

**Chairman David Armstrong**  
**Kentucky Public Service Commission**  
**Kentucky Association of Electric Cooperatives**  
**Spring Managers Meeting – Lexington**  
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Good morning. On behalf of Vice Chairman Jim Gardner and Senior Commissioner John Clay, I bring you greetings and best wishes from the Kentucky Public Service Commission. I welcome this opportunity to speak with you today. I hope that at the end of the next 30 minutes or so, you will know a bit more about me, about my approach to the job of chairman of the PSC and about my perspective on some of the key issues we will face together in the coming months and years.

When I agreed to take this job some 10 months ago, I felt that, based upon my experience as Kentucky Attorney General and in other posts, I had a pretty good idea of what to expect. I knew that I would be facing some complicated and potentially controversial issues, that many of those issues involve balancing the interests of regulated utilities with those of their customers.

What I could not possibly have known was that – in my first eight months in this job – Kentucky would suffer the two worst power outages in its history. Or that the PSC would be called upon to decide, in the Big Rivers unwind, one of the most complicated cases it has ever faced. Or that we would face a steady stream of rates cases that would affect the majority of Kentucky residents. That's all just on the electric side.

We also have dealt with the sharpest surge in natural gas prices in history – followed now by the steepest decline. We have had to try to help an eastern Kentucky county that ran out of water and to contend with the ongoing controversy over the construction of a new water supply for Lexington.

And all of that while completing or initiating work on a number of administrative cases and other proceedings dealing with energy policy – an issue of overriding importance to our commonwealth.

Although this was a good bit more than anyone might have expected - or prepared for - I have been very fortunate to have two extremely able colleagues on the Commission

and the guidance and assistance of one of the best, if not THE best, group of employees in state government.

So it has been very much a learning experience thus far. It also has reminded me of the imperative to bring both cooperation and innovation to any task that involves regulation. That is an approach I have used at every stage of my career as a public official. Allow me to share with you a few brief examples.

When I was the last mayor of the pre-merger city of Louisville, and in the 10 years I served as Jefferson County judge-executive prior to that, one of the constant challenges my community faced was bringing life back to the downtown area. If you have visited Louisville recently, you've witnessed the success of those efforts. How did we do it? By creating partnerships – between city and county government, between government at all levels and the business sector, and between government, business and community-based organizations. We leveraged government funds to create private investment and we certainly were not afraid of new ideas.

One of the best of those new ideas opened seven years ago this month. For many years, the city had lived with ongoing conflicts between property owners and skateboarders and other extreme sports enthusiasts. Property owners didn't want the liability, occasional damage and ongoing hassle of dealing with what many people saw as a disreputable subculture. The extreme sports crowd complained they had no place to practice their skills. When I became mayor, I knew that that this problem – like so many others – was really an opportunity.

So we found \$4.5 million in public and private money and built the Louisville Extreme Park, which is now considered one of the very best such facilities anywhere in the world. Indeed, people come from all over the world to use it. It has helped revitalize the nearby neighborhood and meshed perfectly with our efforts to make downtown a desirable place for a new generation to live, work and play. And I now count Tony Hawk among my friends – a useful association when you need to impress people of a certain age.

In the same cooperative and innovative ways, we transformed the underused and outdated Louisville Galleria into Fourth Street Live, worked with the state to expand the Louisville International Convention Center and helped bring new life to the Louisville waterfront and to the West Main museum area and the East Market arts corridor.

And, in one of my last tasks as mayor, we finally accomplished perhaps the greatest innovation of all by bringing about the merger of Louisville and Jefferson County into a single metro government. Talk about a task that required cooperation. It took the combined efforts of nearly every current or former mayor or judge-executive and significant business leader in the community to bring that to success.

I know what it takes to bring about cooperation and innovation. As the former attorney general of this commonwealth, I also know the meaning of regulation. In fact, it was

during my tenure that the office of attorney general instituted a division of rate intervention to represent the interests of consumers before the PSC. Everything in my experience has taught me that, in order to be effective, regulation has to be even-handed, timely, sensible and transparent. And – when necessary – it has to be applied unflinchingly and with certainty.

For example, when I was Jefferson County judge-executive, one of the persistent environmental problems we faced was water pollution from the scores of small wastewater treatment plants built and operated by developers around the county. These plants were often poorly maintained and operated and had turned many of our county's streams into little better than open sewers. When plants proved either unwilling or unable to meet state and federal water quality standards, Jefferson County – using the authority of its health department and sewer district – took over the plants and eventually closed them down and connected their customers to the central sewer system. The results were cleaner streams, a healthier environment and new economic development opportunities.

Let me be clear – that sort of draconian enforcement was – and should remain – a last resort, to be used only when efforts at cooperative resolution have not brought the desired results. But regulatory agencies cannot flinch from their task and remain effective.

Now that you have a better sense of the approach I bring to the job of PSC chairman, let me turn to some of the specific issues before us. I'll begin with the effort that will be at the forefront of our agenda for the next several months – a comprehensive review of utility issues related to Hurricane Ike and the January ice storm. While the two events were in many ways different, the problems that they created were similar enough that it made sense to combine the reviews.

Every jurisdictional electric utility in Kentucky has received a lengthy and detailed data request. I understand that these are requiring time and effort to answer, and we have granted an additional month for completion. We are meeting with some of you to clarify areas of inquiry and I urge you to contact our staff if you have any questions at all about the information that we are asking you to provide.

I want to assure you that we are approaching this evaluation with open minds and no preconceived notions. Some of the more interesting questions we would like to answer include:

- ❖ Did the National Electric Safety Code standards make a difference? The dividing line between tiers for ice and wind loading runs along the Ohio River. We want to know if that's the right place for it.
- ❖ Are the trees used for utility poles today as strong as the ones put in the ground 20 or 30 years ago? We'll be asking industrial foresters for help in finding an answer to that one.
- ❖ Perhaps most importantly, what – if anything – can we say about the possibility that such events will be more common in the future, and what effect does that

have on weighing the costs and benefits of things such as burying lines, building overhead lines to higher standards, getting more aggressive about vegetation management, and other issues.

We're also looking at issues such as disaster planning and response, financial cost recovery, restoration priorities, communications with customers and local governments and public information efforts. While the main focus obviously is on electric utilities, we also have sent detailed data requests to water and telecommunication utilities in the affected areas.

Local elected officials and state legislators have been asked for their observations. We are drawing on our Consumer Services database and will be seeking additional input from utility customers. And we'll be contacting utilities in neighboring states and experts in areas such as meteorology, forestry and engineering. So, as you can see, this is going to be a comprehensive review that will be based on a tremendous amount of information.

I think it's important to note that we also are looking inward to see what the PSC could have done better and what we should do differently in the future. We already have identified problems with our outage reporting system and are working to correct those. Our goal is to make it more accessible and user-friendly. I hope you will share your thoughts on how to accomplish this.

We also want to hear any suggestions you might have on other ways in which we could be more effective in future emergencies – whether it is in helping you identify and obtain needed assistance to restore power, reinforce your efforts to communicate with customers or provide other support.

These two major disasters have, I hope, reinforced for all of us the importance of building cooperative relationships. The advent of an emergency is not the time to be establishing lines of communication and building trust. Those have to be in place already if we are to respond quickly and efficiently.

My impression during Hurricane Ike and the ice storm is that the basic framework for collaboration is in place. But I also saw room for improvement in how well the PSC works with electric cooperatives during such events.

My hope is that the recommendations that emerge from our review – whether they are directed to utilities, to other state agencies, to lawmakers or to the PSC itself – move us all toward responding even more effectively to meet the needs of the citizens of this Commonwealth in times when next we are confronted with a major emergency. That is why I urge you to be engaged in this process and respond with candor and, if need be, with brutal honesty.

Now, I'm going to turn to another subject about which we cannot afford to mince words. When it comes to climate change, there has been a dramatic shift in the political

climate. It now appears that some meaningful constraints on carbon emissions are inevitable. What remains to be determined is first whether they come through federal legislation or by regulation from the Environmental Protection Agency, which took the first step in that direction earlier this month; and second, whether the regulatory mechanism is a cap-and-trade system or a straightforward carbon tax. It certainly is clear that the Obama administration is determined to move quickly and to set itself in contrast to the eight years of disinterest on the part of the previous administration.

We all recognize that no state will be more affected than Kentucky. Our dependence on coal has brought us decades of inexpensive and reliable electricity. The additional costs imposed by carbon constraints will be felt most heavily in states such as Kentucky. That will be true whether we attempt to adapt to those constraints by reducing carbon emissions from coal combustion or by shifting to other forms of power generation. If we choose the latter path, we will be further burdened by a scarcity of readily-available alternatives: Kentucky has limited potential to shift to solar and wind power and our statutes forbid consideration of nuclear energy.

Governor Beshear wisely began planning for the coming carbon constraints shortly after he took office – well before the change of administration in Washington. The energy strategy he announced last year is based on a broad approach that utilizes all available tools. In the long term, that may mean an eventual shift away from coal to nuclear power. In the medium term, it will mean developing and utilizing technologies that will reduce the amount of carbon emissions from coal, by shifting from combustion to gasification and by capturing and storing carbon dioxide. Finally, in the immediate future, the strategy relies on simply using less electricity.

All of those approaches will require both innovation and cooperation, none more than stepping up our efforts in energy efficiency and conservation. It will be an intense focus of the PSC in the next several years, because we believe that managing electric demand is the only way Kentucky will be able to meet the demand that we limit carbon emissions.

Utilities in Kentucky have put down a good foundation for expanded energy conservation and efficiency, none moreso that the electric cooperatives. You have put into place a large number and variety of demand-side management programs. You have had proven success with energy audits, incentives for energy efficient construction or climate-control systems, weatherization, load control devices and other efforts.

Our task now is to build on that foundation. Innovative technology will offer us some great opportunities. I am particularly excited about the potential of “Smart Grid” to help both consumers and utilities to use energy more efficiently and manage it more effectively. We already have several pilot projects underway in Kentucky to test concepts such as demand-based pricing and real-time pricing information.

Last fall, I was at General Electric’s Appliance Park in Louisville for a demonstration of some of the cutting edge technology they are preparing to use in everyday kitchen

appliances. For a relatively modest additional cost, these appliances can be equipped to communicate directly with the grid and to tailor their operation to pricing or other signals. For example, a refrigerator-freezer can be programmed to delay its energy-intensive self-defrost cycle until the cost of electricity falls to a sufficiently low level, perhaps in the very early morning. Variations on this approach could be used with water heaters, dishwashers, even chargers for plug-in hybrid vehicles. The potential is enormous.

Realizing the potential of these and other new technologies will require all of us to accept changes in the approaches that both utilities and regulatory agencies have grown comfortable with over the years. We will need to embrace innovation in all aspects of utility operations in order to reposition Kentucky's electric power suppliers for success in the coming decades. It will take a tremendous level of cooperation and collaboration from all involved to get us to where we will need to be. I am looking forward to joining with you in that effort.

Finally, let me touch briefly on some other matters that I know are of interest to you.

As with every other state agency, the PSC has not escaped the effects of the economy and the resulting state budget situation. Our staff is stretched thin and working as hard as it ever has. We faced an additional challenge in having to replace a number of very experienced and expert employees who have left us through retirement. To those of you who have coaxed former PSC staff back into the working world, you are lucky to have them.

We've been fortunate in being able to fill a good many of the vacancies created by retirement and have even coaxed a few experienced and well-versed former PSC employees back into our fold. So, while the faces have changed, I trust that the level of service that we provide is undiminished.

We're making efforts to enhance that service in several key areas. First, you'll be pleased to know that the meter lab is on the way back. I can't tell you precisely when that will happen, but I can tell you are fully committed to seeing that it does. We're almost there on the water and gas side and, subject to funding, are hoping to have the electric lab back in operation in the next fiscal year. So be patient for a little while longer – it will happen.

Change that you will see much sooner is in our PSC Web site. In the last few months, we have been able to fill some vacancies in our Information Technology department with folks who are very good at Web design. They have devoted a great deal of time redesigning the PSC Web site to make it easier to use. It will still have all of the information that you use regularly, but in a new format that makes it easier to find. There will be fewer layers through which to search, and the latest orders, filings and other matters of note will be right there on the home page.

We are looking at this redesign as a work in progress, so I hope that, as you become familiar with it, you will offer your suggestions for further improvements. Consider it my final request today for cooperation in the service of innovation.

I hope that will become the hallmark of my tenure at the PSC and the core of our relationship with you in the coming years. I thank you again for the opportunity to be with you today and I would happy to respond to any questions or comments you might have. Thank you.