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ATTORNEYS-AT-LAW

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January 12, 2007

FEDEX and  
FAX NO. 502 - 564-3460 (Filings Division)

Ms. Elizabeth O'Donnell  
Executive Director  
Public Service Commission of Kentucky  
211 Sower Boulevard  
Frankfort, Kentucky 40601

RECEIVED

JAN 16 2007

PUBLIC SERVICE  
COMMISSION

Re: Kenergy Corp.  
Case No. 2006-00369

Dear Ms. O'Donnell:

Enclosed for filing please find the original and eight (8) copies of the Settlement Agreement in this case. The signatures of Mark A. Bailey are a fax version and originally signed pages will be provided later to be substituted for the pages with the faxed signatures.

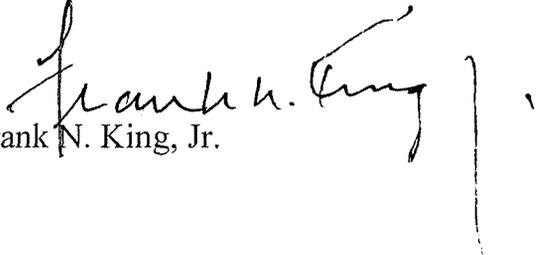
Kenergy is republishing a public notice stating that the hearing will be held on January 23. Proofs of publication will be provided to the Commission prior to the hearing, when available.

Your assistance in this matter is appreciated.

Very truly yours,

DORSEY, KING, GRAY, NORMENT & HOPGOOD

By

  
Frank N. King, Jr.

FNKJr/cds

Page 2  
January 12, 2007

Encls.

Copy/w/encls.: Mr. Lawrence W. Cook, Assistant Attorney General  
Utility Intervention and Rate Division

Michael L. Kurtz, Esq.

Mr. Mark A. Bailey  
Mr. Steve Thompson  
Kenergy Corp.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION RECEIVED

JAN 16 2007

PUBLIC SERVICE COMMISSION

In the Matter of: )
)
THE APPLICATION OF KENERGY CORP. ) CASE No. 2006-00369
FOR AN ADJUSTMENT IN EXISTING )
RATES )

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT is made and entered into as of the 11th day of January, 2007, by and among KENERGY CORP. ("Kenergy"), ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY, BY AND THROUGH HIS OFFICE OF RATE INTERVENTION ("AG") and KENTUCKY INDUSTRIAL UTILITIES CUSTOMERS, INC. ("KIUC");

WHEREAS:

- (1) On September 1, 2006, Kenergy filed with the Kentucky Public Service Commission ("Commission") its application in the captioned case;
(2) AG and KIUC were granted the right to intervene by orders of the Commission and are the only intervenors in this case;
(3) Kenergy and AG have reached agreement with respect to Schedule 1 of Kenergy's tariff in which the proposed customer charge will be reduced and the proposed energy charge will be increased a sufficient amount so that the projected revenue to be received by Kenergy from Schedule 1 customers

will be the same amount as set forth in the application, and the AG otherwise has no objections to the adjustments being sought by Kenergy herein;

(4) KIUC has no objections to the adjustments in rates being sought herein, including the aforementioned modifications of Schedule 1; and

(5) Kenergy, AG and KIUC desire to set forth in writing the terms and conditions of their agreement;

**NOW**, therefore, in consideration of the mutual promises and covenants of the parties hereto, **IT IS AGREED** as follows:

1. Schedule 1 as set forth in the application shall be modified to include a monthly customer charge of \$9.91 and an energy charge of \$0.059956. Attached as "Exhibit A" is a spreadsheet with calculations confirming that these charges produce the same average monthly bills for Schedule 1 customers as are set forth in Kenergy's application. Attached as "Exhibit B" is revised page 2 of "Exhibit 10" to the application which provides proof that these charges do not change the annual revenues Kenergy will receive from Schedule 1 customers.

2. Attached as "Exhibit C" is a revised Schedule 1 that Kenergy will issue and submit for filing upon approval of this settlement agreement by the Commission. The remaining tariff schedules that Kenergy proposes to file herein as set forth in the application (Schedule 2, Schedule 4 and Schedule 146) also will be issued upon approval of this settlement by the Commission. All tariff schedules shall show actual date of issue and effective date of March 1, 2007. The applicable rates will become effective in accordance with the terms of this agreement for service rendered on and after March 1, 2007.

3. The parties agree that this settlement represents a mutually satisfactory and reasonable resolution of all issues in this case, but it is understood by all parties that this settlement does not represent agreement on any specific theory supporting the appropriateness of any recommended adjustment to Kenergy's rates. Further, settlement of this case is in the best interest of the parties hereto as it will allow the parties to promptly resolve their dispute without expending further time and incurring additional expense in the pending case. Kenergy offers the testimony of its President and CEO Mark A. Bailey in support of the reasonableness of the rates resulting from this settlement, being attached as "Exhibit D."

4. This Settlement Agreement is conditioned upon and subject to express approval of the Commission. The terms and conditions of this Settlement Agreement are inseparable from one another and accordingly are not severable by the Commission. In the event the Commission fails to approve this Settlement Agreement in its entirety, then Kenergy, AG or KIUC may withdraw from this settlement by notifying the other parties and the Commission within 10 days of the Commission's action of such withdrawal and requesting the Commission to reinstate a procedural order and schedule a hearing in the subject case. In the event of such withdrawal this Settlement Agreement shall be deemed to be null and void and of no legal effect or consequence and the parties hereto shall be restored to status quo existing immediately prior to the execution of this

Settlement Agreement; moreover, none of the terms herein shall be binding upon any of the parties nor shall the Settlement Agreement, or any of its terms, be admissible in any judicial or administrative proceeding.

5. This Settlement Agreement constitutes the complete agreement and understanding by and among the parties hereto and any and all oral statements, representations or agreements made prior hereto or contemporaneously herewith shall be deemed to have been merged into this Settlement Agreement.

6. This settlement agreement may be signed in counterparts.

IN TESTIMONY WHEREOF, witness the hands of the parties hereto this day and date first above written.

**KENERGY CORP.**

By Mark A. Bailey

Mark A. Bailey  
(printed name)

President and CEO  
(title)

**KENTUCKY INDUSTRIAL UTILITIES  
CUSTOMERS, INC.**

By \_\_\_\_\_

\_\_\_\_\_  
(printed name)

\_\_\_\_\_  
(title)

Settlement Agreement; moreover, none of the terms herein shall be binding upon any of the parties nor shall the Settlement Agreement, or any of its terms, be admissible in any judicial or administrative proceeding.

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**KENERGY CORP.**

By \_\_\_\_\_

Mark A. Bailey

(printed name)

President and CEO

(title)

**KENTUCKY INDUSTRIAL UTILITIES  
CUSTOMERS, INC.**

By Michael C. Kurtz

Michael C. Kurtz

(printed name)

Lawyer

(title)

**ATTORNEY GENERAL OF THE  
COMMONWEALTH OF KENTUCKY,  
BY AND THROUGH HIS OFFICE  
OF RATE INTERVENTION**

By 

Lawrence W. Cook

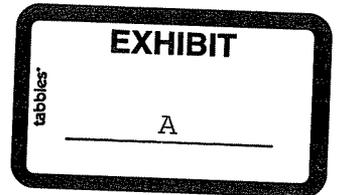
(printed name)

Assistant Attorney General

(title)

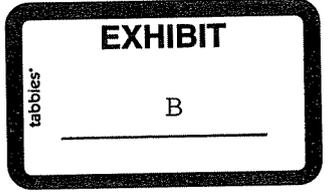
**KENERGY CORP.**  
**Case No. 2006-00369**

	<u>kWh</u>	<u>Normalized Present Revenue</u>	<u>Proposed Revenue</u>	<u>Settlement</u>
1 Residential kWh and Revenues From Summary of Revenue	720,600,499	\$ 44,193,771	\$ 47,549,715	\$ 47,549,715
2				
3 Number of Customers	44,205	44,205	44,205	44,205
4				
5 Test Year Averages per Month	1,358,44456	\$ 83.31	\$ 89.64	\$ 89.64
6				
7 Present, Proposed & Settlement Rates				
8				
9 Facilities Charge		7.91	12	9.91
10 Energy Charge		\$ 0.056769	\$ 0.058417	\$ 0.059956
11 MDA		\$ (0.001235)	\$ (0.001235)	\$ (0.001235)
12				
13 Rate Calculations @ Average Consumption	1,358,44456			
14				
15 Facilities Charge		\$ 7.91	\$ 12.00	\$ 9.91
16 Energy Charge		\$ 77.12	\$ 79.36	\$ 81.45
17 MDA		\$ (1.68)	\$ (1.68)	\$ (1.68)
18 Total		\$ 83.35	\$ 89.68	\$ 89.68
19 Correction Factor From Consumption Analysis		x (0.0004557)	(0.0004557)	(0.0004557)
20 Correction Factor Adjustment		(0.04)	(0.04)	(0.04)
21				
22 Adjusted Average Monthly Bill		\$ 83.31	\$ 89.64	\$ 89.64



**KENERGY CORP.**  
**Case No. 2006-00369**  
**RESIDENTIAL**  
**CONSUMPTION ANALYSIS**

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
		Present	Present	Normalized	Normalized	Normalized	Settlement Rates	Settlement
		(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Number of Bills							
2	Less YDL Only							
3	Customer Charge	\$7.91	\$ -	530,460	\$7.91	\$ -		\$ -
4	Three Phase Farm	\$7.91	\$ 4,253,579	0	\$7.91	\$ 4,195,939	\$9.91	\$ 5,256,859
5	Customer Charge	x	\$ 4,253,579	530,460	x	\$ 4,195,939		\$ 5,256,859
6								
7								
8	KWH Charge		19,580,270					
9	KWH Charge	x	3,217,842					
10	KWH Charge	x	17,809,715					
11	KWH Charge	x	(1)	720,600,499	x	\$ 40,907,770	\$ 0.059956	= 43,204,324
12								
13			\$ 40,607,828			\$ 45,103,708		\$ 48,461,182
14								
15	Wholesale Discount Adjustment:							
16			\$ (611,940)			\$ (889,792)	\$ (0.001235)	= \$ (889,792)
17		x	\$ (0.000850)	720,600,499	x	\$ (0.001235)		
18								
19	Times Correction Factor		\$ 44,249,467			\$ 44,213,917		\$ 47,571,390
20			(0.00045565)			(0.00045565)		(0.00045565)
21			(20,162)			(20,146)		(21,676)
22								
23	Per Books		\$ 44,229,305			\$ 44,193,771		\$ 47,549,715
24							As filed	\$ 47,549,372
25							Delta	\$ 343
26								
27								





Henderson, Kentucky

FOR ALL TERRITORY SERVED

Community, Town or City

PSC NO. 1

Third Revised SHEET NO. 1

CANCELLING PSC NO.

Second Revised SHEET NO. 1

CLASSIFICATION OF SERVICE
Schedule 1 - Residential Service (Single Phase & Three-Phase)

APPLICABLE

To entire territory served.

AVAILABLE

To all residential (single and three-phase) service.

TYPE OF SERVICE - Single or three-phase with secondary voltages available in the vicinity or agreed to by Kenergy.

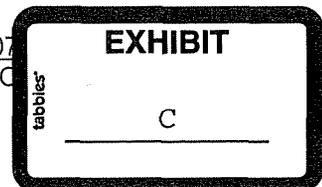
MONTHLY RATE

- (I) Residential Customer Charge per delivery point... \$9.91
(I) Energy Charge per KWH ... .059956

TAXES AND FEES

School Taxes added if applicable.
Kentucky Sales Taxes to be added to bill if applicable.

DATE OF ISSUE DATE EFFECTIVE March 1, 2007
ISSUED BY Signature of officer TITLE - President and CEO
ISSUED BY AUTHORITY OF PSC ORDER 2006-00369



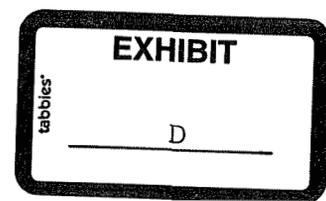
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**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:** )  
)  
**THE APPLICATION OF KENERGY CORP.) CASE No. 2006-00369**  
**FOR AN ADJUSTMENT IN EXISTING )**  
**RATES )**

**TESTIMONY OF MARK A. BAILEY**  
**IN SUPPORT OF SETTLEMENT**

- Q1. Please state your name, business address and position with Kenergy.
- A. Mark A. Bailey, 6402 Old Corydon Road, Henderson, Kentucky 42420. I am President and CEO of Kenergy.
- Q2. Was your direct testimony filed in support of Kenergy's application in this case?
- A. Yes.
- Q3. In that testimony did you support Kenergy's proposed rates and give your opinion that such rates were fair, just, reasonable and nondiscriminatory?
- A. Yes.
- Q4. Has Kenergy entered into a settlement with the Attorney General and Kentucky Industrial Utilities Customers, Inc. in this case?
- A. Yes.
- Q5. What are the terms of the settlement?
- A. The Attorney General is requiring that in Schedule 1 Kenergy's proposed customer charge be reduced but is agreeing that the energy charge for Schedule 1 customers may be increased so that the revenue to be realized from the Schedule 1 customers will be the same as proposed in the



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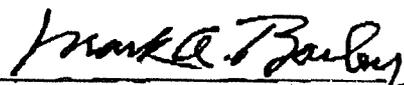
application. Other than these changes, the adjustments being sought by Kenergy in its application remain the same.

Q6. With these changes to Schedule 1 do you believe that Kenergy still will have rates that are fair, just, reasonable and nondiscriminatory?

A. Yes, I do. The reason Kenergy requested a \$12.00 customer charge for Schedule 1 customers is that the cost of service study showed that the actual cost for this item was in the \$18.00 to \$20.00 range, and the proposed increase was a step in getting the customer charge more in line with actual cost. The agreed upon increase from \$7.91 to \$9.91 is just a smaller step, but since the Schedule 1 customers as a class will continue to pay the same amount of revenues to Kenergy, I continue to believe that Kenergy will have rates that are fair, just, reasonable and nondiscriminatory.

Q7. Does this conclude your testimony at this time?

A. Yes.

  
\_\_\_\_\_  
Mark A. Bailey