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


IN THE MATTER OF:

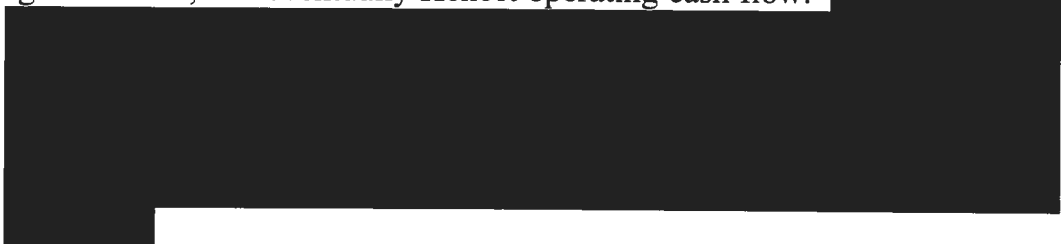
**APPLICATION OF KENERGY CORP. FOR A) CASE NO.
WAIVER PURSUANT TO KRS 278.2219) 2020-00215**

**KENERGY CORP.'S SUPPLEMENTAL RESPONSES TO
COMMISSION'S STAFF'S FIRST REQUEST FOR INFORMATION**

Kenergy Corp. ("Kenergy"), by counsel, submits the following supplemental responses to Staff Data Requests 3 & 5:

- Item 3)** Refer to the Application, page 4.
a. State the source of funds for the installation of the fiber network.

RESPONSE) The source of funds for the installation of the fiber network will be borrowing, government subsidy revenue (referenced in the application as "grant funds", and eventually Kenect operating cash flow. 



- Item 5)** Refer to the Application, pages 5-6. Explain in detail and with specificity how the provisions of KRS 278.2201 to 278.2713 are impracticable or unreasonable as applied to the circumstances which are the subject of this proceeding.

RESPONSE) There are two avenues for Kenect to startup. First, Kenergy can guarantee a letter of credit that Kenect needs to obtain funding. The alternative is that Kenergy can invest \$3,000,000 of its equity in Kenect to enable Kenect to obtain its own letter of credit from CoBank.

1 The first alternative involves placing Kenergy's assets at risk to support the
2 letter of credit guarantee. From an accounting standpoint, a letter of credit
3 guarantee is not on the balance sheet. It is an inchoate loan. While no assets
4 are affected by the guarantee, in the worst case scenario, then Kenergy must
5 be prepared to satisfy the letter of credit should Kenect fail.

6
7 The second alternative involves placing \$3,000,000 in current assets (cash)
8 into Kenect. While not a loan, it does transfer \$3,000,000 of Kenergy's
9 equity to Kenect.

10
11 While Kenergy expects to fully recoup its investment in Kenect, either
12 scenario presents at least a theoretical initial subsidy by Kenergy into Kenect.
13 Because KRS 278.2201 bars the subsidy of a non-regulated venture by a
14 regulated utility, a waiver is sought.

15
16 Additionally, KRS 278.2213 states that "[a] utility shall not enter into any
17 arrangements for financing nonregulated activities through an affiliate that
18 would permit a creditor upon default to have recourse to the assets of the
19 utility." Kenergy needs a waiver from this under the Kenergy letter of credit
20 guarantee scenario because, theoretically, Kenergy's assets are necessary to
21 support the parent letter of credit guarantee

22
23 Both KRS 278.2201 and KRS 278.2213 are impractical and unreasonable
24 obstacles to Kenergy providing broadband service through a subsidiary. In
25 order for Kenect to become viable, Kenergy must prime the pump with either
26 a cash infusion or by using Kenergy's financial wherewithal to enable Kenect
27 to obtain the credit support it needs to obtain government subsidies.
28 Depending upon the success of Kenect, the subsidy might not be long term,
29 but there is no practical way to establish a subsidiary without either infusing
30 cash (a subsidy) or guaranteeing a letter of credit (both a subsidy and placing
31 the assets of Kenergy subject to recourse). Per KRS 278.2219(1), the need
32 for the waiver or deviation is that there is no practical or reasonable way for
33 Kenect to develop the broadband project without Kenergy's initial
34 assistance.

35
36 The cost and benefit of Kenergy's compliance under KRS 278.2219(2) is
37 best answered in the negative. The cost of strict compliance with KRS
38 278.2201 and 278.2213 is the loss of the opportunity to obtain significant
39 subsidies and supply needed broadband service. Kenergy does not believe it
40 can explore broadband through a subsidiary in compliance with KRS
41 278.2201 and KRS 278.2213; consequently, there is no benefit to compliance.
42 The benefit to the waiver or deviation is stated in these responses and in the
43 plethora of public comment received in support of the Application.

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Neither “deviation” nor “waiver” are defined terms in KRS 278. To the extent a deviation is more appropriate than a waiver, then Kenergy requests a deviation as an alternative plea of relief. Kenergy’s immediate need is simply to be able to help Kenect obtain the letter of credit necessary to move forward on the project.

Regulated cooperatives providing broadband through a subsidiary in Kentucky is a question of first impression and Kenergy submits that thorough vetting by the Commission of this proposal is appropriate.

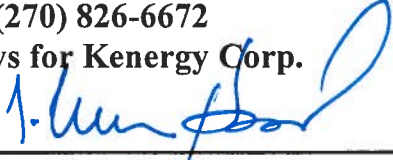
For clarity, statutory areas where no waiver is needed are as follows. In calculating the Kenect lease payment, services and products provided to Kenect by Kenergy pursuant to a tariff will be at the tariffed rate, with nontariffed items priced at the Kenergy's fully distributed cost but in no event less than market, or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology. Services and products provided to Kenergy by Kenect will be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology. Kenergy will not provide any type of undue preferential treatment to a nonregulated affiliate to the detriment of a competitor.

WITNESS) J. Christopher Hopgood

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Respectfully submitted,

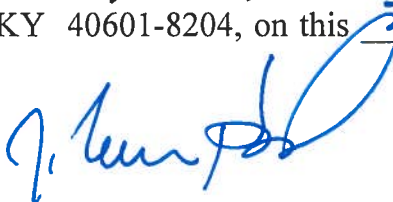
DORSEY, GRAY, NORMENT & HOPGOOD
318 Second Street
Henderson, KY 42420
Telephone (270) 826-3965
Telefax (270) 826-6672
Attorneys for Kenergy Corp.

By 

J. Christopher Hopgood
chopgood@dkgnlaw.com

CERTIFICATE OF SERVICE

I hereby certify that the foregoing was served by electronic filing to the Kentucky Public Service Commission, 211 Sower Blvd., Frankfort, KY 40602 with a copy served electronically to the Kentucky Attorney General, Office of Rate Intervention, 700 Capital Avenue, Suite 20, Frankfort, KY 40601-8204, on this 30th day of September, 2020.


Counsel for Kenergy Corp.

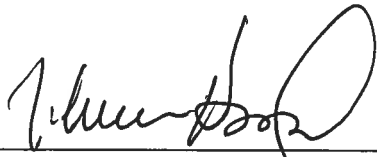
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:)
)
ELECTRONIC)
APPLICATION OF KENERGY CORP.)
FOR A WAIVER PURSUANT)
TO KRS 278.2219) **CASE No. 2020-00215**

VERIFICATION

(Supplement to Staff Data Requests – Items 3 & 5)

I verify, state and affirm that the data requests responses attached hereto and filed with this verification are true and correct to the best of my knowledge and belief formed after a reasonable inquiry, and I ask that I be added as a witness for this information.



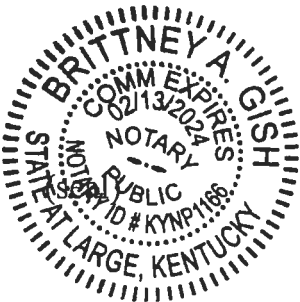
J. Christopher Hopgood

STATE OF KENTUCKY

COUNTY OF HENDERSON

The foregoing was signed, acknowledged and sworn to before me by J. CHRISTOPHER HOPGOOD this 2nd day of September, 2020.

My commission expires 2-13-2024





Notary Public, State of Kentucky at Large

ID #KYNP1166