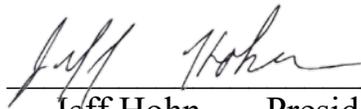


CASE NO. 2021-00066

VERIFICATION

I verify, state and affirm that the responses to the Commission Staff's and Attorney General's initial 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.



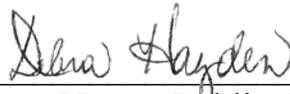
Jeff Hohn President and CEO

STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me on this 23rd day of April, 2021, by Jeff Hohn

My commission expires 5-23-2023



ID#623317

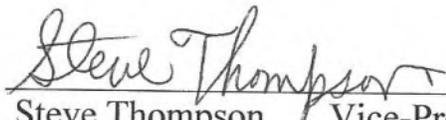
Notary Public, KY. State at Large

(seal)

CASE NO. 2021-00066

VERIFICATION

I verify, state and affirm that the responses to the Commission Staff's and Attorney General's initial 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.

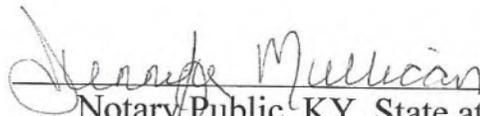

Steve Thompson Vice-President Finance

STATE OF KENTUCKY

COUNTY OF: DAVIESS

The foregoing was signed, acknowledged and sworn to before me on this 23rd day of April, 2021, by Steve Thompson

My commission expires August 7, 2021


Notary Public, KY. State at Large

(seal)



CASE NO. 2021-00066

VERIFICATION

I verify, state and affirm that the responses to the Commission Staff's and Attorney General's initial 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.



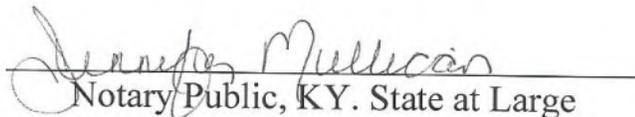
John Wolfram

STATE OF KENTUCKY

COUNTY OF: DAVIESS

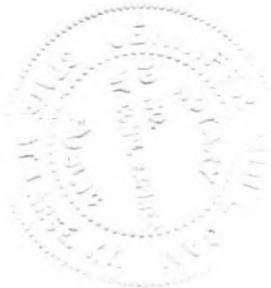
The foregoing was signed, acknowledged and sworn to before me on this 23rd day of April, 2021, by John Wolfram

My commission expires August 7, 2021



Notary Public, KY. State at Large

(seal)



**KENERGY CORP.
RESPONSE TO THE ATTORNEY GENERAL'S
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Item 1) Please provide all work papers, in electronic spreadsheet format with formulas intact, where available, supporting each of the figures, tables, and exhibits accompanying the Companies' filing and supporting testimony.

Response) Please see Exhibit 33.

Witness) John Wolfram

**KENERGY CORP.
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2 **Item 2)** The Company states that it provides, “retail electric power to approximately 58,000
3 active accounts in the Kentucky counties of: Daviess, Hancock, Henderson, Hopkins, McLean,
4 Muhlenberg, Ohio, Webster, Breckinridge, Union, Crittenden, Caldwell, Lyon, and Livingston.”

- 5 a. Provide a detailed account of the economic issues that the above-referenced
6 counties were suffering from before the COVID-19 pandemic.
- 7 b. Provide a detailed account of the economic situation that the above-referenced counties are
8 battling during the COVID-19 pandemic.
- 9 c. Explain in detail whether the Company has experienced a higher amount of uncollectible
10 bills/accounts during the COVID-19 pandemic.
- 11 d. Provide demographic data about the income and household size of the Company’s ratepayers
12 to the extent available.

13

14

15 **Response)**

16 a. The federal poverty rates for the fourteen counties comprising Kenergy’s service territory are
17 roughly between 12 percent and 19 percent. The average poverty rate for the Commonwealth is
18 16.9 percent and the average poverty rate for the counties comprising the service territory is
19 approximately 16.4%.¹ This is better than the counties in eastern and south-central Kentucky
20 but worse than the counties surrounding Lexington and Louisville. Before the COVID-19
21 pandemic the economies of the counties in Kenergy’s service territory were relatively flat with
22 limited growth and the prospects for immediate and enduring economic improvement were
23 uncertain.

24 b. There are numerous examples of the economic disruption which COVID-19 has caused in
25 Kenergy’s service territory. There have been months-long shutdowns of schools and
26 businesses. Some manufacturing and commercial businesses in the Cooperative’s service

¹ See <https://www.indexmundi.com/facts/united-states/quick-facts/kentucky/percent-of-people-of-all-ages-in-poverty#map>
Item 2, Page 1 of 2

**KENERGY CORP.
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1 territory were required to reduce their hours of operation because of government requirements,
2 supply chain disruptions and workforce illness.

3 c. The dollar amount of Kenergy accounts in arrears increased from \$615,130 in February 2020
4 to \$1,845,632 in October 2020. Since that time, the dollar amount of accounts in arrears has
5 been steadily decreasing each month and is down to \$1,147,108 at the end of March 2021.

6 Kenergy accrued \$400,689 in bad debt expense during 2020. Bad debt expense during 2019
7 (the test period) was \$58,408.

8 d. Kenergy did not prepare any analyses of income or household size for its members for this
9 streamlined rate filing.

10
11 **Witness)** John Wolfram (a,b,d); Steve Thompson (c)

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2 **Item 3)** The Company states that, since its last base rate case, “Kenergy's margins from energy
3 sales have declined, while costs of conducting business have increased, especially Vegetation
4 Management costs and Depreciation Expense.”

- 5 a. Provide detailed analytical information supporting the decline in margins and increasing costs.
6 b. Provide detailed analytical information supporting the assertion that vegetation management
7 costs and depreciation expenses have increased since the last base rate case.
8 c. Provide a list of all pro forma adjustments, the monetary amount of each adjustment, and a
9 description of why each adjustment is being requested.
10 d. Explain in detail and provide all examples of how management has attempted to minimize cost
11 escalation.

12

13

14 **Response)**

- 15 a. Please see the direct testimony of Jeff Hohn, page 4, which discusses the decrease in average
16 residential usage from 1,352 kWh per month in test period ending June 30, 2015 to 1,248 kWh
17 per month in test period ending December 31, 2019, which is an annual decrease of
18 approximately 0.6% per year. Page 5 of Mr. Hohn’s testimony discusses the increase in
19 depreciation expense over the four-and-a-half-year period of approximately \$2 million due to
20 plant investment that has occurred pursuant to Kenergy’s 2016-2020 construction work plan.
21 Please see the response to the Commission Staff’s Initial Request for Information, Item 15, for
22 more detailed analysis of the vegetation management cost increase.
- 23 b. Please see the attached summary of Kenergy year-end plant balances and annual depreciation
24 and amortization expense. See the response to the Commission Staff’s Initial Request for
25 Information, Item 15, for more detailed analysis of the vegetation management cost increase.
- 26 c. Please see the Direct Testimony of John Wolfram provided at Exhibit 9, in particular pages 10-
27 16. The pro forma adjustments can be found in Exhibit JW-2.

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d. Please reference the direct testimony of Jeff Hohn pages 5-6. The most significant cost - containment measures Kenergy has undertaken since its last rate application include a reduction of 19 full-time employees from 150 to 131, and an increase in employee contribution to medical insurance premiums from 10% to 16%.

Witness) John Wolfram (a,b,c); Jeff Hohn (d)

**Summary of Kenergy Year-End Plant Balances
and Annual Depreciation & Amortization Expense**

	2015	2016	2017	2018	2019	2020
Total Utility Plant in Service	\$ 304,036,004	\$ 312,496,865	\$ 322,572,536	\$ 331,412,088	\$ 341,273,037	\$ 351,261,043
Depreciation and Amortization	\$ 11,034,637	\$ 12,040,021	\$ 12,692,991	\$ 13,067,479	\$ 13,441,792	\$ 13,751,032

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2 **Item 4)** See Application at 3. Explain why an OTIER of 1.85 is necessary.

3 a. Provide the TIER and OTIER that are required by all loan contract terms.

4 b. Confirm or deny that normally loans that an RECC enters into only requires a TIER of 1.25. If
5 denied, explain in full detail what TIER is generally required.

6 c. If (b) is confirmed, then provide the justification in requesting a higher TIER than what is
7 required by the loan contract terms.

8 d. If the Company is requesting a TIER and OTIER that is higher than the loan contract
9 requirements, explain why it is making such requests.

10 e. Explain how the Company utilizes the additional funds that the Commission awards that is
11 above and beyond the required TIER and OTIER amounts per the loan contract terms, and how
12 the Company accounts for these funds.

13 f. Provide the Company's TIER and OTIER for the historical test years ending on December 31st
14 for each of the past five years.

15

16

17 **Response)**

18 a. 1.25 minimum TIER; 1.10 minimum OTIER

19 b. Confirmed

20 c. The loan covenants establish minimum requirements for financial metrics like TIER. Kenergy
21 considers it prudent to establish rates that permit the achievement of financial metrics above
22 these minimums, and the Commission has supported this view in every distribution cooperative
23 rate case of which Kenergy is aware. Furthermore, the Commission established the allowable
24 OTIER cap of 1.85 for distribution cooperatives pursuant to the streamlined rate procedures
25 established in Case No. 2018-00407.

26 d. Please see the response to part c.

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- 1
- 2 e. Kenergy does not accept the premise of the question that the amounts above the minimum
- 3 lender-required TIER or OTIER are “additional funds” for which separate allocation or
- 4 tracking is warranted. On the contrary, Kenergy uses TIER and OTIER in order to establish its
- 5 total revenue requirement, consistent with standard Commission practices and traditional
- 6 ratemaking methods. The cooperative is entitled to a reasonable opportunity to recover its
- 7 prudently-incurred costs and is also entitled to earn a fair and reasonable rate of return on its
- 8 capital investments. All of Kenergy’s rate revenue allows the cooperative to recover its costs,
- 9 earn a reasonable return on its investment, and manage contingencies related to providing safe,
- 10 reliable, and cost-effective electric service to its members. The Commission has found in
- 11 repeated distribution cooperative rate filings in recent years that a TIER of 2.00 provides that
- 12 reasonable return. The Commission also established the OTIER cap of 1.85 for cooperatives
- 13 using the Streamlined Procedure Pilot Program, which indicates an expectation by this
- 14 Commission that cooperatives like Kenergy should achieve financial metrics above the
- 15 minimum thresholds established by the lenders. There are no “additional funds” and thus no
- 16 special or separate “accounts for these funds” exist.
- 17 f. Exhibit 34 has been updated to include calendar year 2020 and is included as page 3 of this
- 18 response.

19

20 **Witness)** John Wolfram (c, d, e); Steve Thompson (a, b, f)

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Kenergy Corp.
RUS Calculation of TIER, OTIER, and DSCR
Case No. 2021-00066
Exhibit 34 (Updated with 2020 data)

	RUS Form 7	2014	2015	2016	2017	2018	Test Period	2019	2020
	Reference								
Interest on Long-Term Debt	A Part A, Column b, Line 16	4,677,863	5,010,656	5,099,153	5,107,672	5,374,547		5,168,629	4,340,462
Depreciation and Amortization Expense	B Part A, Column b, Line 13	10,419,489	11,034,637	12,040,021	12,692,991	13,067,479		13,441,792	13,751,032
Operating Margin	C Part A, Column b, Line 21	2,787,760	466,297	1,684,283	(532,908)	1,667,602		702,212	555,133
Net Margin	D Part A, Column b, Line 29	5,023,521	2,700,638	3,937,890	1,901,820	4,246,692		2,796,711	1,829,749
Cash Patronage Retirements from Lenders	E Part I, Column a, Line 2.b.	191,954	179,445	271,341	296,849	93,308		243,043	312,788
Debt Service Billed	F Part N, Column d, Total	12,034,557	12,181,135	13,295,406	13,223,616	13,529,021		13,107,080	11,382,889
TIER = (D + A) / A		2.07	1.54	1.77	1.37	1.79		1.54	1.42
OTIER = (C + A + E) / A		1.64	1.13	1.38	0.95	1.33		1.18	1.20
DSCR = (D + A + B) / F		1.67	1.54	1.59	1.49	1.68		1.63	1.75

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Item 5) See Application at 3. Explain why revenues associated with direct-served industrial customers are not proposed to increase.

Response) Kenergy's direct served customers are interconnected to facilities owned and operated by Big Rivers Electric Corporation, and as such Kenergy incurs minimal costs for both investment and operations & maintenance in order to serve these customers.

Witness) John Wolfram

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Item 6) Explain why it is necessary to increase the customer charge for residential service from \$18.20 per month to \$20.60 per month.

Response) Please see the Direct Testimony of John Wolfram provided at Exhibit 9, in particular pages 27-30.

Witness) John Wolfram

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Item 7) Explain in detail why the charges for residential service should increase by 4.3% while each of the following classes remain unchanged:

- a. All Non-Residential Single Phase \$0 0.0%
- b. Three-Phase (less than 1,000 KW) \$0 0.0%
- c. Three-Phase (1,001 KW & Over) \$0 0.0%
- d. Unmetered Lighting \$0 0.0%

Response) The residential rate class is the only class with a negative rate of return on rate base and also the only class with a rate of return on rate base that is lower than the system average; as such, it is the only class not covering its costs and the only class being subsidized. All of the other classes are subsidizing the residential class and thus should not experience an increase in charges. Please see the Direct Testimony of John Wolfram provided at Exhibit 9, in particular pages 24-26.

Witness) John Wolfram

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Item 8) Provide a detailed analysis listing each employee along with his or her salary and the total cost of benefits, including but not limited to health insurance, life insurance, dental and vision insurance, allowances for a car and/or housing, bonuses, and any other benefits received by an employee.

Response) Please reference the Excel file “4. Labor Adjustment Detail,” provided electronically with Kenergy’s application, which contains the above referenced information. Also, please reference the response to the Commission Staff’s Initial Request for Information Item 6 and Item 16 for details on the incentive pay, Christmas bonus, and deferred compensation.

Witness) Jeff Hohn

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2 **Item 9)** As discussed in the testimony of Hohn at 7, when the Board approved the 2.8% rate
3 adjustment, did the Board have knowledge that the rate increase would be borne almost entirely by the
4 residential class and not proportionally across the classes, or was that decision made by someone else?
5 If it was made by someone else, identify that person or persons.

6

7

8 **Response)** Yes, at the February 9, 2021 board meeting, the Kenergy Board of Directors was made
9 aware of the need to place almost the entire rate increase on the residential class, based on the results
10 of the cost of service study, prior to approving the resolution contained in Exhibit 7.

11

12 **Witness)** Jeff Hohn

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Item 10) As discussed by Thompson at 5-6, precisely identify the adjustments to miscellaneous revenues and discuss why each is necessary.

Response) Exhibit 3 to the Application shows a detailed side-by-side comparison of the current and proposed miscellaneous charge calculations. Reference tariff sheets 32 (Exh. A), 32 (Exh. B), 32 (Exh. C), and 76 (Exh. A) pages 1, 2, and 3. Exhibit JW-2, Reference Schedule 1.15 applies the proposed miscellaneous charge rates to the test year billed units to arrive at the proforma miscellaneous charge revenues.

Witness) Steve Thompson

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Item 11) Explain why expenses of the Member Rate Stability Mechanism (MRSM) exceed its revenues and result in a net margin of (427,230) based on JW-2 at 2.

a. Provide a detailed list of all expenses and revenues associated with the MRSM.

Response) The MRSM is a rate mechanism that passes credits from Big Rivers Electric Corporation to Kenergy's members. The only "expense" is the amount received from Big Rivers and the only "revenue" is the amount provided to Kenergy's members. (Note all of the values are negative which indicate that the MRSM is a credit to consumers.) The difference in revenues and expenses referenced in the question results from regulatory lag and unbilled revenues. The purpose of the pro forma adjustment in Reference Schedule 1.03 is to account for and adjust for these differences.

a. Not applicable.

Witness) John Wolfram

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2 **Item 12)** Provide a detailed list of all donations funded by the Company and membership dues
3 paid by the Company, including the amounts of each.

4

5

6 **Response)** Please see Exhibit 30 and Exhibit 31 to the Application, and Excel files “7. Account
7 930 analysis 2019” and “8. Account 426 analysis 2019” provided electronically with the Application.
8 Also reference Exhibit JW-2, page 14 of 22, and the Excel file “6. Disallowed Expense Adjustment
9 Detail” provided electronically with the Application, which show the amount removed for rate making
10 purposes.

11

12 **Witness)** Steve Thompson

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1
2 **Item 13)** Provide a general description of all marketing and promotional activities conducted by
3 the Company.

- 4 a. Identify the amount spent for each of these activities and discuss the value derived by the
5 company and the ratepayer respectively for those activities.

6
7 **Response)** The following marketing and promotional expenses were incurred during the test
8 period, and have all been removed for rate-making purposes:

9	Hand Sanitizer with Company Logo	\$1,762
10	Co-op Connections Card	\$2,013
11	Member Newsletter Printing Cost – 31%	\$15,998
12	Community Event Sponsorship	\$12,590
13	Member Appreciation Day	\$19,130
14	Industrial and Commercial Golf Outing	\$10,834

15 Kenergy's marketing and promotional activities highlight the importance of being a member of
16 an electric cooperative – community support through sponsorship of local events, appreciation for our
17 members through events like our annual member appreciation day and industrial and commercial
18 member golf outing, and education about the cooperative through our monthly newsletter.

19 The ratepayer directly benefits from these activities by the information shared and activities
20 they can participate in. Providing our newsletter to members each month keeps them informed on the
21 co-op happenings and information pertaining to energy efficiency, safety, and resources available from
22 the co-op. Participating in events like our member appreciation day and member golf outing show our
23 members that they are more than just an account number and establishes a relationship with the co-op.

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1 Kenergy directly benefits from these activities by maintaining a positive relationship with our
2 members (residential, commercial, and industrial). Showing appreciation to our members creates a
3 relationship between the two where members feel like they can trust the co-op to provide them with
4 safe and reliable electrical service – Kenergy's mission.

5
6 **Witness)** Jeff Hohn

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1
2 **Item 14)** Confirm that the Company no longer intends to provide broadband service through its
3 affiliate consistent with the media release found at
4 <https://www.kenergycorp.com/2021/02/media-release-kenergy-provides-update-onbroadband/>.

- 5 a. Provide a detailed accounting for all costs accrued in filing a “short form application” for
6 the RDOF.
7 b. Discuss whether Conexon’s award of \$21,396,303.60 will be for areas exclusively within
8 the Kenergy footprint?
9 c. Discuss how Kenergy plans to “work closely with Conexon for the buildout.”
10 i. In particular, what assistance will Kenergy provide to Conexon?
11 ii. What compensation will it receive for that assistance?
12

13 **Response)** Kenergy no longer intends to provide broadband service through its affiliate, Kenect.

14 (a) There are no costs associated with the test year in regard to this filing. For 2020 however,
15 Kenergy’s share of the Consortium legal costs were \$10,181.

16 (b) Conexon’s RDOF award of \$21,396,303.60 is for the entire State of Kentucky. They were
17 awarded approximately \$13,500,000 for the area within the Kenergy footprint.

18 (c) Kenergy is in the process of developing a Work Plan to extend a fiber smart grid throughout the
19 entire Kenergy system. When the Work Plan is completed, Kenergy will be submitting it to the
20 Kentucky Public Service Commission. Kenergy will also be filing a Certificate of Public
21 Convenience and Necessity (“CPCN”). Kenergy will own the fiber, and Conexon will pay a
22 lease fee for the purpose of providing broadband service to the Members.
23

24 **Witness)** Jeff Hohn

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Item 15) Discuss whether HB 320 of the 2021 Regular Session of the Kentucky General Assembly impacts Kenergy's abstention from broadband deployment.

Response) Because HB 320 was passed after the conclusion of the RDOF Auction, Kenergy was unable to participate. That money was awarded to Conexon, and they are therefore obligated to provide that service. As stated in Item 14 of the Attorney General's Request, Kenergy will be looking to construct the fiber network, and then enter into a lease agreement with Conexon for the purpose of providing broadband to the Kenergy Members.

Witness) Jeff Hohn