COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENERGY CORP.)
FOR AN ADJUSTMENT OF RATES) CASE NO. 2023-00276

RESPONSES TO COMMISSION STAFF'S FOURTH REQUEST FOR INFORMATION TO KENERGY CORP. DATED JANUARY 19, 2024

Kenergy Corp. ("Kenergy") submits the attached Responses to Staff's Fourth Requests for Information dated January 19, 2024.

This 29th day of January, 2024.

DORSEY, GRAY, NORMENT & HOPGOOD
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Henderson, KY 42420
Telephone (270) 826-3965
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Counsel for Kenergy Corp.

By ______________________
J. Christopher Hopgood

CERTIFICATE OF SERVICE

I hereby certify that the foregoing electronic filing was transmitted to the Kentucky Public Service Commission for filing on January 29, 2024; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding by virtue of the Commission's Order of 2020-00085, no paper copies of this filing will be made.

____
J. Christopher Hopgood

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF	)	
KENERGY CORP. FOR	)	**Case No. 2023-00276**
A GENERAL ADJUSTMENT OF RATES	)	

VERIFICATION OF TRAVIS SIEWERT

COMMONWEALTH OF KENTUCKY)

COUNTY OF HENDERSON)

Travis Siewert, Vice President Finance of Kenergy Corp., being duly sworn, states that he has supervised or prepared certain responses to Commission Staff's Fourth Request for Information in the above referenced case on behalf of Kenergy Corp., and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

Travis Siewert

The foregoing Verification was signed, acknowledged and sworn to before me this 25th day of January, 2024, by Travis Siewert

KYNP27907 Lisa Hewzley
Notary Public, KY. State at Large

Commission expires 4/21/25

(seal)

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF	)	
KENERGY CORP. FOR	)	**Case No. 2023-00276**
A GENERAL ADJUSTMENT OF RATES	)	

VERIFICATION OF JOHN WOLFRAM

COMMONWEALTH OF KENTUCKY)

COUNTY OF JEFFERSON)

John Wolfram, Principal of Catalyst Consulting LLC, being duly sworn, states that he has supervised or prepared certain responses to Commission Staff's Fourth Request for Information in the above referenced case on behalf of Kenergy Corp., and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

John Wolfram

The foregoing Verification was signed, acknowledged and sworn to before me this 23 day of January, 2024, by John Wolfram

Anne L. Foye

Notary Public, KY. State at Large

Commission expires 6-12-2025

(seal)

ANNE L FOYE
Notary Public - State at Large
Kentucky
My Commission Expires June 12, 2025
Notary ID KYNP29156

KENERGY CORP.

THE ELECTRONIC APPLICATION OF KENERGY CORP. FOR A GENERAL ADJUSTMENT OF RATES	)))	**CASE NO. 2023-00276**

Responses to Commissions Staff's Fourth Request for Information

Item 1) Refer to the Application, exhibit 3, page 24 of 30, Calculations for Monthly Billing, which states that billings will be based on the past 11 months kWh usage, along with the current month's kWh usage. Also refer to Kenergy's response to Commission Staff's Second Request for Information, Item 4(c), Attachment, which shows the levelized payment being based on a customer's average monthly bill over the past 12 months plus or minus the levelized adjustment. Explain whether Kenergy will determine the levelized payment based on a straight average of the past 12 month's bills, not taking into account any rate changes, or whether Kenergy will determine the average monthly usage over the past 12 months and apply that result to the then effective rates.

Response) The levelized payment will be based on an average of the last 12 month's bills. Kenergy proposes to terminate Schedule 165, the existing Budget Billing tariff on September 30, 2024 and transition all of those accounts to Schedule 155, the Levelized Budget Billing tariff at that time. So, all accounts would have one final annual settlement before transitioning to levelized. Since the levelized budget billing will begin in October 2024, the first levelized calculation should have about 6 months at the new rates and 6 months at the old rates. Then, as we move forward, each 12-month average will include one more month of the new rates and one less month of the old rates.

Witness: Travis Siewert

KENERGY CORP.

THE ELECTRONIC APPLICATION OF KENERGY CORP. FOR A GENERAL ADJUSTMENT OF RATES	**)** **)** **)**	**CASE NO. 2023-00276**

Responses to Commissions Staff's Fourth Request for Information

Item 2) Refer to the Application, Exhibit 3, page 26 of 30.

a. Explain what Kenergy considers to be a satisfactory payment or credit record.

b. The tariff states that "[s]satisfactory credit for customers will be determined by utilizing independent credit sources". Provide a list of the independent credit sources used by Kenergy to assess if a customer requires a deposit.

c. Explain how a customer could become a new or greater credit risk and how Kenergy would determine whether to require a new or increased deposit.

d. Confirm that Kenergy would not require an additional deposit from a residential customer who has maintained a satisfactory payment record. If not confirmed, explain why not.

Response)

a. Satisfactory payment history is defined by Kenergy as 12-months of payment history with no disconnections for nonpayment, no late notices, no broken payment arrangements, no returned payments and no meter diversion or theft of service.

b. Kenergy has a contract with Online Information Services, who issues either a Green Light (no deposit required) or a Red Light (deposit required). To achieve a Green Light the member must have a Vantage Score of 668 or higher, have no bankruptcies on their report, and have no bad debt with another utility utilizing Online Information Services.

c. If a residential member is disconnected for nonpayment 2 times in the last 12 months, Kenergy will calculate a 2/12 deposit. If a non-residential member is on the cut off list 2 times in the last 12 months Kenergy will calculate a 2/12 deposit.

d. Confirmed.

Witness: Travis Siewert

KENERGY CORP.

THE ELECTRONIC APPLICATION OF KENERGY CORP. FOR A GENERAL ADJUSTMENT OF RATES	)))	CASE NO. 2023-00276

Responses to Commissions Staff's Fourth Request for Information

Item 3) Refer to the Application, Exhibit 10, Exhibit JW-2, page 15.

a. Explain why the expenses assigned to broadband services are not recorded to account 417.1, Expenses of Nonutility Operations.

b. Explain why the net income from broadband activities should not be included in the revenue requirement.

Response)

a. Please reference Exhibit 25 to the Application for details on Kenergy's accounting treatment of the broadband activities. The broadband project officially began in October 2022. Prior to its official commencement, Kenergy recorded broadband expenses in separate operating accounts. Once the project was a go, Kenergy filed its Cost Allocation Manual with the Commission and began recording all the broadband revenue in 417 accounts and broadband expenses in 417.1 accounts. Since the test period in this case covers the 12-months ended February 2023, Kenergy had broadband expenses recorded in both operating and non-operating accounts. Going forward, everything will be recorded in non-operating 417 accounts.

b. First, simply put and in keeping with the concepts reflected in the affiliate rules set forth in KRS 278.2201-2219, electric rates (and the electric revenue requirement) should reflect the costs of providing electric service, plus a reasonable return on the investment necessary to provide electric service, without including the costs associated with affiliate or subsidiary utility services. Electric rates should relate to the provision of electric service, not other services.

Second, the net income from broadband should be treated the same for electric ratemaking whether the amount is positive (net income) or negative (net loss). This symmetry avoids outcome-based treatment and demonstrates how increasing electric rates to account for a net loss on the broadband business would not serve the electric customer interests.

Third, in the instant case, broadband activities resulted in a proforma adjusted net loss of ($109,738.57) when all broadband operating and non-operating accounts are considered.

Note that Kenergy must meet its loan covenants from its lenders based on the electric side of the business. If broadband profits (recorded in non-operating accounts) were used to reduce Kenergy's electric revenue requirement, Kenergy could meet its TIER and DSC requirements but fail its Operating TIER and Operating DSC requirements. This could impact whether Kenergy will have to base the revenue requirement on a 1.85 OTIER rather than a 2.00 TIER in future rate cases, depending on whether broadband activities grow and become profitable in future years.

Consideration must also be given to Kenergy's equity position. Kenergy's board policy targets an equity to total capitalization ratio of 30%-40%. Prior to the broadband project's commencement, Kenergy's equity to total capital ratio was 39%. Most businesses need a certain amount of equity to get started. Likewise, most lenders require home buyers to have a certain amount of equity to purchase a home. The broadband side of Kenergy will be starting out with approximately $144 million dollars in debt and zero equity. This will result in Kenergy's overall equity position dropping to the low 20% range. The broadband side of the business will need to retain about $43 million dollars in profits before it achieves a minimum equity ratio of 30%.

To pilfer the earnings of such a young broadband business before it reaches a reasonable equity level, with the goal of subsidizing the electric side of the business, would be financially irresponsible. Kenergy certainly looks forward to rewarding members for their investment in broadband once the company's earnings and equity warrant, but that will be many years down the road. Currently, the members have zero equity investment in the broadband business since it is initially funded entirely with debt.

Witness: John Wolfram
Travis Siewert

KENERGY CORP.

THE ELECTRONIC APPLICATION OF KENERGY CORP. FOR A GENERAL ADJUSTMENT OF RATES	)))	**CASE NO. 2023-00276**

Responses to Commissions Staff's Fourth Request for Information

Item 4) Refer to the Application, Exhibit 10, Exhibit JW-2, page 19. Provide the calculation of average wage rates used in this exhibit in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

Response) Please reference the Excel file "PSC4, Item 4 (Proforma Labor Rates and Hours)" provided in electronic format. Kenergy used test period ended 2/28/2023 actual hourly rates for each of the 128 proforma positions to calculate the proforma regular wages. Kenergy used actual test period overtime and double time hours times test period ended hourly rates to arrive at the proforma overtime and double time wages.

Witness: Travis Siewert

KENERGY CORP.

THE ELECTRONIC APPLICATION OF KENERGY CORP. FOR A GENERAL ADJUSTMENT OF RATES	)))	**CASE NO. 2023-00276**

Responses to Commissions Staff's Fourth Request for Information

Item 5) Refer to the Application, Exhibit 10, Exhibit JW-2, page 19. Provide the wages and hours per employee used in this exhibit in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible. If the wages and hours are not based on the test year, provide the test year wages and hours per employee in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible. Employee numbers or other identifiers should be used instead of employee names. Identify all employees terminated during the test year (along with the month in which the termination occurred) and those employees who replaced terminated employees or were otherwise added to the payroll during the test year.

Response) Please reference the Excel file "PSC4, Items 5 (Proforma & Test Period Labor Rates and Hours)" provided in electronic format. The green shaded area shows the proforma wage calculation based on test period ended wage rates and 128 employees. The peach shaded area shows test period actual regular hours by employee and the average wage rate during the test period. The blue shaded area shows actual test period hours times actual test period ending wage rates.

Kenergy did have an unusual number of employees leave during the test period and it took some time to fill those positions. Kenergy actually began the test period with 131 employees. When preparing the proforma labor adjustment, Kenergy used the 128 employees Kenergy had on payroll in the months following the test period and the actual wage rates for those positions as of the end of the test period because they were known, measurable, and normal for Kenergy going forward. Kenergy has maintained an average employee headcount of 128 from May 2023 to the present. Kenergy's historical year-end headcount is as follows:

Year	Headcount
2019	131
2020	130
2021	133
2022	124
2023	129

It's interesting to note that the blue section of the spreadsheet actually results in total wages that are $88,314 higher than Kenergy's original proposed proforma wages in the green section even though the blue section is based on 259,831 actual test period regular hours and Kenergy's proforma regular wages was based on 266,240 (128 * 2,080) hours. That's because many of the positions Kenergy filled during and just after the end of the test period were at lower-than-average rates. The overall average test period ended wage rate was actually $42.48 if you exclude the 6,409 proforma hours (or approximately 3 employees) at their lower initial pay rate.

Witness) Travis Siewert

KENERGY CORP.

THE ELECTRONIC APPLICATION OF KENERGY CORP. FOR A GENERAL ADJUSTMENT OF RATES	)))	**CASE NO. 2023-00276**

Responses to Commissions Staff's Fourth Request for Information

Item 6) Refer to Kenergy's response to Commission Staff's Third Request for Information, Item 8.

a. For calendar years 2021, 2022, and 2023, provide the number of complaints Kenergy received from budget billing customers regarding the amount of the true-up and the average true-up amount for those customers.

b. For calendar years 2021, 2022, and 2023, provide the average true up amounts of all budget billing customers.

c. Explain whether Kenergy currently makes any adjustments during the budget billing year to the budget bill of customers enrolled in the Fixed Budget Billing Plan. If so, explain how Kenergy determines an adjustment is needed and how the adjustment is calculated.

Response)

a. In 2021 Kenergy noted 21 complaints and the average true-up amount for those members was $325.60. In 2022 Kenergy noted 88 complaints and the average true-up amount for those members was $558.16. In 2023 Kenergy noted 12 complaints and the average true-up amount for those members was $520.37.

b. True-Up information for the years 2021-2023 is as follows:

	2021	2022	2023
Number of True-up Charges	1,212	2,488	1,097
Average Amount Owed	$146.73	$238.40	$179.81
Number Owing More than $500	47	235	74
Number of True-up Refunds	1,924	749	2,237
Average Amount Refunded	($183.81)	($187.71)	($224.65)
Number Refunded More than $500	134	65	217

Kenergy feels its members would be much better served under the levelized approach, especially the members that received refunds at true-up time and members that owed large amounts at true-up time. The members that received refunds at true-up time overpaid for 11 months and didn't receive a refund until month 12. The members that owe large amounts may be rightfully upset because they thought they were signing up for a level payment plan, then at true-up time they owe a large amount and their newly calculated budget amount jumps up as well.

Overall, average monthly payments during the first 11 months under the levelized approach should be 9% lower than average monthly payments under the current budget billing approach because the levelized approach uses an actual 12-month rolling average while the current budget billing approach is based on collecting 12 months of usage in 11 bills, then trueing up in month 12 (12 / 11 = 1.09). When researching levelized billing, Kenergy found that most electric distribution cooperatives in Kentucky have levelized billing in their tariff.

c. No, Kenergy does not currently make any adjustments during the budget billing year.

Witness: Travis Siewert