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May 10, 2005

Mr. Dennis L. Cannon
Vice President, Member and Public Relations
Kentucky Association of Electric Cooperatives, Inc.
4515 Bishop Lane
Louisville, Kentucky 40218-4507

Dear Mr. Cannon:

Thank you for your recent correspondence regarding the interest by some regulated electric cooperatives to solicit their members/ratepayers for political contributions to the Action Committee for Rural Electrification ("ACRE"), a political action committee that is affiliated with the National Rural Electric Cooperative Association. The contributions are to be strictly on a voluntary basis, and only residential customers will be eligible to contribute. Once a residential customer elects to make a voluntary contribution, the amount of the contribution will appear as a line item on that customer's bill, although the subsequent non-payment of this contribution will neither result in the assessment of late-payment fees or penalties, nor be the basis for terminating service for non-payment.

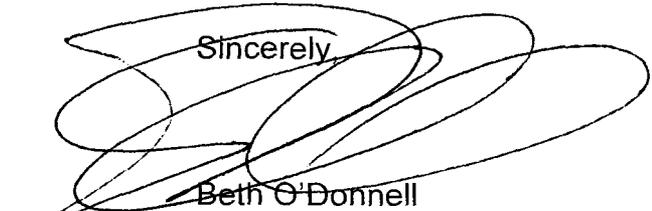
As you know, the Commission is empowered to regulate utilities and enforce the provisions of KRS Chapter 278. Pursuant to KRS 278.040(2), the Commission has exclusive jurisdiction over the regulation of rates and service of utilities. Although the statutory definitions of "rates" and "service" are quite broad, they do not encompass the voluntary solicitation of political contributions. Under these definitions, the solicitation and collection of political contributions is beyond the scope of the Commission's jurisdiction.

Any regulated cooperative that chooses to engage in the unregulated activity of soliciting its members/ratepayers for political contributions must do so in accordance with the provisions of KRS 278.2201 through 278.2205. In summary, these statutory provisions prohibit a regulated utility from subsidizing a nonregulated activity, and require the keeping of separate accounts and proper cost allocations for the unregulated activity. Thus, all costs incurred by a utility in connection with the solicitation and collection of political contributions must be identified and reported in the

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proper accounts. Further, pursuant to the agreed-upon Non-Regulated Business Guidelines For Cooperatives dated September 1, 2004, all costs associated with this nonregulated activity must be identified and reported annually in conjunction with the filing of the utility's annual financial report.

If you have any further questions regarding this matter, please contact Richard G. Raff, Staff Attorney, at Extension 260.

Sincerely,

Beth O'Donnell
Executive Director

RGR:v