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AUG 05 2010

PUBLIC SERVICE
COMMISSION

August 5, 2010

Via Hand-Delivery

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

RE: *Case No. 2010-00204*

Dear Mr. Derouen:

Please find enclosed the original and twelve (12) copies of the Kentucky School Board Association's testimony filed in this matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place the document of file.

Regards,



Matthew Malone

C: File

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

In the matter of: : CASE NO. 2010-00204

JOINT APPLICATION OF PPL CORPORATION :
E.ON AG, E.ON US INVESTMENTS CORP., E.ON :
US. LLC, LOUISVILLE GAS AND ELECTRIC :
COMPANY AND KENTUCKY UTILITIES :
COMPANY FOR APPROVAL OF AN ACQUISITION :
OF OWNERSHIP AND CONTROL OF UTILITIES :

**KENTUCKY SCHOOL BOARDS ASSOCIATION'S CERTIFICATE OF SERVICE
REGARDING TESTIMONY OF CHARLES BUECHEL**

Comes the Kentucky School Boards Association, by counsel, and hereby certifies that an original and twelve (12) copies of the attached testimony was served via hand-delivery upon Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40602-0615; furthermore, it was served by mailing a copy by first class U.S. Mail, postage prepaid, on the following, and by electronic mail where available all on this 5th day of August, 2010.

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KENTUCKY SCHOOL BOARDS ASSOCIATION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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COMPANY FOR APPROVAL OF AN ACQUISITION :
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TESTIMONY OF
CHARLES D. BUECHEL
PRESIDENT
UTILITY and ECONOMIC CONSULTING, INC.

ON BEHALF OF THE
KENTUCKY SCHOOL BOARDS ASSOCIATION

Filed: August 5, 2010

1 **1. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Charles Buechel and my business address is 116 Carrie Ct.,
4 Lexington, KY 40515.

5 **Q. By whom are you employed?**

6 A. I am the President and sole proprietor of Utility and Economic Consulting,
7 Inc. The firm provides consulting services regarding utility regulatory matters.
8 The firm's consulting services are provided to regulatory commissions, utilities
9 and customers. My resume is attached as Exhibit CDB-1.

10 **Q. On whose behalf are you testifying in this case?**

11 A. I am testifying on behalf of the Kentucky School Boards Association
12 (KSBA).

13 **Q. Please describe the KSBA.**

14 A. The KSBA is a nonprofit corporation of school boards from each public
15 school system in the state. The association, founded in 1936, serves school
16 boards and districts in such areas as governmental relations, board member and
17 staff training, insurance and risk management, legal, policy, publications and
18 community relations. It is governed by a 27-member statewide board of
19 directors. With nearly 900 members, KSBA is the largest organization of elected
20 officials in Kentucky.

21 **Q. What is the purpose of your testimony?**

1 A. My testimony concerns the sale of LG&E/E.ON to PPL. KSBA has an
2 interest in the continuity of commitments from LG&E/E.ON to PPL.
3 Specifically, KSBA not only has an interest in continuing to provide member
4 schools with affordable utility rates but the school boards are also mandated by
5 the Kentucky Legislature to seek energy efficiency for their member schools.
6 KRS 160.325 - Mandatory Participation in Kentucky Energy Efficiency Program -
7 requires each board to enroll in the Kentucky Energy Efficiency Program at the
8 University of Louisville to obtain information regarding the potential energy
9 savings for every board-owned and board-operated facility.

10 2. IMPACT OF THE PPL ACQUISITION

11 **Q. Are their specific concerns that KSBA has regarding the PPL**
12 **acquisition?**

13 A. Yes, listed in Exhibit D of the Joint Applicant's Merger Application, PPL
14 listed many "commitments" to the Kentucky Public Service Commission (the
15 "Commission") in this matter. KSBA is concerned regarding the potential
16 ambiguity of some of the "commitments".

17 Of note, paragraph 25 on page 5 of Exhibit D in the "commitments"
18 delineates that, "[p]urchaser, the Company, and KU commit that customers will
19 experience no adverse change in utility service due to changes, if any, related to
20 LG&E Services, Inc. " Likewise, "[p]urchaser commits to maintaining LG&E's
21 and KU's pro-active stance on developing economic opportunities in Kentucky
22 and supporting economic development, and social and charitable activities,

1 throughout LG&E's and KU's service territories." See p. 6, paragraph 40 of
2 Exhibit D.

3 KSBA member schools have spent significant amounts of money in
4 retrofitting existing schools with energy efficient items to decrease demand and,
5 likewise, many KSBA member schools have invested heavily in developing "all
6 electric schools" in order for these schools to reduce their electric consumption
7 along with qualifying for Rate AES (all electric school rate) from KU.

8 With respect to Rate AES, since its inception KU's Rate AES has
9 incentivized and induced KSBA member schools for over a decade to outlay
10 significant capital to create "all electric schools" in support thereof, KSBA
11 attaches a portion of a copy of KU's 1997 annual report as Exhibit "CDB-2"
12 wherein KU partnered with KSBA member schools and successfully competed
13 with several other energy providers to be the power of choice for the most
14 recently built high school in Scott County, Kentucky.

15 While KSBA understands PPL's commitment that, "customers will
16 experience no adverse change in utility services due to changes" see above
17 paragraph 25, p. 5 of Exhibit D, KSBA believes further clarification and
18 confirmation regarding the continuity of Rate AES is necessary as it would be
19 beneficial and "consistent with the public interest."

20 **Q. The Commission's review of the proposed acquisition focuses on**
21 **whether and on what terms approval of the proposal will be "consistent with**

1 **the public interest.” Are there specific areas that could be addressed in the**
2 **acquisition that would advance the public interest?**

3 A. Yes. As discussed, confirmation and clarification in this merger from PPL
4 regarding its continuity of Rate AES, given the KSBA member schools’ previous
5 capital outlays, in KU territories would provide member school boards the
6 ability to more accurately predict energy budgets (which costs are a very large
7 percentage of school budgets); and continuity of Rate AES, consistent with PPL
8 “commitments”, will allow for member schools to allocate savings created by
9 Rate AES going forward for use to better educate and provide for Kentucky
10 youth. Related to this Rate AES continuity matter, KSBA believes PPL should
11 confirm its commitment to the partial settlement agreement articulated in recent
12 KU rate adjustment matter (Case No. 2009-00548) which would allow qualifying
13 schools to switch to Rate AES.

14 Another area of concern is billing information. Pursuant to and consistent
15 with KRS 160.325, KSBA member schools have “energy managers” assisting in
16 effective energy use decisions. In order to facilitate the “energy managers”
17 decisions, KSBA submits that LG&E/E.ON should provide real-time electronic
18 access to monthly individual accounts in a format which can be organized and
19 readily used. Currently, no E.ON territory schools are receiving real time
20 electronic data in a format which can be tracked or manipulated. Energy
21 managers need the ability to determine potential unbudgeted energy cost

1 problems in real time to avoid unnecessary unknown costs to respective school
2 board budgets.

3 Another concern is bill disputes. Currently KSBA and E.ON are working
4 through some issues regarding Rate AES and some matters have already been
5 discussed and agreed upon with respect to Scott County Schools. With respect to
6 a couple of schools in Scott County, credits were to be applied to their monthly
7 KU bill. While KSBA understands that sometimes situations arise which create
8 difficulty in resolving issues, these credit matters have lingered for many months
9 with no complete resolution yet. Going forward and consistent with
10 PPL/E.ON's general commitment for high quality utility service, KSBA believes
11 that resolutions of customer service issues should be done with a reasonable time
12 frame (e.g. 30 to 45 days). The time period of resolution of customer service
13 issues should be equally applicable to potential refund/credit situations
14 pursuant to 807 KAR 5:006 § 10 wherein KSBA "all electric" schools should have
15 been placed on Rate AES upon their initial migration to a tariff.

16 Along these same lines, KSBA member schools have very different
17 experiences with customer service representatives from E.ON throughout the
18 entirety of E.ON's territory. Going forward and consistent with PPL/E.ON's
19 general commitment for high quality utility service, and to avoid more costly
20 tariffs for KSBA member schools where possible, KSBA believes that a consistent
21 and more focused school-customer service representation should be provided by
22 PPL/E.ON to work with KSBA member schools to assist the schools in

1 determining appropriate tariffs and resolving other customer service issues. This
2 increased focus and partnering could also assist the schools in resolving bill
3 disputes and assist the schools to facilitate appropriate due dates of utility bills,
4 to avoid or waive late fees, taking into account the intricacies of expense
5 authorization dates by respective schools and together identify and implement
6 potential energy saving programs.

7 Lastly, PPL should partner with KSBA member schools based upon the
8 previous commitments of E.ON (see e.g. Exhibit CDB-2) and take the many
9 positive actions of E.ON with regard to KSBA member schools a step further to
10 create a fund, from shareholder funds, to be utilized by KSBA member schools
11 to upgrade any existing outdated energy systems with higher efficiency
12 equipment. Further, PPL should follow the previous commitments of E.ON to
13 work with KSBA in regards to DSM collaboratives.

14 **Q. Do you have any recommendations concerning Rate AES that should be**
15 **considered in determining whether this acquisition is in the public interest?**

16 A. Yes. KSBA believes that the acquisition request provides an appropriate
17 venue in which to assure that there is no diminished commitment on the part of
18 PPL/E.ON to continue Rate AES for KSBA member schools. Additionally, while
19 KSBA understands PPL/E.ON's need to request rate increases occasionally,
20 KSBA believes it is in the public interest and consistent with PPL's commitments
21 that during future rate adjustment matters that any increased percentage
22 allocations sought with respect to Rate AES be consistent with the majority of

1 other tariff changes (e.g. in case number 2009-00548 KU initially sought to
2 allocate the highest percentage of its requested rate increase to Rate AES).

3 Moreover, pursuant to recent rate structure changes, it has come to the
4 attention of KSBA member schools that the elimination of Rate GS-primary has
5 the unintended consequence of causing the cost of using schools' ball field or
6 stadium lights to skyrocket - wherein these school ball fields have migrated to
7 other rates. It is consistent with the public interest and KSBA member schools
8 for KU and LG&E to work together to attempt to satisfactorily resolve this
9 problem. Possible solutions may include delaying initiation of new minimum
10 provisions in Rate Schedules PS, TODS and TODP until August 1, 2011, to
11 facilitate analysis of the impact of this change on the schools. Another alternative
12 is to allow these ball fields and stadiums to migrate to Rate AES without having
13 their savings being counted toward the cap of \$500,000 established in the partial
14 settlement agreement articulated in recent KU rate adjustment matter (Case No.
15 2009-00548).

16 As discussed herein, energy costs are a tremendous portion of KSBA
17 member school board budgets and KSBA member schools have spent significant
18 capital to partner with KU in regards to Rate AES. Rate AES provides many
19 school boards significant financial benefit in reduced energy costs thus providing
20 savings for member schools and lessening budget constraints on financially
21 strapped schools.

22 **Q. Does this conclude your testimony?**

1 A. Yes it does.

COMMONWEALTH OF KENTUCKY

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AFFIDAVIT OF CHARLES BUECHEL

Comes the undersigned, Charles D. Buechel, being duly sworn, deposes and states that he is President of Utility and Economic Consulting, Inc., that he has personal knowledge of the matters set forth in the foregoing testimony and exhibits, said testimony was prepared by him and under his direction and supervision, if inquiries were made as to the facts in said testimony he would respond as therein set forth and the answers contained therein are true and correct to the best of his knowledge.

Charles D Buechel
Charles D. Buechel

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF FAYETTE)

Subscribed and sworn to me this 5th day of August, 2010, by Charles Buechel.

[Signature]
Notary Public # 419963

My Commission Expires: 8/14, 2014

EXHIBIT CDB-1

Chuck Buechel
116 Carrie Ct.
Lexington, KY 40515
859-523-3908 (O)
859-361-0088 (C)

AREAS OF SPECIALIZATION

Mr. Buechel has worked on numerous consulting assignments for electric, gas, water, and telephone utilities. The primary focus of many of these assignments has been regulatory matters, however, he has consulted on other matters, including corporate and strategic planning, incentive regulation, least-cost planning, workforce management, and competitive bidding.

Prior to consulting, Mr. Buechel spent over nine years on the Staff of the Kentucky Public Service Commission. During his tenure at the Commission, he was public utility economist, Director of Research Division, and Deputy Executive Director. His assignments at the Commission included: the preparation of an integrated resource planning regulation; coordinating a statewide load management committee to investigate time-of-day rates and other load management issues; directing staff in rate cases and special investigations; writing orders as directed by the Commission; establishing a management audit program; and testifying in selected cases.

SELECTED CONSULTING EXPERIENCE

Lower Colorado River Authority – Senior consultant for an audit of LCRA’s cost allocation methods for assigning costs to various divisions.

Connecticut Department of Public Utility Control – Senior Consultant for a management audit of United Illuminating Company. Reviewed primary planning documents and processes for the development of the documents.

Big Rivers Electric Corporation – Regulatory advisor for the presentation of Big Rivers’ Unwind proposal to Kentucky Public Service Commission.

Kentucky Public Service Commission – Witness before the Federal Energy Regulatory Commission regarding AEP’s membership in PJM and the KPSC’s role in approving the membership.

Consolidated Edison Company – Senior Consultant on an audit of emergency restoration and outage planning capabilities for the New York PSC. Audit followed a number of large and highly public outages. Major recommendations were made to develop new strategies and programs for addressing reliability and outage response.

Maryland Public Service Commission – Monitored all RFP solicitations for 2007 and 2008 bid years. This amounted to nine solicitations for all four utilities in Maryland. Provided

Resume of Mr. Chuck Buechel

oversight on bid day, reviewed applications, provided confidential analysis and briefings to the Commissioners on results.

North American Stainless – Witness for NAS in Kentucky Utilities Company Case No. 2003-00434 regarding KU's proposed Non-Conforming Load Tariff.

Pacific Gas & Electric Co. – Senior Consultant for affiliated audit for 2001 and 2002 calendar years to verify compliance with California PUC restructuring requirements. Assignment included assessment of company plan and audit of affiliate transactions. Acted as the Lead Consultant on areas that addressed Nondiscrimination Standards, Disclosure and Information Standards, and Competitive Services. Recommendations from these reports addressed means of improving compliance.

Public Service Electric & Gas Company – Retained by the New Jersey Board of Public Utilities to assess compliance with all Affiliate Compliance and Code of Conduct Rules enacted as a result of restructuring.

Delaware Public Service Commission – Monitored all RFP solicitations for 2006 bid year. Provided oversight on bid day, reviewed applications, provided confidential analysis and briefings to the Commissioners and testified on results.

Seattle City Light – Retained by the City Council to perform an audit of the municipally-owned Seattle City Light electric utility. Assigned issue was governance of the municipal utility. The audit yielded recommendations for training the council members to better understand the issues and to add additional resources for oversight of the utility.

Federal Energy Regulatory Commission – Senior Consultant for an operational audit of the California Independent System Operator. The audit was performed for FERC. Assigned issues of primary focus were market design, the relationships among the parties and governance of the ISO.

Arizona Corporation Commission – Senior Consultant to provide advice and assistance to the Commission regarding the on-going implementation of its industry restructuring initiative.

Louisville Electric & Gas and Kentucky Utilities – Actively participated in the development of a comprehensive performance-based regulation mechanism and provided support for development of tariff, preparation of testimony, and witness preparation and worked with attorneys to prepare briefs.

Public Service Electric & Gas – Senior Consultant in the evaluation of cost of service studies and unbundling plan for the Restructuring Plan submitted to the New Jersey Board of Public Utilities.

Entergy – Consultant in this financial audit of affiliated transactions between Entergy Corporation, Entergy Services, Inc., and subsidiaries responsible for the review of affiliated

Resume of Mr. Chuck Buechel

transactions, allocation, accounting procedures and control, improper disclosure, and insulation and segregation of regulated and non-regulated affiliates.

California Public Utilities Commission - Regulatory Lead Consultant for an assignment to assist with the evaluation of a two-year experiment to implement performance-based ratemaking for San Diego Electric and Gas Company's gas procurement and generation and dispatch functions.

San Diego Gas & Electric Company - Consultant responsible for this mid-term evaluation of the Company's Base Rates Performance-Based Ratemaking mechanism which included analysis and assessment in the areas of price and corporate performance.

Big Rivers Electric Corporation - Provided support and assisted with the preparation of the Company's regulatory filings before the Kentucky PSC for approval to implement a proposed lease of its generating assets to a subsidiary of LG&E Energy.

Delta Natural Gas - Assisted with the preparation of an application to increase rates and modify rate design. Testified on rate design changes for larger commercial and industrial customers as well as other specific charges.

East Kentucky Power Cooperative, Inc. - Senior Consultant for a project to audit the fuel procurement function at East Kentucky Power Cooperative. The assignment is being performed for the Fuel and Environmental Committee of the Board of Directors.

Louisville Gas and Electric Company/Kentucky Utilities Company - Provided strategic, regulatory and operational advice regarding merger between these two utilities. Assisted with preparation of merger application and provided regulatory strategy regarding synergy savings.

Kentucky Public Service Commission - Engagement Director for a project to prepare a joint response for a consortium of four utilities in Kentucky. The response is to the Kentucky Public Service Commission Administrative Case No. 341, An Investigation into the Feasibility of Implementing Demand-Side Management Cost Recovery and Incentive Mechanisms. The response discusses the advantages and disadvantages of various regulatory incentives with regard to DSM and conservation.

Louisville Gas and Electric Company - Lead Consultant in the preparation of its application to establish a holding company. The application included proposed guidelines to be used in financial dealings between the subsidiary companies, as well as the allocation of costs between the companies.

New England Telephone Company - Consultant for the management audit of its affiliated interests. The audit was performed for the Department of Public Utilities of Massachusetts. Primary responsibilities included providing regulatory advice and consultation to the audit team.

Resume of Mr. Chuck Buechel

Kentucky Utilities Company - Engagement Director for a project to provide advice and consultation with regard to the preparation of an application for a certificate of convenience and necessity to construct additional peaking capacity. The filing was prepared to comply with a comprehensive regulation on integrated resource planning adopted by the Kentucky Public Service Commission. Areas of responsibility included preparing the responses for the sections of the IRP regulation, which were concerned with demand-side management.

Columbia Gas of Ohio, Inc. - Consultant for its management and operations audit. The audit was for the Public Utility Commission of Ohio. Areas of responsibility include requirements forecasting and flexible transportation program.

Pennsylvania Gas & Water Company - Consultant for a comprehensive management audit. The audit is being performed for the Pennsylvania Public Utilities Commission. Areas of responsibility include requirements forecasting, rates and regulatory relations, and financial management and planning.

West Texas Utilities Company - Consultant for a management and operations audit. The audit was performed for the Public Utility Commission of Texas. Areas of responsibility included financial planning, economic analysis, and system planning.

East Kentucky Power Cooperative, Inc. - Engagement Director for the performance of an audit of evaluation of competitive bids it received for providing generating capacity to meet its needs. The purpose of the audit was to provide assurance to EKPC's management that each of the proposals is provided fair and consistent treatment. The audit was needed because the company had also provided a bid.

Big Rivers Electric Corporation - Engagement Director for an assignment to implement a comprehensive planning process. The process is centered on an annual planning cycle, which incorporates the corporate and strategic plans with the divisional plans and budgets.

Kentucky Public Service Commission - Witness testifying on behalf of GTE Products Corporation in Kentucky Public Service Commission Case No. 10498, a request by Columbia Gas of Kentucky, Inc. to raise its rates. The testimony supported the continuation of a flexible rate for the transportation of natural gas to industrial customers with alternative fuel capability.

Henderson County Water District - Lead Consultant for a comprehensive operations review. The study was sponsored by the district's Board of Directors. Areas of responsibilities included operations planning, organization and staffing, system management, and customer service.

Lexington Fayette Urban County Government - Principal Investigator for a report regarding the feasibility of regulating landfill operations at the Kentucky Public Service Commission.

Kentucky-American Water Company - Lead Consultant for a project to review and comment on drafts of testimony and a consultant's report on the need to expand its water treatment capacity. The testimony and report was the subject of a mock hearing.

Resume of Mr. Chuck Buechel

Kentucky Public Service Commission - Witness testifying on behalf of AT&T Communications in Kentucky Public Service Commission Administrative Case No. 323, an investigation into permitting intraLATA toll competition. The testimony related to the validity of a customer survey submitted by AT&T in the proceeding.

East Kentucky Power Cooperative, Inc. - Engagement Director for a project which reviewed its load research program, made conclusions regarding the statistical validity of its previous efforts, and provided recommendations for future studies.

OTHER BUSINESS AND PROFESSIONAL EXPERIENCE

President, Utility and Economic Consulting, Inc., February 1989-Present. The company provides utility, regulatory, management, and economic consulting services. The consulting engagements described above were performed since the formation of UEC.

Deputy Executive Director for the Public Service Commission of Kentucky, 1986-January 1989. Primary responsibilities include the following.

- Managing staff, through their directors, to ensure that cases were processed according to operating procedures and in a timely fashion.
- Working directly with the staff to develop regulatory policy positions for presentation to the Commissioners. One of the key policies developed involved a revised regulatory scheme to promote a more competitive environment for the delivery of natural gas.
- Preparation of a proposed comprehensive planning regulation for the Commission. The regulation, which is applicable to the state's electric utilities, specified filing requirements for the reporting of load forecasts and resource information including demand-side management and supply-side options.

Director, Division of Research, for the Public Service Commission of Kentucky, 1983-1986. Primary responsibilities include the following.

- Managing and providing direction for the economic research staff. The staff provided economic advice to the Commission concerning regulatory issues arising in the electric, telephone, gas, and water industries. This included making case assignments, reviewing the economists' work, preparing budgets, as well as other administrative duties.
- Participating in cases before the Commission. This involved working with other staff personnel, reviewing utility filings, preparing data requests and cross-examination of witnesses, advising the Commission, and preparing orders as instructed by the Commission.

Resume of Mr. Chuck Buechel

- **Load Management Coordinator.** This position required coordinating, leading discussions, and making presentations to two statewide load management committees - a steering and a technical committee. The committees were composed of Commission staff, utility executives, and consumer representatives. The committees met quarterly to discuss and review the implementation of time-of-day rates for large commercial and industrial customers. Various other load management techniques were also reviewed and considered.
- **Project Coordinator, Case No. 8666 - An Investigation Into Alternative Load Forecasting Methods and Planning Considerations for the Efficient Provision of Electric Generation and Transmission Facilities.** In this docket, the Commission hired the services of a consultant to perform the following tasks: review the forecasting methods of the state's electric utilities; provide alternative forecasts; examine the potential benefits of conservation; evaluate alternative construction scenarios assuming the formation of a statewide power pool; and estimate the financial impact of the alternative scenarios. Primary duties were to be the intermediary between the consultants, Commission, the utilities, and other parties; to conduct review sessions on the consultant's work; and to evaluate the draft and final reports produced by the consultant.
- **Project Officer for comprehensive management audits of Kentucky Utilities Company and South Central Bell Telephone Company.** The Commission instituted a management audit program, which involved hiring consultants to review the management practices of all the State's major utility companies. The role of the project officer was to ensure satisfactory and timely performance of the proposed work; to attend selected interviews; and to critically review and evaluate analytical results.

Public Utility Economist for the Public Service Commission of Kentucky, 1979-1983. Primary responsibilities included:

- assisting the Commission in implementing procedures and policies to meet the federal mandates of the Public Utility Regulatory Policies Act (PURPA). This involved performing cost-of-service studies, developing alternative rate design proposals, and testifying on the ratemaking standards in Section 111 of PURPA;
- developing the Commission's regulations pertaining to cogeneration.

Assistant Professor, Department of Economics, for Morehead State University, 1976-1979. Primary teaching responsibilities were investments, introduction to economics, and intermediate macroeconomics. Other teaching responsibilities included managerial economics and computer programming in BASIC. Committee work included membership on the Southern Association Self-Study and the Committee on Student Life.

Resume of Mr. Chuck Buechel

EDUCATION

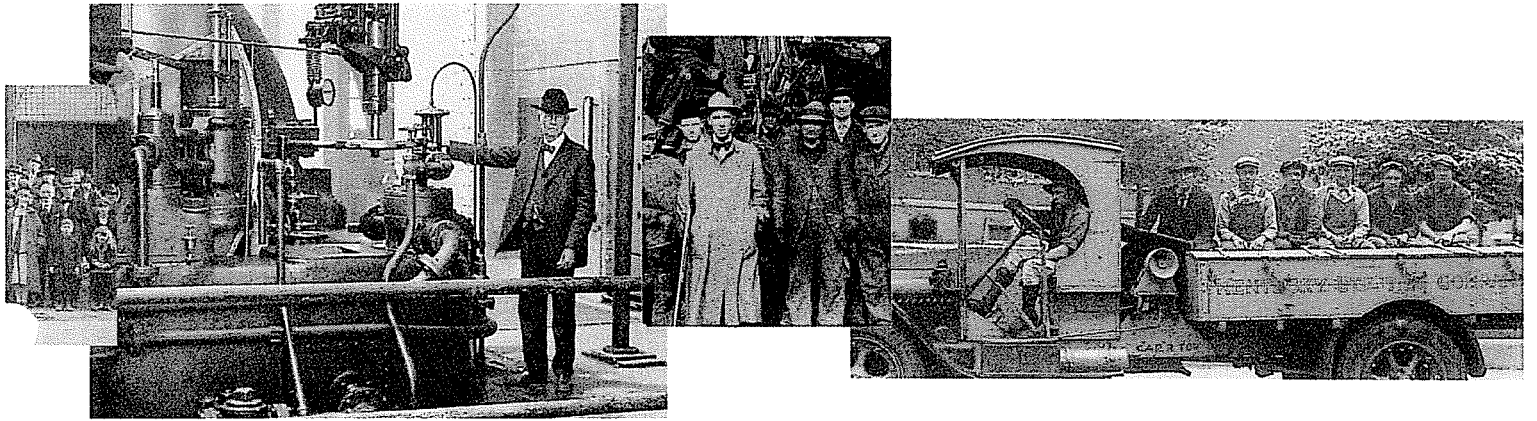
B.S. in Economics with Honors, University of Kentucky.

M.A. in Economics, University of Kentucky.

Ph.D. Candidate, University of Kentucky

EXHIBIT CDB-2

K U E N E R G Y
1997 Annual Report



Traditional Values

85 Years of Excellence

Operations

R E V I E W

WHERE WE HAVE BEEN

KU officially opened for business in December of 1912. By the end of that year, KU had operations in seven Kentucky communities. Today, KU serves over 470,000 customers in 600 communities and adjacent suburban/rural areas in 77 counties in Kentucky and five counties in southwestern Virginia. Our customers receive excellent service at the lowest rates in the region. Not surprisingly, job creation in our service area continues to be strong, and our research shows that customer satisfaction is at an all-time high. In turn, the Company has produced solid earnings and dividend growth. We've consistently paid cash dividends for 59 years with increases in each of the last 17 years.

We have never been better prepared for the changes that come with deregulation of the electric utility industry. As has always been the case, our principle advantage in a competitive marketplace is our

low rates – among the lowest in the country. Year after year, studies have shown that a KU residential customer's monthly bill is nearly 50% below the national average. The National Association of Regulatory Utility Commissioners' most recent study of residential electric costs found KU's cost per kilowatt-hour the fifth least expensive of companies across the country. The four companies with lower costs have significant, highly economical hydro-electric energy resources located in the northwestern United States.

We maintain those low rates by making sure that our production costs are just as low – again, among the lowest in the country. A 1997 study by a major investment banking firm ranked KU's unit production cost as the seventh lowest of over 80 utilities across the nation. What's more, our generating facilities are very reliable. In 1997, average total system availability was 88.6% for our units compared to the industry average of 83.3% for 1992 – 1996. Similarly, our forced outage rate of 1.6% for 1997 was significantly below the industry average.

CUSTOMER SERVICE AND MARKETING The employee teams we put into place in 1996 to re-engineer our customer service and marketing functions have produced excellent results. This year-long team project was based on the premise that employees on the front lines – those who deal with customers daily – can best determine how to most effectively serve and market to customers. Through the combined efforts of employees across



At Scott County High School in Georgetown, KY, the geothermal heating and cooling system we proposed is the school's most innovative "textbook," thanks to a curriculum underwritten by KU that teaches everything from environmental science to physics.



The Matsushita Home Appliance Corporation of America plant in Danville, Kentucky, added approximately 800 new jobs in 1997. The plant produces microwave ovens, vacuum cleaners and computer circuit boards.

the Company, we now have a more efficient customer service and marketing organization that is better positioned for success in a competitive marketplace.

Efforts to secure our position as the energy provider of choice continue to show positive returns. Market share, a key indicator for measuring success, continues its trend upward. Our market share of new residential space heating was 71% at the end of 1997. This topped 1996's 10-year high by more than five percentage points. In Lexington, Kentucky, where competition from natural gas continues to be toughest, market share rose by over 20% following an increase of 10% in 1996.

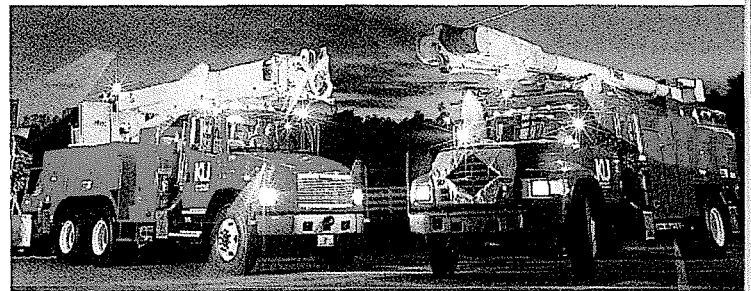
In a noteworthy conclusion to a project first discussed in our 1995 annual report, this past year we presented to the Scott County Kentucky Schools a curriculum underwritten by KU to accompany the school system's most innovative "textbook," the high school building itself. The story began when we competed with several other energy providers to be the power of choice for the soon-to-be-built high school. Although we conclusively showed that electricity was the most economic option, we went one step further and showed how, with minor modifications, the recommended geothermal heating and cooling system could become a teaching tool itself.

With a curriculum developed by a consortium of education professionals, students now learn grade-appropriate lessons about everything from ecology to physics. (They also stay very comfortable in class!) This curriculum will be shared with other schools in our service territory.

Following the positive experience of the Scott County School System, three other schools in our service area have recently chosen to go all-electric, utilizing the environmentally friendly and highly efficient geothermal heating and cooling system.

Market share, a key indicator for measuring success, continues its trend upward.

INDUSTRIAL DEVELOPMENT Our aggressive industrial development programs continue to bring new jobs to our service area. More than 6,000 new manufacturing jobs were announced in our



KU means service 24 hours a day, seven days a week, 365 days a year.