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## NEWS RELEASE

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### **PSC ISSUES REVIEW OF CUMBERLAND VALLEY ELECTRIC** *Management audit finds utility is performing well*

FRANKFORT, Ky. (May 9, 2007) – The Kentucky Public Service Commission (PSC) today released the findings of an audit focusing on the management and operations of Cumberland Valley Electric (CVE), a rural electric cooperative in southeast Kentucky.

The independent audit found that CVE “does an excellent job of providing reliable service at a reasonable cost,” given the difficulties inherent to providing electricity in a very rural and mountainous area.

Headquartered in Gray in Knox County, CVE has about 23,000 customers, of whom about 21,750 are residential customers. It serves customers in Bell, Harlan, Knox, Laurel, Leslie, Letcher, McCreary and Whitley counties in Kentucky, and has fewer than 100 customers in Claibourne County in Tennessee.

CVE is one of 16 distribution cooperatives that jointly own and purchase power from East Kentucky Power Cooperative.

The audit stems from a rate adjustment sought by CVE in 2005, its first since 1980. During the course of that proceeding (PSC case number 2005-00187), the Kentucky Office of Attorney General asked for an audit of CVE’s management and operations. The audit was initiated after the PSC completed its review of the rate request and granted CVE a rate increase.

The audit was performed by Vantage Consulting Inc., an independent consulting firm. State law allows the PSC to hire an independent auditor at the company’s expense.

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Key findings of the audit include:

- CVE is headed by an experienced, effective, capable and committed management team that adheres to a strict work ethic.
- Succession planning should be undertaken to ensure that experienced senior managers will be replaced with competent employees who can continue the success of the cooperative.
- CVE’s organization is flexible and appropriate for the size of the company. Its staffing level of 52 employees reflects a desire to control costs while providing adequate service.
- CVE generally falls in the top third for most statistical measures in comparison to the other 23 electric distribution cooperatives in Kentucky.
- CVE has implemented a number of technological improvements, including automated meter reading and electronic mapping of all equipment and facilities.
- CVE has specific plans in place to upgrade three of its substations, further reducing system electric losses. It also continues to address system issues that arise due to the electric load at coal mines in the region.
- The procurement process at CVE is well designed with appropriate procedures and controls in place. After extensive analysis of recent major purchases, the consultants could find no reason for concern.
- Concerns about the internal audit functions at CVE were addressed and resolved before the PSC audit was complete.
- The employees at CVE are competent, committed and flexible. They understand the need to work in a safe manner, yet ensure quick responses to outages. The typical practice of hiring the best contract employees after they have experience provides a base of proven and tested employees.
- Most training, except for safety training, is provided through on-the-job experience. There is some concern that there needs to be a more formalized program and assurance that each employee is fully capable.

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The final audit report contains four recommendations for CVE:

- Develop a succession plan that addresses the potential retirement of the general manager.
- Institute a formal program for training all new members of the board of directors.
- CVE should investigate the possibility of establishing a joint internal audit function through a utility cooperative association, or a joint agreement with other utilities.
- Perform an assessment of training needs, identify deficiencies for individual employees and address any needs.

The final audit report is available on the PSC Web site, [psc.ky.gov](http://psc.ky.gov).

The PSC is an independent agency attached for administrative purposes to the Department of Public Protection in the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the commonwealth of Kentucky and has approximately 110 employees.