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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF KENERGY CORP. FOR A)
WAIVER PURSUANT TO KRS 278.2219)

CASE NO.
2020-00215

KENERGY CORP.'S RESPONSES TO
ATTORNEY GENERAL'S SECOND DATA REQUESTS

Item 1) Related to the response to AG DR 1-1(a), specify the amount of the letter of credit. If the exact amount is not known, please provide an estimated range.

RESPONSE)

WITNESS) Travis Siewert

KENERGY CORP
RESPONSE TO ATTORNEY GENERAL'S SECOND DATA REQUEST

1 **Item 2)** Related to the response to AG DR 1-2, discuss what factors Kenergy
2 analyzes to determine whether to retire capital credits or alternatively
3 lower electric rates. Further, fully discuss the impact on electric rates if
4 Kenergy utilized the \$3 million at issue to lower rates instead of retiring
5 capital credits.
6

7 **RESPONSE)** An understanding of cooperative principles is necessary in order to
8 understand the function between capital credit retirements and rate
9 increases. Cooperatives are member owned and long term operations. It
10 takes years to build up equity in a cooperative. Many members are on the
11 system for decades. Capital credit retirements are a return of equity for
12 members whose ownership created the equity. Moreover, there is a
13 natural and constructive tension between the cooperative's creditors and
14 its rate regulators. Banks desire the maintenance of a certain level of
15 equity. Rate regulators prefer that rates be as reasonably low as possible
16 limiting margins and slowing the increase in equity. In order to maintain
17 this balance, an equity ratio of 30 to 40% (total equity and margins
18 divided by total capitalization) is the goal. As the equity ratio nears 40%,
19 capital credits are retired to reduce the ratio. Kenergy has consistently
20 returned adequate margins resulting in consistent capital credit
21 retirements. To maintain equity ratios with lower rates does not reward
22 the members who built the equity years ago.
23

24 Further, Kenergy cannot use capital credits to lower electric rates. Capital
25 credits represent margins from previous years (or equity). For example,
26 assume Kenergy were to retire \$3 million in capital credits this year and
27 the year being retired is 1991. Kenergy would be returning margins from
28 1991 to individuals and business that were members in 1991. If Kenergy
29 were to lower current electric rates by \$3 million dollars instead, it would
30 not make enough current margins to achieve the TIER, OTIER, DSC, and
31 ODSC levels required by its lenders.
32

33 **WITNESS)** **Travis Siewert**
34
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KENERGY CORP
RESPONSE TO ATTORNEY GENERAL'S SECOND DATA REQUEST

Item 3)

Refer to Kenergy's response to AG DR 1-4(a), in which Kenergy stated that if its personnel is performing work for Kenect then the time would be charged to Kenect.

a. Explain whether current Kenergy employees have extra time to perform work for Kenect.

RESPONSE)

No, current Kenergy employees do not have extra time to devote to Kenect. However, Kenergy will aim to achieve synergies, or economies of scale wherever possible with the combined companies. Processing payroll is an example of such synergy. It may take the same amount of time to process payroll for 130 Kenergy employees as it does to process payroll for 175 employees (130 Kenergy plus 45 Kenect). So, even though it may take the same amount of time to process payroll, a portion of the time would be charged to Kenect, therefore effectively reducing the amount of time charged to Kenergy.

b. Explain in detail whether Kenergy will need to hire additional employees to handle the work associated with Kenect.

RESPONSE)



Kenergy's preference is to place all the customer service representatives on the Kenect side and minimize any additional staff on the Kenergy side. Regardless, if Kenergy has additional personnel costs, those costs are reimbursed by Kenect.

WITNESS)

Jeff Hohn

KENERGY CORP
RESPONSE TO ATTORNEY GENERAL'S SECOND DATA REQUEST

Item 4)

Related to the response to AG DR 1-5(c), provide the amounts (or an estimate of the amounts) of "additional equity investments by Kenergy into the subsidiary" that would be required. Also, fully discuss the impact on electric rates of those investments.


RESPONSE)

If the Commission allows Kenergy to borrow from RUS under the smart grid program to build the fiber infrastructure, there will be no required equity investment in Kenect. If Kenect were to seek borrowing on its own, then a 50% equity position would be required under the proposal. This would mean an initial equity investment of \$3 million. Based on the capital spending in year 1 of the project [REDACTED], that equity investment would need to increase to \$8 million by the end of year 1. By the end of year two, the equity investment would need to increase to approximately \$18 million. Therefore, this option is not viable for Kenergy long-term without outside equity investors. Kenergy earns 0.5% on its short-term investments today, so this is the opportunity cost for any money invested in Kenect.

WITNESS)

Travis Siewert

KENERGY CORP
RESPONSE TO ATTORNEY GENERAL'S SECOND DATA REQUEST

- 1 **Item 5)** Related to the response to AG DR 1-6(a), please provide an estimate of
2 amounts of any grants or subsidies the project intends to seek and a
3 detailed description of the terms associated with those grants or subsidies.
4
- 5 **RESPONSE)** See confidential information provided in supplemental data request
6 responses. 
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- 14 **WITNESS)** **Jeff Hohn**
- 15
16 a. Provide a discussion of under what circumstances Kenergy and/or
17 Kenect would become in default on those terms and would be required to
18 pay those proceeds back to the grantor.
19
- 20 **RESPONSE)** If the funds were not used as intended for the broadband system, the funds
21 would have to be repaid and Kenergy would be a guarantor of those funds
22 under the parent guarantee of the letter of credit option.
23
- 24 **WITNESS)** **Jeff Hohn**
25

KENERGY CORP
RESPONSE TO ATTORNEY GENERAL'S SECOND DATA REQUEST


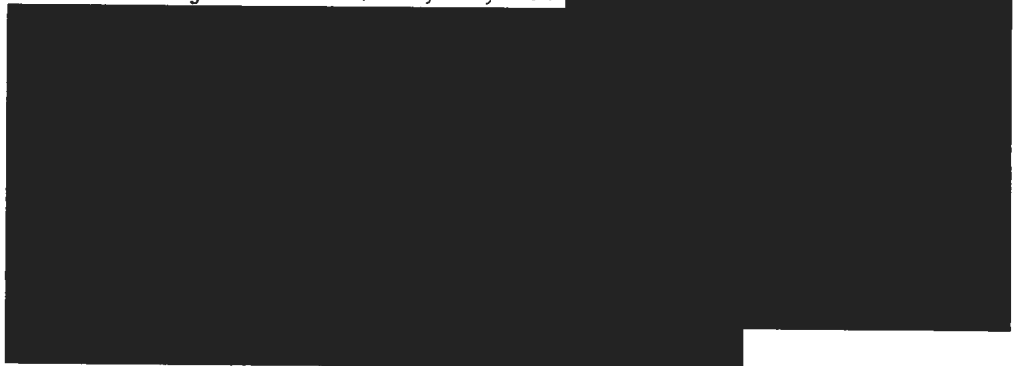
1 **Item 6)** Related to the response to AG DR 1-8, discuss the factors that determine
2 whether Kenergy's equity ratios are excessive and fully discuss the
3 present status of those ratios.
4
5 **RESPONSE)** See answer to number 2 above. Kenergy's capital management policy sets
6 a target equity to total capital ratio of 30-40%. Kenergy's equity to total
7 capital ratio as of July 31, 2020 is 37%.
8
9 **WITNESS)** **Travis Siewert**
10

KENERGY CORP
RESPONSE TO ATTORNEY GENERAL'S SECOND DATA REQUEST

- 1 **Item 7)** Refer to Kenergy's response to AG DR 1-12.
2
3 a. Provide all options that are available, as well as the evaluation criteria.
4
5 **RESPONSE)** At this early stage of this project, narrowing down a list of options and
6 developing evaluation criteria would not be a wise use of resources. Once
7 the relief on this Application is granted or the pertinent legislation is
8 changed, then a design of the buildout will be in order.
9
10
11 b. Explain in detail why more than one option could be selected.
12
13 **RESPONSE)** Limiting options to only one fiber transport entity would not be in the
14 best interest of the project and would limit the geographical availability,
15 redundancy and pricing of the system.
16
17 **WITNESS)** **Jeff Hohn**
18

**KENERGY CORP
RESPONSE TO ATTORNEY GENERAL'S SECOND DATA REQUEST**

1 **Item 8)** Related to the response to AG DR 1-20, provide the amount (or an
2 estimate thereof) of RUS loans (and loans from any other source) that will
3 be obtained related to this project.
4

5 **RESPONSE)** The total Project cost is \$165,922,423. 
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16 **WITNESS)** **Travis Siewert**
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KENERGY CORP
RESPONSE TO ATTORNEY GENERAL'S SECOND DATA REQUEST

1 **Item 9)** Related to the response to AG DR 1-21, provide the amount (or an
2 estimate thereof) of liability for Kenergy under the proposals.
3
4 **RESPONSE)** If Kenergy borrows the funds from RUS to build the fiber infrastructure,
5 Kenergy would be liable for the peak debt amount of \$118,444,845 in
6 year 6, [REDACTED]
7 [REDACTED]
8
9 If Kenect utilizes some combination of CoBank loans, Kenergy equity
10 investment, and/or outside equity investors, then Kenergy members will
11 give up control over the project and most of the returns, and would only
12 have any equity investment in Kenect at risk.
13
14 **WITNESS)** **Travis Siewert**
15

KENERGY CORP
RESPONSE TO ATTORNEY GENERAL'S SECOND DATA REQUEST

1 **Item 10)** Related to the response to AG DR 1-22, fully discuss the return on
2 investment and to whom this return will accrue.
3
4 **RESPONSE)** If Kenergy builds the fiber infrastructure and leases that infrastructure to
5 Kenect, the lease payment, which is designed to cover all cost plus a
6 return on investment, is paid by Kenect to Kenergy. So, Kenergy receives
7 the return.
8
9 **WITNESS)** **Jeff Hohn**
10

KENERGY CORP
RESPONSE TO ATTORNEY GENERAL'S SECOND DATA REQUEST

Item 11)

Reference the response to PSC 1-3i), wherein Kenergy states that a fiber infrastructure will provide the Company with a possible medium for conversion from RF-based AMI meters to an option that would not exist but for the fiber infrastructure. Explain whether such an option would require only a change from the current RF-based AMI communications network, or entirely new AMI meters.

RESPONSE)

Using the fiber for the AMI system would require new meters. Kenergy's use of the fiber for its AMI is a long term goal. The current RF system works well. When that system nears the end of its useful life, Kenergy would then have the fiber system in place to use for a new AMI system utilizing fiber instead of RF. When the fiber system is fully installed, the current AMI meters will be in the back half to back one third of their useful life.

Having the fiber in place would also provide the flexibility to slowly migrate over to a fiber based system rather and avoid a major, wholesale "forklift" upgrade project. Slowly migrating to a fiber-based AMI metering system would help avoid all of the disruptions and uncertainties associated with those types of major system upgrades.

WITNESS)

Fred Crooks

**KENERGY CORP
RESPONSE TO ATTORNEY GENERAL'S SECOND DATA REQUEST**

1 **Item 12)** Explain whether Jackson Purchase RECC and Meade County RECC have
2 expressed any interest in developing similar fiber infrastructure in their
3 own service territories, and if so, whether the three member coops have
4 discussed a potential sharing of resources to produce economies of scale.
5

6 **RESPONSE)** Kenergy/ Kenect's project is sufficiently large that economy of scale is
7 not an issue. Where Kenergy's territory meets Jackson Purchase and
8 Meade Co. RECC, opportunities to connect the systems would be
9 welcomed as sister member owners of Big Rivers in the Big Rivers'
10 system.
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22 **WITNESS) Jeff Hohn**

23
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25 Respectfully submitted,

26
27 **DORSEY, GRAY, NORMENT & HOPGOOD**
28 **318 Second Street**
29 **Henderson, KY 42420**
30 **Telephone (270) 826-3965**
31 **Telefax (270) 826-6672**
32 **Attorneys for Kenergy Corp.**

33
34 By _____


35 **J. Christopher Hopgood**
36 **chopgood@dkgnlaw.com**
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**KENERGY CORP
RESPONSE TO ATTORNEY GENERAL'S SECOND DATA REQUEST**

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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 19th day of September, 2020.



Counsel for Kenergy Corp.

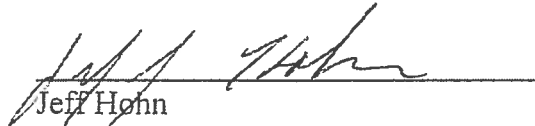
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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

VERIFICATION

(Attorney General Second Data Request – Items 3, 5, 5(a), 7, 10 & 12)

I verify, state and affirm that the data request 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.



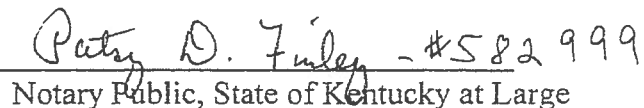
Jeff Hohn

STATE OF KENTUCKY

COUNTY OF Daviess

The foregoing was signed, acknowledged and sworn to before me by JEFF HOHN this 15th day of September, 2020.

My commission expires 7-14-2021



Notary Public, State of Kentucky at Large

(seal)


COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:)
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(Attorney General Second Data Requests – Item 11)

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Fred Crooks

STATE OF KENTUCKY

COUNTY OF DAVIESS

The foregoing was signed, acknowledged and sworn to before me by FRED CROOKS this 16 day of September, 2020.

My commission expires 9-24-22


Notary Public, State of Kentucky at Large

(seal)

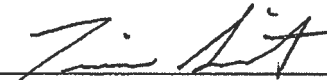
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FOR A WAIVER PURSUANT)
TO KRS 278.2219) **CASE No. 2020-00215**

VERIFICATION

(Attorney General Second Data Request – Items 1, 2, 4, 6, 8 and 9)

I verify, state and affirm that the data request 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.




Travis Siewert

STATE OF KENTUCKY

COUNTY OF Daviess

The foregoing was signed, acknowledged and sworn to before me by TRAVIS SIEWERT this 16 day of September, 2020.

My commission expires 8.7.21



Notary Public, State of Kentucky at Large

(seal)

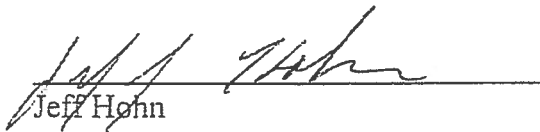
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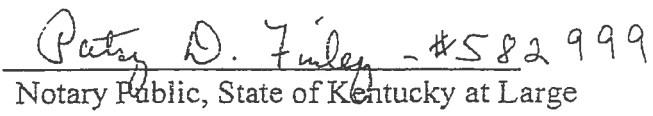
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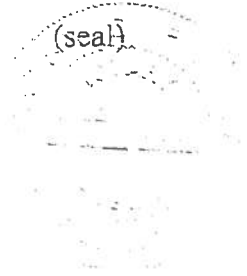

Jeff Hohn

STATE OF KENTUCKY
COUNTY OF Daviess

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My commission expires 7-14-2021


Notary Public, State of Kentucky at Large



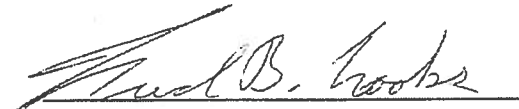
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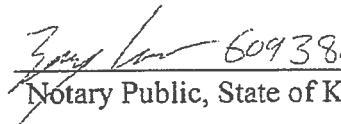
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Fred Crooks

STATE OF KENTUCKY
COUNTY OF DAVIESS

The foregoing was signed, acknowledged and sworn to before me by FRED CROOKS this 16 day of September, 2020.

My commission expires 9-24-22


Notary Public, State of Kentucky at Large

(seal)

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Travis Siewert

STATE OF KENTUCKY

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(seal)