

Comments of

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Hazard Community College
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On Behalf of

Kentucky's twenty-six electric cooperatives
providing electricity to one-third of Kentucky
in all or portions of 117 of our 120 counties

 **Kentucky Association of
Electric Cooperatives**

Our Power is Our People

I. Our History

The establishment of electric cooperatives nationwide actually began when Franklin Roosevelt wondered why electric rates for his cottage in Warm Springs, Georgia were four times higher than those for his home in Hyde Park, New York. The answer was density, whereby rural areas have far fewer customers per mile of line than other electric utilities and are thus financially unattractive to them. This led to his executive order of 1935, followed by congressional action in 1936, establishing the Rural Electrification Administration. REA provided low interest loans to build and operate not-for-profit, consumer-owned electric cooperatives nationwide.

Because of the unavailability of electricity in the 1930s, the quality of life in rural areas was far below that of its urban neighbors. So, electric co-ops were formed in Kentucky in the late 1930s. The objective at that time was to provide low cost, dependable electricity for rural areas. And, they succeeded! In fact, Dr. Thomas Clark, our state's noted Historian Laureate, cited rural electrification as one of the five most significant accomplishments in Kentucky in the twentieth century.

II. Our Mission

Today, our mission has grown beyond providing reliable, affordable electricity to improving the quality of life for our members through a number of significant statewide programs addressing community needs.

III. Structure of Kentucky's Electric Cooperatives

Each of the 24 distribution co-ops providing service to Kentuckians is a separately incorporated, not-for-profit, consumer-owned utility. A typical distribution co-op has 30,000 members although several have more than 50,000. Each has a separate board of directors elected by the membership. The typical board has seven directors. The CEO of each of the co-ops is accountable to the board which is accountable to the membership. Terms for the board are typically three or four years.

In addition to the 24 distribution co-ops, we have two generation and transmission co-ops: East Kentucky Power in Winchester and Big Rivers Electric in Henderson. East Kentucky Power provides wholesale electricity to 16 distribution co-ops. Big Rivers Electric provides wholesale power to three. One of the three Big Rivers co-ops, Kenergy, sells more electricity than any of the 930 distribution co-ops in the entire nation.

TVA supplies wholesale electricity to five co-ops in south central and southwestern Kentucky, including Tri-County Electric, a co-op in Lafayette, Tennessee, which serves more than 24,000 Kentucky members.

IV. Regulatory Oversight

All electric co-ops in Kentucky, with the exception of those receiving their power from TVA, are fully regulated by the Kentucky Public Service Commission and are assessed over \$2 million annually to pay for their regulation by the Commission.

V. Importance of Coal as a Generation Fuel

The vast majority of electricity produced and distributed by Kentucky's co-ops is generated by coal although TVA derives some of its electricity from nuclear and water sources.

VI. Electric Service Territories

Kentucky law provides for service areas for Kentucky's electric utilities. This law was enacted under then Governor Wendell Ford's administration in 1972 and has, in our opinion, served Kentuckians and utilities well.

VII. Rates

It comes as no news to this task force that Kentucky enjoys the lowest electric rates in the nation, and there is no question that has brought huge economic benefit to our state.

VIII. Balancing Low-Cost Electricity With Environmental Responsibility

But, it is a benefit that must be balanced with environmental responsibility. Kentucky's co-ops have invested hundreds of millions of dollars into making the environment cleaner and healthier.

Likewise, they have been good stewards of transmission rights-of-way placed in their trust. Because Kentucky's rural areas are growing, the need for more transmission lines is growing. We know adequate transmission lines are crucial if we are to continue providing reliable, low-cost electricity to our members. We also know we must exercise care in the construction of the lines and in the maintenance of their accompanying rights-of-way. We pledge to do both.

IX. Kentucky's Energy Policy

I know there has been some publicity about Kentucky's lack of a formal energy policy, but I would emphasize that perhaps we've had more of a policy – although unwritten – than many might think. There are reasons why we enjoy low electric rates in Kentucky:

- A. An abundance of coal
- B. The absence of costly nuclear power
- C. Generally good utility management over the years and
- D. The legislative and executive branches of government in Kentucky have crafted an effective regulatory scheme over the past three or four decades.

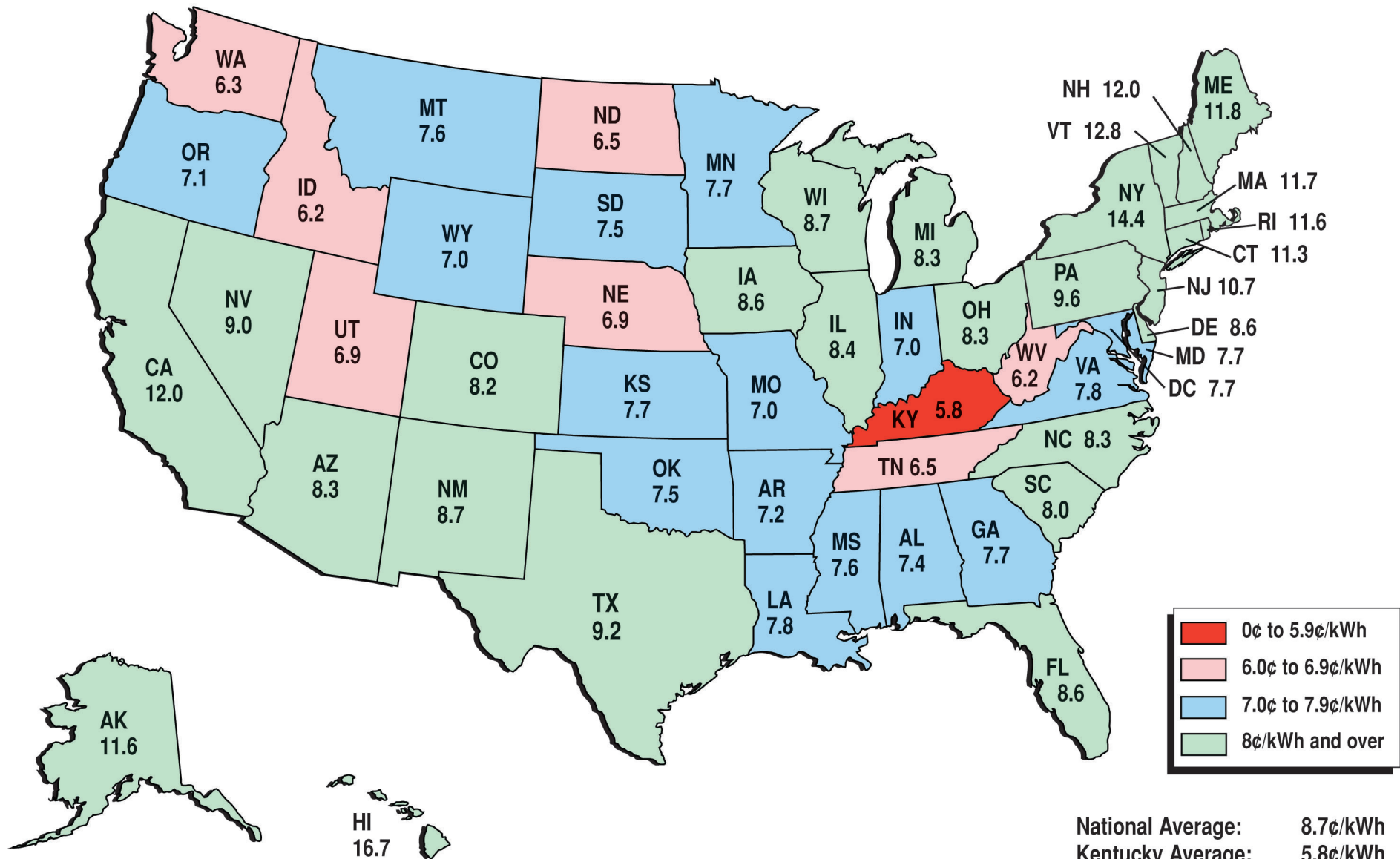
The General Assembly has been more than responsible when it comes to energy issues. It created the Electricity Restructuring Task Force in 1998 on the heels of the problems in California and reauthorized it two years later. It concluded that the electric industry in Kentucky need not be restructured – counter to the practice in a number of states at that time. We believed then, as we believe now, that the motive for restructuring for many was simply more money for stockholders at the expense of ratepayers. The Public Service Commission has done an admirable job in its regulatory oversight role. The entire Kentucky Environmental and Public Protection Cabinet has been effective as both an advocate for and protector of our natural resources.

X. Conclusion

On behalf of Kentucky's electric cooperatives, I commend the Governor for establishing this task force, and I thank its members for their time and commitment to this body. I have full confidence that the product of your work will prove significant to our state in a very favorable way.

Kentucky's Residential Electric Rates Rank Lowest In The Nation*

THE NATIONAL AVERAGE IS 50% HIGHER THAN KENTUCKY'S



National Average: 8.7¢/kWh
 Kentucky Average: 5.8¢/kWh

*2003 Average Revenue per Kilowatthour. Source: U.S. Department of Energy Form EIA-861