078	\$ 0	
5	Microwave Towers	362.223	\$1,411,547	2.8%	\$39,523	2.8%	\$39,523	\$ 0	
6	Fiber Installed in Substations	362.300	\$54,223	4.0%	\$2,169	4.0%	\$2,169	\$ (0)	
7	Owensboro Fiber Loop	362.400	\$910,479	4.0%	\$36,419	4.0%	\$36,419	\$ 0	
8	Substation AMI	362.500	\$0	7.5%	\$0	7.5%	\$0	\$ -	
9	Poles, Tower's, and Fixtures	364.000	\$84,982,663	4.7%	\$3,994,185	4.7%	\$3,994,185	\$ 0	
10	Overhead Conductor's and Devices	365.000	\$59,266,011	3.9%	\$2,311,374	4.0%	\$2,370,640	\$ 59,266	
11	Underground Conduit	366.000	\$14,166	2.2%	\$312	2.2%	\$312	\$ (0)	
12	Underground Conductor and Devices	367.000	\$17,954,090	3.1%	\$556,577	3.3%	\$592,485	\$ 35,908	
13	Line Transformer's	368.000	\$37,369,693	2.9%	\$1,083,721	3.3%	\$1,233,200	\$ 149,479	
14	Services	369.000	\$29,423,511	3.8%	\$1,118,093	4.0%	\$1,176,940	\$ 58,847	
15	Meters	370.000	\$5,955,490	5.0%	\$297,774	6.0%	\$357,329	\$ 59,555	
16	AMI Meters-Pilot Program	370.100	\$157,901	6.7%	\$10,532	6.7%	\$10,532	\$ 0	
17	AMI Meters	370.200	\$3,803,281	7.5%	\$285,246	7.5%	\$285,246	\$ 0	
18	Installation on Customer's Premises	371.000	\$4,644,127	5.4%	\$250,783	5.1%	\$236,850	\$ (13,933)	
19	Street Lighting	373.000	\$925,069	3.8%	\$35,153	4.6%	\$42,553	\$ 7,400	
21	Total - Distribution Plant		<u>\$270,795,092</u>		\$10,526,903		\$10,883,426		
22									
23			Test year		<u>\$10,034,765</u>				
24						Adjustment		Total	
25			Adjustment - year end plant @ current rates		<u>\$492,138</u>	new rates	<u>\$ 356,523</u>	Adjustment	<u>\$848,661</u>
26									
27	Total - Distribution Plant		\$270,795,092						
28	General plant accounts		\$ 25,685,007						
29	account 302 franchises		\$ 19,355						
30	Total utility plant per line 1 form 7		<u>\$296,499,454</u>						

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
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2015-00312 RATE APPLICATION**

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2 **Item 17)** Reference Kenergy's Response to AG 1-24 and provide an Interest Expense  
3 Adjustment Exhibit, similar to Exhibit 5A, page 12, that includes the note number, provide the O/S  
4 Principal (without abbreviation in title), Lender, Interest Renewal Date, Principal Maturity, Test Year  
5 Interest Rates, Test Year Interest Amount, Proforma Interest Rates, Proforma Interest Amount, and  
6 Adjustment Amount. Please ensure that each loan that has an adjusted interest rate is clearly  
7 identified in the exhibit.

8  
9 **Response)** Please see pages 3 through 4 of this response for the above referenced information.  
10 Kenergy's Capital Management Policy states, "The corporation should strive to maintain a mix of 30-  
11 50 percent variable rate debt laddered so that a significant portion does not reprice in the same year,  
12 monitoring opportunities to lock in long-term rates." During the low interest rate environment, Kenergy  
13 accumulated a significant amount of 90-day interest rate debt. During the 2015 budgeting process  
14 (August of 2014), Kenergy budgeted locking in some of the 90-day interest rate notes at the June  
15 2015 repricing date in an effort to bring Kenergy's debt portfolio more in line with its Capital  
16 Management Policy and in recognition of forecasted increases in the Fed Funds rate. Therefore, at  
17 the June repricing date, FFB Note H55 was set to reprice in 10 years and H60 was fixed to maturity.  
18 In addition, Kenergy had two draws on its current RUS construction loan during the test period, H70  
19 and H75, which were also fixed to maturity. This resulted in a test year ending June 30, 2015 overall  
20 debt portfolio interest rate of 3.0137%, with 66% fixed to maturity and 34% laddered from 1 to 10  
21 years.

22 Kenergy also included a pro forma adjustment reducing test year interest expense for a debt  
23 refinancing that occurred after the end of the test period. This \$277,943 reduction to interest expense  
24 brings the debt portfolio interest rate down to 2.859%, which compares very favorably to the median  
25 2014 US co-op blended interest rate of 4.28% and the median state co-op blended interest rate of

**KENERGY CORP.  
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1 3.55%. Source: National Rural Utilities Cooperative Finance Corporation 2014 Key Ratio Trend

2 Analysis.

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4 **Witness)** Steve Thompson

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**KENERGY CORP.**  
**2015-00312 RATE APPLICATION**  
**INTEREST EXPENSE ADJUSTMENT**

Line No.	Note No.	(a) Outstanding Principal at 06/30/15	(b) Lender	(c) Current Rates	(d) Interest Renewal Date	(e) Principal Maturity	(f) Test Year Interest Rates	(g) Proforma Interest	(h) Test Year Interest	(i) Adjustment
1	1B375-378	\$ 1,664,496	RUS	5.000%	N/A Fixed to Maturity	2033	5.000%	\$ 83,225	84,806	(1,581)
2	1B570	\$ 230,636	RUS	5.000%	N/A Fixed to Maturity	2033	5.000%	\$ 11,532	11,751	(219)
3	1B370	\$ 1,912,131	RUS	5.125%	N/A Fixed to Maturity	2033	5.125%	\$ 97,997	99,813	(1,816)
4	1B225	\$ 1,352,165	RUS	4.125%	N/A Fixed to Maturity	2032	4.125%	\$ 55,777	56,994	(1,217)
5	1B380	\$ 13,085,877	RUS	0.125%	1 yr fixed 03/31/2016	2036	0.125%	\$ 16,357	29,450	(13,093)
6	1B384	\$ 7,052,370	RUS	0.625%	4 yr fixed 03/31/2017	2036	0.625%	\$ 44,077	45,165	(1,088)
7	1B381	\$ 8,664,366	RUS	2.125%	7 yr fixed 04/30/2017	2036	2.125%	\$ 184,118	187,974	(3,856)
8	1B382	\$ 4,658,983	RUS	1.625%	6 yr fixed 01/31/2018	2036	1.625%	\$ 75,708	77,384	(1,676)
9	1B383	\$ 6,049,693	RUS	1.375%	7 yr fixed 07/31/2019	2036	1.375%	\$ 83,183	85,078	(1,895)
10	1B211 & 1B215	\$ 955,023	RUS	3.125%	9 yr fixed 05/31/2020	2029	3.125%	\$ 29,844	30,727	(883)
11	1B220	\$ 1,318,542	RUS	2.625%	8 yr fixed 12/31/2021	2032	2.625%	\$ 34,612	35,484	(872)
12	1B210	\$ 1,022,160	RUS	2.000%	9 yr fixed 08/31/2022	2029	2.000%	\$ 20,443	21,104	(661)
13		\$ (38,375,946)	RUS		N/A (Prepaid Debt Service)					
14		\$ 9,590,496	<b>Total RUS</b>					\$ 736,873	\$ 765,730	\$ (28,857)
15		\$ 56,019	<b>RUS Ec. Devel.</b>	0%	Ec. Development Loans		0.000%	\$ -		
16	H10-H25	\$ 17,800,470	FFB	4.940%	N/A Fixed to Maturity	2037	4.940%	\$ 879,343	\$924,311	(44,968)
17	H30	\$ 8,208,793	FFB	3.544%	N/A Fixed to Maturity	2042	3.544%	\$ 290,920	\$266,392	24,528
18	H35	\$ 8,330,122	FFB	4.537%	N/A Fixed to Maturity	2042	4.537%	\$ 377,938	\$360,271	17,667
19	H40	\$ 7,074,700	FFB	2.422%	N/A Fixed to Maturity	2042	2.422%	\$ 171,349	\$226,693	(55,344)
20	H45	\$ 5,218,200	FFB	2.607%	N/A Fixed to Maturity	2042	2.607%	\$ 136,038	\$147,281	(11,243)
21	H50	\$ 428,407	FFB	2.565%	N/A Fixed to Maturity	2042	2.565%	\$ 10,989	\$43,279	(32,290)
22	H55	\$ 6,935,294	FFB	2.379%	10 yr fixed 06/30/25	2045	0.711%	\$ 164,991	\$11,209	153,782
23	H60	\$ 12,113,638	FFB	2.911%	N/A Fixed to Maturity	2045	0.844%	\$ 352,628	\$17,245	335,383
24	H65	\$ 2,365,219	FFB	0.144%	90 day fixed 09/30/15	2045	0.152%	\$ 3,406	\$7,396	(3,990)
25	H70	\$ 8,000,000	FFB	3.103%	N/A Fixed to Maturity	2047	3.103%	\$ 248,240	\$123,985	124,255
26	H75	\$ 11,000,000	FFB	2.992%	N/A Fixed to Maturity	2047	2.992%	\$ 329,120		329,120
27		\$ 87,474,843	<b>Total FFB</b>					\$ 2,964,962	\$ 2,128,062	\$ 836,900
28	1B390	\$ 3,518,086	US Treasury	4.690%	N/A Fixed to Maturity	2040	4.690%	\$ 164,998	\$166,850	(1,852)
29	1B391	\$ 3,550,194	US Treasury	5.120%	N/A Fixed to Maturity	2040	5.120%	\$ 181,770	\$183,686	(1,916)
30	1B392	\$ 3,976,270	US Treasury	4.900%	N/A Fixed to Maturity	2040	4.900%	\$ 194,837	\$196,956	(2,119)
31	1B393	\$ 3,988,973	US Treasury	5.070%	N/A Fixed to Maturity	2040	5.070%	\$ 202,241	\$204,392	(2,151)
32	1B394	\$ 4,534,173	US Treasury	4.470%	N/A Fixed to Maturity	2040	4.470%	\$ 202,678	\$205,024	(2,346)
33	1B395	\$ 4,595,366	US Treasury	4.690%	N/A Fixed to Maturity	2040	4.690%	\$ 215,523	\$217,941	(2,418)
34		\$ 24,163,062	<b>Total US Treasury</b>					\$ 1,162,047	\$ 1,174,849	\$ (12,802)
35	T22	\$ 5,061,035	CoBank	3.660%	(1) N/A Fixed to Maturity	2020	3.660%	\$ 185,234	\$196,848	(11,614)
36	T23	\$ 2,997,368	CoBank	2.400%	(1) N/A Fixed to Maturity	2021	2.400%	\$ 71,937	\$81,834	(9,897)
37	T14	\$ 203,821	CoBank	4.140%	(1) N/A Fixed to Maturity	2017	4.140%	\$ 8,438	\$10,185	(1,747)
38	T15	\$ 511,943	CoBank	4.220%	(1) N/A Fixed to Maturity	2018	4.220%	\$ 21,604	\$23,998	(2,394)
39	T13	\$ 153,436	CoBank	4.020%	(1) N/A Fixed to Maturity	2016	4.020%	\$ 6,168	\$9,438	(3,270)
40	T8	\$ 1,025,416	CoBank	4.610%	(1) N/A Fixed to Maturity	2025	4.610%	\$ 47,272	\$45,767	1,505
41	T12		CoBank	3.990%	(1) N/A Fixed to Maturity	2015	3.890%		\$2,296	(2,296)
42	T7	\$ 1,019,158	CoBank	3.420%	(1) 5 Yr. Fixed until 02/20/2016	2029	3.420%	\$ 34,855	\$35,082	(227)
43	T1	\$ 1,375,428	CoBank	1.730%	(1) 3 Yr. Fixed until 10/20/2017	2032	1.728%	\$ 23,795	\$28,035	(4,240)



**KENERGY CORP.**  
**2015-00312 RATE APPLICATION**  
**INTEREST EXPENSE ADJUSTMENT**

Line No.	Note No.	(a) Outstanding Principal at 06/30/15	(b) Lender	(c) Current Rates	(d) Interest Renewal Date	(e) Principal Maturity	(f) Test Year Interest Rates	(g) Proforma Interest	(h) Test Year Interest	(i) Adjustment
44	T10	\$ 2,432,954	CoBank	1.710%	(1) 3 Yr. Fixed until 10/20/2017	2026	1.713%	\$ 41,604	\$50,120	(8,516)
45	T2	\$ 598,541	CoBank	1.650%	(1) 3 Yr. Fixed until 03/19/2018	2020	1.957%	\$ 9,876	\$14,349	(4,473)
46	T4	\$ 739,773	CoBank	1.720%	(1) 3 Yr. Fixed until 03/17/2018	2022	1.980%	\$ 12,724	\$17,305	(4,581)
47	T19-T21	\$ 1,958,176	CoBank	2.570%	(1) 6 Yr. Fixed until 02/28/2018	2033	2.570%	\$ 50,325	\$54,596	(4,271)
48	T5	\$ 325,370	CoBank	1.330%	(1) N/A Fixed to Maturity	2017	3.063%	\$ 4,327	\$11,414	(7,087)
49	T6	\$ 997,667	CoBank	2.170%	(1) 5 Yr. Fixed until 03/20/2020	2028	3.273%	\$ 21,649	\$32,926	(11,277)
50		<u>\$ 19,400,086</u>	<b>Total Cobank</b>					<u>\$ 539,808</u>	<u>\$ 614,193</u>	<u>\$ (74,385)</u>
51		<u>\$ 906,570</u>	<b>Total CFC</b>	2.200%	N/A Fixed to Maturity	2018	2.200%	<u>\$ 19,945</u>	<u>\$25,095</u>	<u>(5,150)</u>
52		<u>\$ (7,372,460)</u>	Principal due within one year							
53								<u>\$5,423,635</u>	<u>\$4,707,929</u>	<u>\$715,706</u>
54									(2)	
55										
56		<u>\$ 134,218,616</u>	Total Long-Term Debt (Line 41 - Form 7)							
57										
58										
59										
60										
61										
62										

(1) Including .75% reduction for cash capital credit refunds. The Cobank capital plan provides for a 100 basis point total capital credit allocation on average loans outstanding, with a 75 basis point cash payment and a 25 basis point non-cash allocation.

(2) Accounts 427.100 - 427.230.

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
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**Item 18)** Reference Kenergy's Response to AG 1- 25. This response is inadequate. Provide a detailed overview of the \$122,695 reclassify costs. For example, if the costs correlate to labor and overheads for staff activities relating to customer information and energy efficiency ideas, then provide a detailed explanation of the activities that occurred and how it benefited the ratepayer.

**Response)** Due to the large number of commercial and Industrial (C&I) member-owners served by Kenergy, three staff members in the Member Services Department are responsible for meeting C&I member-owner needs. This includes visiting C&I businesses and providing general information about rates, service reliability and energy efficiency programs. Kenergy has a number of PSC-approved energy efficiency tariffs, which provide rebates for HVAC equipment, HVAC tune-ups, lighting upgrades and general efficiency improvements. The three staff members provide energy efficiency information and process applications for energy efficiency rebates for our member-owners. Kenergy believes this work is necessary to provide excellent member service and it helps our member-owners by promoting energy efficiency in their businesses.

Refer to Item 18, Pages 2-3 for an analysis of the items included in the \$122,695. Please note that costs related to Employee Retirement Events, Breakroom Supplies, Recognition and Awards, Get Well Cards, Gifts to Employees, Christmas Party, and Employee Events have been removed for rate making purposes in the disallowed expense pro forma adjustment, Exhibit 5A, Page 8. However, when preparing this response, Kenergy did identify \$7,997.11 in activity code 508-C&I – IRC MEETINGS, see page 3 of this response. The \$7,997.11 was the cost of a golf outing, meal, and meeting hosted by Kenergy for Kenergy's IRC members. Based on past practice, Kenergy feels that this \$7,997.11 should be excluded for rate making purposes.

**Witness)** David Hamilton

**ACCOUNT 912.000**  
**JULY 2014-JUNE 2015**

LABOR & OH'S (including misc je's)	\$ 83,833.83
TRANSPORTATION	\$ 4,520.72
Accounts Payable (see next page for detail)	\$ 34,261.06
Correcting Journal Entry for AP (activity code 768)	\$ (8.18)
Correcting Journal Entry for AP (activity code 329)	\$ 44.64
CASH RECIEPTS-(Breakroom-Coke Machine)	\$ (15.53)
POSTAGE	\$ 58.06
SUBTOTAL	\$ 122,694.60
COSTS ALLOCATED TO DIRECT SERVES & SMELTERS	<u>\$ (251.67)</u>
TOTAL	\$ 122,442.93

912.000 ACCOUNTS PAYABLE

Row Labels	Sum of Total	Excluded for rate making Disallowed Exp. pro forma adjustment
100 - POSTAGE & DELIVERY	\$ 28.32	
102 - MEALS & MEETING EXP	\$ 56.97	
104 - SEMINARS & TRAINING	\$ 1,992.38	
107 - SUBSCRIPTIONS	\$ 86.00	
108 - OFFICE SUPPLIES	\$ 197.49	
109 - COPIER - GENERAL	\$ 19.63	
139 - RETIRE. GIFTS/EVENTS	\$ 2.68	\$ 2.68
226 - A/P CHECKS &TAX FORM	\$ 5.13	
300 - PC SUPPLIES	\$ 136.37	
301 - PC PARTS & MAINT	\$ 306.68	
302 - SMALL OFFICE EQUIP	\$ 1,535.94	
303 - LICENSES UPDATES	\$ 46.78	
320 - MOBILE RADIO ITEMS	\$ 0.52	
321 - TOUCHTONE LNG DIST	\$ 228.62	
323 - BELL SOUTH (LOCAL)	\$ 469.82	
324 - CINGULAR(CELL PHONE)	\$ 695.18	
327 - PHONE REPAIRS/MAINT	\$ 249.23	
335 - CORP T1 INTERNET	\$ 104.12	
344 - CYAN 10 GIG-E OPT SY	\$ 115.61	
345 - OVERTURE TDM OPTICAL	\$ 37.48	
347 - COMPUTER EQUIPMENT	\$ 2,725.40	
451 - SAFETY DAY EXPENSES	\$ 65.94	
508 - C&I - IRC MEETINGS	\$ 7,997.11	
511 - KEY ACCTS-LITERATURE	\$ 4,725.00	
512 - KEY ACCTS-CLIENT LNC	\$ 319.08	
520 - REC&TRADE SHOW ASST	\$ 3,385.77	
603 - DGT PRINT MAINT/SUPP	\$ 584.08	
606 - DIRECTORY ADV	\$ 73.88	
753 - BRK RM-FOOD/DRINKS	\$ 258.62	\$ 258.62
759 - RECOGNITION & AWARDS	\$ 72.37	\$ 72.37
762 - FIRST AID SUPPLIES	\$ 88.00	
766 - DRUG SCREENING	\$ 59.41	
767 - BACKGROUND CHECKS	\$ 4.98	
768 - EMP ASSIST PROGRAMS	\$ 24.54	
769 - CARDS-BDAY,SYMPATHY	\$ 0.11	\$ 0.11
770 - FLOWERS/HAMS-EMPLOYE	\$ 17.45	\$ 17.45
772 - PROFESSIONAL DEVELOPMENT TRAINING	\$ 6,453.06	
774 - CHRIST. PARTY EXP	\$ 157.33	\$ 157.33
776 - 125 CAFETERIA PLAN	\$ 53.34	
778 - INSIDE TRAINING	\$ 77.76	
779 - SOFTWARE SUPPORT	\$ 44.97	
781 - EMPLOYEE EVENTS	\$ 757.91	\$ 757.91
<b>Grand Total</b>	<b>\$ 34,261.06</b>	<b>\$ 1,266.47</b>
		\$ (15.53) Cash Receipt (Break Room Supplies)
		\$ 1,250.94

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
SUPPLEMENTAL REQUEST FOR INFORMATION  
2015-00312 RATE APPLICATION**

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**Item 19)** Reference Kenergy's Response to AG 1-26. Provide an exhibit, with the information contained in Exhibit 5B, Leadsheet 1 - 5B, page 116, that concisely lists the itemized amounts under each main category (categories listed on Exhibit 5B Leadsheet 1 and 2) and ensure that any amounts being excluded for ratemaking purposes are clearly identifiable. For example, provide the category of "Subtotal 930.200 account items" and provide all of the amounts included in this category, and flag the amounts that are not included for ratemaking purposes. Additionally, provide an actual description for "prepaid writeoff other" and "allocate misc general" in the provided information.

**Response)** Kenergy has grouped all items excluded for rate making purposes in separate columns on Exhibit 5B. All dollar amounts included in these columns have been excluded for rate making purposes. All other columns contain amounts that were included for rate making purposes. The columns and amounts excluded for rate making purposes are clearly identified on Exhibit 5B, LEADSHEET 1, with a (1) designation to the right of the amount. This information has also been supplied electronically in response to the Commission Staff's Second Request for Information Item 3.

The "prepaid writeoff other" amounts are shown under National Rural Electric Cooperative and Kentucky Association of Electric Cooperatives columns. When paid, these dues are charged to account 165.200 prepayments and expensed monthly to account 930.200. The "allocate misc general" amounts are transferred to Direct Served customer accounts.

As requested, Kenergy has attempted to modify the Exhibit 5B LEADSHEET by adding additional columns to identify the amounts included and excluded for rate making by category and subtotaled the categories for each account. Please see page 2 of this response.

**Witness)** Steve Thompson

**KENERGY CORP.**  
**2015-00312 RATE APPLICATION**  
**MISC GENERAL EXPENSES - ALL 930 ACCOUNTS**  
**FOR 12 MONTHS ENDED JUNE 30, 2015**

Line #	(a) Item	(b) Total	(c)	(d) Rate Making Treatment		(e) Included	(f) Total
				Excluded	Included		
1	Advertising costs Misc. 930.100	\$ 10,924.19	(1)	\$ 10,924.19			\$ 10,924.19
2	<b>Subtotal 930.100 account items</b>			<b>\$ 10,924.19</b>	<b>\$ -</b>		<b>\$ 10,924.19</b>
3	Staff Labor & Overheads - all 930.200 activities	\$ 182,693.35			\$ 182,693.35		\$ 182,693.35
4	Annual Meeting Expenses net of disallowed costs	\$ 13,734.76			\$ 13,734.76		\$ 13,734.76
5	Annual Meeting door prizes and other	\$ 3,700.97	(1)	\$ 3,700.97			\$ 3,700.97
6	Scholarships to members - awarded at annual mtg.	\$ 10,516.90	(1)	\$ 10,516.90			\$ 10,516.90
7	Kentucky Association of Electric Coops - dues	\$ 140,171.80			\$ 140,171.80		\$ 140,171.80
8	National Rural Electric Cooperative Association - dues	\$ 62,342.04			\$ 62,342.04		\$ 62,342.04
9	Association of Large Distribution Coops - dues	\$ 5,000.00	(1)	\$ 5,000.00			\$ 5,000.00
10	Economic Development	\$ 37,284.54			\$ 37,284.54		\$ 37,284.54
11	Big Rivers Electric Economic Development Payment	\$ (68,289.46)			\$ (68,289.46)		\$ (68,289.46)
12	Youth Tours(Washington DC and Frankfort)	\$ 9,870.42	(1)	\$ 9,870.42			\$ 9,870.42
13	Capital Credit allocation expenses	\$ 205.95			\$ 205.95		\$ 205.95
14	Transfer 930.200 costs to other accounts	\$ (29,111.94)			\$ (29,111.94)		\$ (29,111.94)
15	Member newsletter printing costs	\$ 31,997.12	(1) 50%	\$ 15,998.56	\$ 15,998.56		\$ 31,997.12
16	Conferences attended by staff	\$ 8,415.80			\$ 8,415.80		\$ 8,415.80
17	Community events sponsorship and other promotional	\$ 45,869.55	(1)	\$ 45,869.55			\$ 45,869.55
18	Dues - Civic clubs	\$ 4,377.00	(1)	\$ 4,377.00			\$ 4,377.00
19	Meals - Civic clubs	\$ 966.80	(1)	\$ 966.80			\$ 966.80
20	Coop connection card promotion costs	\$ 1,670.11	(1)	\$ 1,670.11			\$ 1,670.11
21	Kenergy website - redesign costs	\$ 22,475.00	(1) 17%	\$ 3,820.75	\$ 18,654.25		\$ 22,475.00
22	Member appreciation day	\$ 2,404.38	(1)	\$ 2,404.38			\$ 2,404.38
23	Member survey costs	\$ 1,050.00	(1)	\$ 1,050.00			\$ 1,050.00
24	Staff Meals	\$ 268.65			\$ 268.65		\$ 268.65
25	Subscriptions	\$ 545.31			\$ 545.31		\$ 545.31
26	New desktop computer	\$ 2,725.40			\$ 2,725.40		\$ 2,725.40
27	Professional dues	\$ 430.00			\$ 430.00		\$ 430.00
28	Staff Service Awards	\$ 350.00	(1)	\$ 350.00			\$ 350.00
29	General Postage	\$ 59.04			\$ 59.04		\$ 59.04
30	Annual corporate tax	\$ 10.00			\$ 10.00		\$ 10.00
31	<b>Subtotal 930.200 account items</b>	<b>\$ 491,733.49</b>		<b>\$ 105,595.44</b>	<b>\$ 386,138.05</b>		<b>\$ 491,733.49</b>
32	Director's Fees & Expenses - allowed for ratemaking	\$ 99,170.30			\$ 99,170.30		\$ 99,170.30
33	Fees while attending other meetings	\$ 3,750.00	(1)	\$ 3,750.00			\$ 3,750.00
34	Director's monthly retainer	\$ 85,800.00	(1)	\$ 85,800.00			\$ 85,800.00
35	Non delegate/alternate expenses	\$ 18,157.63	(1)	\$ 18,157.63			\$ 18,157.63
36	CEO search expense	\$ 150.00	(1)	\$ 150.00			\$ 150.00
37	Chairman extra meeting fee	\$ 1,200.00	(1)	\$ 1,200.00			\$ 1,200.00
38	Transfer 930.210 costs to other accounts	\$ (12,445.26)			\$ (12,445.26)		\$ (12,445.26)
39	Member Access committees	\$ 3,696.16	(1)	\$ 3,696.16			\$ 3,696.16
40	<b>Subtotal 930.210 account items</b>	<b>\$ 199,478.83</b>		<b>\$ 112,753.79</b>	<b>\$ 86,725.04</b>		<b>\$ 199,478.83</b>
41	Costs transferred to other accounts	\$ 41,557.20			\$ 41,557.20		\$ 41,557.20
42	<b>Subtotal transferred to other accounts</b>	<b>\$ 41,557.20</b>		<b>\$ -</b>	<b>\$ 41,557.20</b>		<b>\$ 41,557.20</b>
43	<b>Total all 930 accounts</b>	<b>\$ 743,693.71</b>		<b>\$ 229,273.42</b>	<b>\$ 514,420.29</b>		<b>\$ 743,693.71</b>

45 (1) disallowed costs for ratemaking see proforma adjustment- Exhibit 5A, page 8  
46 Per Trial Balance (See item 7 PSC data request no. 1)

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
SUPPLEMENTAL REQUEST FOR INFORMATION  
2015-00312 RATE APPLICATION**

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**Item 20)** Reference Kenergy's Response to AG 1-33, Exhibit Item 33a, page 2. Provide a replication of the chart with the additional following columns: the average residential bill amount before the rate increase, average residential bill amount after the rate increase, average residential dollar amount increase, and average residential percentage bill increase for each rate case. Additionally, please add the current rate case to the chart and provide all of the information based upon Kenergy's full requested revenue increase.

**Response)** Item 20, page 2 of 2 contains the above referenced information.

**Witness)** Steve Thompson

KENERGY CORP.  
 RESPONSE TO THE ATTORNEY GENERAL'S  
 SUPPLEMENTAL REQUEST FOR INFORMATION

CASE NO. 2015-00312 ITEM 20 - LAST FIVE RATE CASES AND CURRENT CASE

LINE NO.	CASE NO.	TEST YR. 12 MONTHS ENDING	DATE FILED	EFFECTIVE DATE	TYPE	INCREASE		CASE SETTLED	DATE SETTLED	COST OF RATE CASE	Kwh used	Avg. Res. bill		Amount of increase	Percent increase
						DOLLAR	PERCENT					Normalized Before rate increase	Normalized After rate increase		
2015-00312	6/30/2015	10/30/2015	5/20/2016	DISTRIBUTION	\$ 2,551,130	2%	?	?	?	1,352	\$ 158.81	\$ 162.71	\$ 3.90	2.46%	
2013-00385	11/30/2012	12/2/2013	2/1/2014	WHOLESALE FLOW-THROUGH	\$ 21,946,905	17%	NO	N/A	(1) (4)	1,325	\$ 127.79	\$ 144.83	\$ 17.04	13.33%	
2013-00035	11/30/2012	3/1/2013	8/20/2013	WHOLESALE FLOW-THROUGH	\$ 38,660,558	13%	NO	N/A	(1)	1,325	\$ 107.91	\$ 125.48	\$ 17.57	16.28%	
2011-00035	6/30/2010	3/1/2011	9/1/2011	WHOLESALE FLOW-THROUGH	\$ 19,094,608	7%	NO	N/A	(2)	1,369	\$ 101.27	\$ 106.67	\$ 5.40	5.33%	
2011-00035	6/30/2010	3/1/2011	9/1/2011	DISTRIBUTION	\$ 1,801,916	3%	YES	7/5/2011	\$ 81,667 (3)	1,369	\$ 98.68	\$ 101.27	\$ 2.59	2.62%	
2008-00323	12/31/2007	9/3/2008	2/1/2009	DISTRIBUTION	\$ 3,021,448	4%	YES	1/8/2009	\$ 44,284	1,404	\$ 94.08	\$ 98.00	\$ 3.92	4.17%	
2006-00369	12/31/2005	9/1/2006	3/1/2007	DISTRIBUTION	\$ 3,919,603	6%	YES	12/7/2007	\$ 39,206	1,358	\$ 83.31	\$ 89.64	\$ 6.33	7.60%	

- (1) These cases were filed under KRS 278.455 which allows for an abbreviated set of documents. The cost of these two cases were approximately \$15,000 each.
- (2) One case was filed for both the wholesale flow-through and distribution portions, with cost running \$81,667.
- (3) Kenergy required to start publishing notice in all 14 newspapers in service area instead of three with largest circulation.
- (4) Economic reserves funds used to offset this increase until late 2016.



**KENERGY CORP.  
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**Item 21)** Reference Kenergy's Response to AG 1-33 to answer the following questions:  
a. Provide the rate increase effective date for Kenergy's pending revenue increase case.

**Response)** May 20, 2016.

**Witness)** Steve Thompson

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
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**Item 21)** Reference Kenergy's Response to AG 1-33 to answer the following questions:  
b. Further, please confirm the dates that the economic reserve will expire for the residential, industrial, and commercial classes, at which time the ratepayers will begin to experience the full impact of the most recent wholesale flow-through case.

**Response)** Residential, Schools, Churches and Farms – 4<sup>th</sup> quarter 2016  
Others – 1<sup>st</sup> quarter 2016

**Witness)** Steve Thompson

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
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**Item 21)** Reference Kenergy's Response to AG 1-33 to answer the following questions:  
c. Is Kenergy concerned about affordability for its customers if they will potentially have to pay for two rate increases within a short timeframe? Please explain why or why not.

**Response)** Kenergy and its wholesale provider, Big Rivers, are both not-for-profit cooperatives owned by the members. As such, each maintains a constant focus on member rate minimization and stabilization. Big Rivers petitioned the Commission to consider the strategic use of remaining reserve funds to allow customers an opportunity to adjust to the two wholesale increases over several years. As a result of the Commission's agreement with Big Rivers' proposal in the second rate case, residential customers of Kenergy received the first wholesale base rate increase in August 2013; the second increase awarded in February 2014 has been mitigated through the use of reserve funds and will not be felt until the fall of 2016 for residential customers. Allowing customers 2 ½ years to adjust to the first increase before implementing the second should greatly improve customers' ability to deal with the unavoidable rate increases. Both Kenergy and Big Rivers continue to diligently pursue our missions of delivering safe, reliable and cost-effective power to our Member-Owners.

**Witness)** Steve Thompson

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
SUPPLEMENTAL REQUEST FOR INFORMATION  
2015-00312 RATE APPLICATION**

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**Item 22)** Reference Kenergy's Response to PSC 2-33(i), (j), and (r) to answer the following questions:

a. Kenergy admits that the number of disconnections due to nonpayment, reconnections, and delinquent accounts have all increased potentially because of economic reasons. Please explain in detail what economic reasons Kenergy considers to be contributing to nonpayment of customer bills.

**Response)** Unemployment is contributing to nonpayment of customer bills. Several people working at coal mines, factories and other businesses have lost their jobs due to closings and reductions in work force.

**Witness)** Steve Thompson

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
SUPPLEMENTAL REQUEST FOR INFORMATION  
2015-00312 RATE APPLICATION**

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**Item 22)** Reference Kenergy's Response to PSC 2-33(i), (j), and (r) to answer the following questions:

b. Does Kenergy admit that the large rate increases placed upon its ratepayers in recent years has potentially contributed to nonpayment of bills? Please explain why or why not.

**Response)** Yes, rate increases have potentially contributed to non-payment of bills. 67% of residential accounts disconnected for non-payment from July 2014 through June 2015 were reconnected, 63.5% were reconnected from July 2013 through 2014, 80% were reconnected from July 2012 through 2013.

**Witness)** Steve Thompson

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
SUPPLEMENTAL REQUEST FOR INFORMATION  
2015-00312 RATE APPLICATION**

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**Item 22)** Reference Kenergy's Response to PSC 2-33(i), (j), and (r) to answer the following questions:

c. Does Kenergy admit that disconnections due to nonpayment and delinquent accounts will potentially rise when its ratepayers are forced to pay a bill that includes two rate increases within a short timeframe? Please explain why or why not.

**Response)** Yes, disconnections due to non-payment and delinquent accounts could potentially rise due to two rate increases over a three year period.

**Witness)** Steve Thompson

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
SUPPLEMENTAL REQUEST FOR INFORMATION  
2015-00312 RATE APPLICATION**

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**Item 23)** Reference Kenergy's Response to PSC 2-33(k). Provide a detailed explanation of Kenergy's meter reading policies and procedures. Further, provide a list of other electric utilities in Kentucky that rely on the customer to read their own meters.

**Response)**

Per Kenergy's Tariff, Schedule 152:

(a) Meters shall be easily accessible for reading, testing and making necessary adjustments and repairs and shall be located at the site designated by Kenergy Corp. personnel. Meters with demand devices shall be read monthly by Kenergy personnel. Unless otherwise agreed to by Kenergy, all other meters shall be read by the customer and readings supplied by the customer on the form provided. Such reading shall accompany customer's monthly payment and shall serve as the basis of the subsequent month's billing. Kenergy will read each customer-read meter at least once during each calendar year.

(b) Kenergy reserves the right to charge a customer a fee of \$32.00 for each trip required to read a meter when the customer has failed to correctly read the meter for six (6) consecutive billing periods and which fee shall appear on customer's subsequent monthly billing.

Kenergy is not aware of any other electric utilities in Kentucky that rely on the customer to read their own meter. Kenergy is currently installing AMI meters and should be fully deployed by July 1, 2016.

**Witness)** Steve Thompson

**KENERGY CORP.  
RESPONSE TO THE ATTORNEY GENERAL'S  
SUPPLEMENTAL REQUEST FOR INFORMATION  
2015-00312 RATE APPLICATION**

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**Item 24)** Reference the Application generally. Provide the current average residential bill for all RECC's and IOU's operating in Kentucky. Please ensure to include Kenergy's current average residential bill as well as the proposed average residential bill.

**Response)** Kenergy is not aware of a public access site showing the fuel adjustment, environmental surcharge, demand side management riders, etc. that change monthly. Therefore, Kenergy is unable to provide the requested information.

Kenergy has obtained a report from the U.S. Energy Information Administration website "Electric Power Monthly Section". See item 24, pages 2-3 of 3. The data reflects the Year-To-Date November 2015 residential revenue divided by the kWh sales to arrive at the average price per kWh sold for the entire residential class. The state of Kentucky is 10.08 cents per kWh, while the U.S. total is 12.70 cents. Kenergy's test year residential cents per kWh sold was 9.9 cents per kWh (before credits expire) and the proposed residential cents per kWh is 12.0 cents per kWh (after credits expires) (refer to exhibit 9, page 1, line 8, columns d and h of the application).

**Witness)** Steve Thompson



Census Division and State	Residential		Commercial		Industrial		Transportation		All Sectors	
	November 2015 YTD	November 2014 YTD	November 2015 YTD	November 2014 YTD	November 2015 YTD	November 2014 YTD	November 2015 YTD	November 2014 YTD	November 2015 YTD	November 2014 YTD
Virginia	11.39	11.12	8.25	8.13	6.98	6.88	8.13	8.22	9.34	9.16
West Virginia	10.05	9.37	8.59	8.01	6.11	5.89	—	—	8.10	7.66
<b>East South Central</b>	<b>10.81</b>	<b>10.79</b>	<b>10.26</b>	<b>10.35</b>	<b>6.06</b>	<b>6.19</b>	<b>8.18</b>	<b>8.62</b>	<b>9.09</b>	<b>9.12</b>
Alabama	11.81	11.52	10.95	10.80	6.14	6.20	—	—	9.42	9.31
Kentucky	10.08	10.19	9.29	9.43	5.42	5.73	—	—	8.03	8.18
Mississippi	11.31	11.32	10.62	10.76	6.68	6.63	—	—	9.58	9.61
Tennessee	10.27	10.35	10.18	10.40	6.33	6.48	8.18	8.62	9.36	9.43
<b>West South Central</b>	<b>11.00</b>	<b>11.15</b>	<b>7.92</b>	<b>8.28</b>	<b>5.56</b>	<b>6.10</b>	<b>5.53</b>	<b>5.42</b>	<b>8.40</b>	<b>8.67</b>
Arkansas	9.87	9.55	8.28	8.06	6.16	6.04	10.64	11.43	8.18	7.93
Louisiana	9.25	9.60	8.61	9.10	5.42	6.07	8.32	9.32	7.69	8.12
Oklahoma	10.09	10.13	7.59	8.14	5.28	5.88	—	—	7.89	8.24
Texas	11.67	11.87	7.81	8.17	5.56	6.16	5.33	5.15	8.67	8.95
<b>Mountain</b>	<b>11.94</b>	<b>11.74</b>	<b>9.81</b>	<b>9.70</b>	<b>6.59</b>	<b>6.73</b>	<b>10.00</b>	<b>10.54</b>	<b>9.55</b>	<b>9.48</b>
Arizona	12.30	11.98	10.54	10.20	6.34	6.51	9.45	—	10.50	10.26
Colorado	12.03	12.25	9.86	10.15	7.10	7.52	10.12	10.85	9.81	10.11
Idaho	10.02	9.77	7.86	7.79	6.67	6.43	—	—	8.13	7.93
Montana	11.02	10.24	10.24	9.66	5.26	5.52	—	—	8.95	8.61
Nevada	12.80	12.93	9.30	9.48	6.89	7.22	9.18	9.30	9.57	9.78
New Mexico	12.67	12.35	10.52	10.30	6.30	6.67	—	—	9.78	9.70
Utah	11.02	10.68	8.81	8.61	6.28	6.13	10.05	10.40	8.66	8.41
Wyoming	11.02	10.50	9.16	8.90	6.75	6.62	—	—	7.97	7.76
<b>Pacific Contiguous</b>	<b>14.29</b>	<b>13.65</b>	<b>13.84</b>	<b>13.71</b>	<b>9.30</b>	<b>9.16</b>	<b>8.75</b>	<b>8.93</b>	<b>12.95</b>	<b>12.61</b>
California	16.99	16.18	15.97	15.76	12.46	12.45	8.74	8.93	15.60	15.21
Oregon	10.69	10.49	8.83	8.77	6.08	6.00	9.16	9.21	8.82	8.68
Washington	8.97	8.72	8.13	7.98	4.44	4.35	8.76	8.53	7.37	7.14
<b>Pacific Noncontiguous</b>	<b>25.71</b>	<b>29.41</b>	<b>22.80</b>	<b>26.47</b>	<b>21.05</b>	<b>26.49</b>	<b>—</b>	<b>—</b>	<b>23.10</b>	<b>27.34</b>
Alaska	20.19	19.21	17.86	17.17	14.92	15.82	—	—	17.98	17.54
Hawaii	29.87	37.28	27.10	34.41	23.24	30.40	—	—	26.37	33.63
<b>U.S. Total</b>	<b>12.70</b>	<b>12.55</b>	<b>10.64</b>	<b>10.78</b>	<b>6.94</b>	<b>7.14</b>	<b>10.20</b>	<b>10.44</b>	<b>10.46</b>	<b>10.47</b>

See Technical notes for additional information on the Commercial, Industrial, and Transportation sectors.

Notes: - See Glossary for definitions. - Values for 2014 are final. Values for 2015 are preliminary estimates based on a cutoff model sample.

See Technical Notes for a discussion of the sample design for the Form EIA-826.

Utilities and energy service providers may classify commercial and industrial customers based on either NAICS codes or demands or usage falling within specified limits by rate schedule.

Changes from year to year in consumer counts, sales and revenues, particularly involving the commercial and industrial consumer sectors, may result from respondent implementation of changes in the definitions of consumers, and reclassifications.

Totals may not equal sum of components because of independent rounding.

Source: U.S. Energy Information Administration, Form EIA-826, Monthly Electric Sales and Revenue Report with State Distributions Report.



## Electric Power Monthly

Data for November 2015 | Release Date: January 26, 2016 | Next Release: February 26, 2016

## Previous Issues

Issue:  Format:  

**Table 5.6.B. Average Price of Electricity to Ultimate Customers by End-Use Sector,**  
by State, Year-to-Date through November 2015 and 2014 (Cents per Kilowatthour)

Census Division and State	Residential		Commercial		Industrial		Transportation		All Sectors	
	November 2015 YTD	November 2014 YTD	November 2015 YTD	November 2014 YTD	November 2015 YTD	November 2014 YTD	November 2015 YTD	November 2014 YTD	November 2015 YTD	November 2014 YTD
<b>New England</b>	19.45	17.71	15.50	14.67	12.18	11.85	10.59	10.28	16.54	15.39
Connecticut	20.98	19.72	16.00	15.53	13.03	12.91	13.78	12.80	17.83	17.01
Maine	15.61	15.23	13.15	12.64	9.05	8.94	--	--	12.95	12.59
Massachusetts	19.82	17.16	15.73	14.65	13.31	12.77	8.23	8.75	16.88	15.26
New Hampshire	18.57	17.44	14.98	14.31	12.69	11.93	--	--	16.04	15.17
Rhode Island	19.24	17.18	15.83	14.49	13.86	12.81	18.04	14.64	17.03	15.37
Vermont	17.07	17.56	14.50	14.58	10.11	10.25	--	--	14.35	14.61
<b>Middle Atlantic</b>	16.12	16.45	13.28	13.73	7.46	7.65	11.83	12.29	13.17	13.46
New Jersey	15.99	15.80	13.16	13.24	11.08	11.48	10.31	10.47	14.06	14.01
New York	18.69	20.15	15.45	16.23	6.52	6.61	13.07	13.84	15.47	16.33
Pennsylvania	13.79	13.35	9.60	9.74	7.25	7.45	7.95	7.67	10.40	10.29
<b>East North Central</b>	12.90	12.68	9.81	10.03	6.89	7.09	7.35	6.97	9.86	9.85
Illinois	12.54	11.93	8.93	9.26	6.36	6.85	7.12	6.76	9.31	9.35
Indiana	11.20	11.48	9.56	9.96	6.68	6.98	9.97	10.26	8.80	9.06
Michigan	14.44	14.52	10.61	10.89	7.17	7.70	11.43	9.23	10.85	11.05
Ohio	12.65	12.50	9.99	9.81	6.92	6.78	8.58	8.08	9.91	9.72
Wisconsin	14.44	13.71	11.06	10.79	7.81	7.55	--	--	10.96	10.58
<b>West North Central</b>	11.56	11.20	9.30	9.31	6.90	6.77	9.07	8.91	9.35	9.18
Iowa	12.01	11.29	9.15	8.76	6.03	5.76	--	--	8.55	8.21
Kansas	12.31	12.24	10.00	10.19	7.39	7.82	--	--	10.07	10.21
Minnesota	12.36	12.07	9.57	9.90	7.16	6.78	9.56	9.83	9.72	9.57
Missouri	11.06	10.76	9.05	8.97	6.26	6.42	8.50	7.92	9.35	9.20
Nebraska	10.93	10.52	8.94	8.76	7.61	7.52	--	--	9.11	8.90
North Dakota	9.86	9.26	8.82	8.84	8.29	7.62	--	--	8.89	8.46
South Dakota	11.02	10.52	8.93	8.90	7.29	7.00	--	--	9.34	9.07
<b>South Atlantic</b>	11.81	11.78	9.53	9.70	6.55	6.78	8.25	8.41	10.01	10.10
Delaware	13.46	13.32	10.26	10.51	8.30	8.61	--	--	11.23	11.24
District of Columbia	12.86	12.81	11.99	12.24	8.82	8.24	9.28	8.74	12.02	12.16
Florida	11.77	11.89	9.67	9.86	8.34	7.91	8.92	9.21	10.67	10.77
Georgia	11.57	11.75	9.80	10.41	5.80	6.71	5.37	7.14	9.60	10.10
Maryland	13.84	13.64	11.06	11.23	8.67	9.07	8.42	8.54	12.12	12.14
North Carolina	11.35	11.17	8.71	8.78	6.41	6.53	7.89	7.86	9.37	9.36
South Carolina	12.45	12.50	10.13	10.28	6.00	6.32	--	--	9.49	9.69