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NEWS RELEASE

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PSC Issues Management Audit of Shelby Energy *Finds that electric cooperative has improved safety procedures*

FRANKFORT, Ky. (August 28, 2009) – A management audit conducted by the Kentucky Public Service Commission (PSC) has found that Shelby Energy Cooperative has improved worker safety since a string of four fatal accidents from 1998 to 2007.

The PSC initiated the audit in October 2008, following the settlement of charges of safety violations stemming from the most recent of those fatalities. In addition to safety issues, the audit also addressed Shelby Energy's failure to properly pass through to its customers the full cost of the power it purchases from the East Kentucky Power Cooperative (EKPC).

Conducted by an independent firm selected by the PSC, the audit found that Shelby Energy has made significant progress since mid-2008 in improving its safety program for both its employees and its contractors. In addition, the auditors determined that the billing error was a one-time event and that Shelby Energy has taken steps to prevent a recurrence.

Shelby Energy is an electric distribution cooperative headquartered in Shelbyville. It serves about 15,100 customers in Anderson, Carroll, Franklin, Henry, Jefferson, Oldham, Owen, Shelby, Spencer and Trimble counties.

The audit report contains 62 findings and recommendations. They include:

- Shelby Energy's directors and top management are fully committed to the improved safety program.
- Management should inform the board more fully and regularly of its safety-related practices and the board should give regular attention to the ongoing safety practices of Shelby Energy's primary construction contractor.
- While Shelby Energy has made great strides in improving its safety program over the past year, it should make further progress by updating its written policies and procedures, restructuring committees, improving communication and work practices, and enhancing reports and documentation of meetings and training.

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- Shelby Energy's board was sufficiently informed about the issues that arose in late 2007 regarding the failure to include all EKPC rate elements in Shelby Energy's retail rates. The board was also sufficiently informed and appropriately supportive of actions taken by management in 2007-2008 to resolve this error.
- The billing problems connected to the EKPC pass-through were an isolated event. Shelby Energy revised its processes to avoid a recurrence of the problem or similar errors.
- Shelby Energy has developed and periodically updates a comprehensive set of operating policies, but there are some gaps that should be addressed.
- The annual budgeting and budget monitoring processes need to be strengthened and tied more closely to the strategic plan.
- Shelby Energy's organizational structure and communication channels need to be reviewed and strengthened.
- Shelby Energy's meter reading, billing and payment, and customer service areas function appropriately. But written procedures should be enhanced to provide greater detail in these areas, as well as including EKPC rate changes, cash and credit management, and crew dispatching and hazard control.
- Shelby Energy should provide for an ongoing internal audit process.
- Current annual reporting of key performance measures is not adequate for establishing a full range of annual performance targets and for internal performance monitoring.
- Shelby Energy needs to file for a base rate increase in order to strengthen its financial condition.
- Shelby Energy's engineering tasks are appropriately integrated with maintenance and construction tasks and are in line with industry practices.
- Shelby Energy's construction, maintenance and operations functions are satisfactory and consistent with standard industry practices.

Shelby Energy will be required to develop action plans to address the findings of the audit report. Shelby Energy will also be required to inform the PSC of the actions taken in response to the audit findings.

The audit was performed by Auriga Corporation, an independent consulting firm headquartered in Milpitas, Calif. Shelby Energy paid for the audit. State law allows the PSC to hire an independent auditor at company expense.

The final audit report is available on the PSC website, 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 100 employees.