

## How we're doing: LG&E Energy

As a provider of essential energy services to customers in Kentucky and Virginia, we at LG&E Energy know what a vital role we play in the welfare of those communities.



"I believe corporate responsibility should be the obligation of every company ... In Kentucky, it's an effort we feel very honoured to lead."

From an interview with Vic Staffieri, Chief Executive, LG&E Energy

[Read the full interview](#)

### Introduction

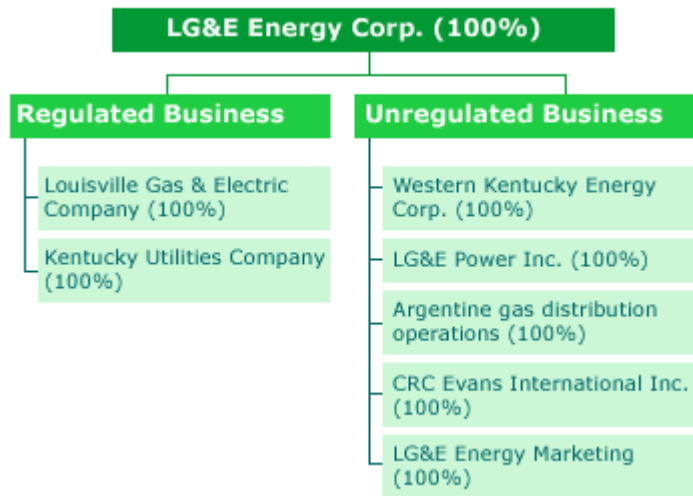
LG&E Energy is an energy services company with businesses spanning power generation, project development, retail gas and electricity supply and energy marketing. We are one of the lowest-cost energy providers in the US, and an industry innovator, operating in domestic and international markets from our North American headquarters in Louisville, Kentucky.

LG&E Energy is the US business of Powergen. LG&E Energy is a diversified energy services company with businesses in power generation and project development, retail gas and electric utility services, as well as asset-based energy marketing. Asset-based energy marketing primarily involves the marketing of power generated by physical assets owned or controlled by LG&E Energy and its affiliates.

LG&E Energy's power generation and retail electricity and gas services are located principally in Kentucky and Virginia.

In 2002, we served more than one million customers, and at the end of the year, we owned or controlled aggregate generating capacity of approximately 10,333 MW, including leased and partially-owned capacity.

We divide our operations into regulated and unregulated businesses. The following chart shows the major subsidiaries of the LG&E Energy Group and the percentage held by LG&E Energy.



In the regulated business, LG&E Energy operates two utility subsidiaries:

- Louisville Gas and Electric Company (LG&E), an electricity and natural gas utility based in Louisville, Kentucky, which serves customers in Louisville and 16 surrounding counties;
- Kentucky Utilities Company (KU), an electricity utility based in Lexington, Kentucky, which serves 77 Kentucky counties and five counties in Virginia.

In the unregulated business, LG&E Energy owns stakes in a number of power plants in the US, three Argentine gas distribution companies and operates four coal-fired electricity generation plants in Western Kentucky, where it operates through Western Kentucky Energy Corp. and affiliates (WKE). LG&E Energy also owns CRC-Evans, a company that leases equipment and services to the oil and gas industry.

Within LG&E Energy, we view our key strengths as:

- Competent, dedicated and flexible employees;
- Nationally ranked low-cost energy provider;
- Excellent customer service and superior reputation with all stakeholders;
- A portfolio of more than 10,000 MW of low-cost, high-performance, strategically-located generation capacity.

## Introduction

### CEO interview

**"I believe corporate responsibility should be the obligation of every company. In Kentucky, it's an effort we feel very honoured to lead."**

Vic Staffieri, Chief Executive, LG&E Energy, talks to Steve Connor, corporate responsibility specialist and director of Creative Concern, an issues-based communications consultancy.

*SC: How does LG&E Energy view corporate responsibility?*

LG&E Energy's corporate values and culture are based on corporate and social responsibility. We see corporate responsibility as a mix of several components, including environmental stewardship, community involvement and outstanding customer service.

*SC: Does LG&E Energy have a specific or unique take on corporate responsibility?*

I don't know that our position is unique, but we do take it very seriously. We define our corporate responsibility as acting with integrity in all that we do, being stewards of the environment, and returning to and reinvesting in our community. We also are proud of our long history of providing the kind of customer service and energy delivery that our customers have come to expect over time. In fact, since 1999, we've been recognized nationally as a leader in customer satisfaction, according to JD Power and Associates.

*SC: It struck me that the roster of values you are looking for in corporate responsibility and sustaining the environment make it seem as if you already have a lot of these ideas imbedded, corporately, without formalising them.*

That is fair to say. I think many of our notions of teamwork and commitment, respect for the individual and corporate citizenship have developed over time. You know, we have been producing electricity and purchasing gas and supplying these products to our customers for 165 years, so, as a result, these are time-honoured principles that have been handed down from generation to generation.

*SC: And clearly in a sector such as yours you have a very large footprint, 1.2 million customers, over 4,000 employees ... Does a company like LG&E Energy, in your sector, have a greater level of responsibility?*

I think it is clear to us that we, as an energy company, have a greater responsibility to environmental stewardship than almost any other industry – certainly in the United States. We are, generally speaking, a coal-fired, fossil-fuelled generator and, as a result, we follow an aggressive environmental compliance program to make our product – electricity – in as environmentally friendly a way as we reasonably can. There is a very broad structure – various statutes and regulations – for our compliance activities in the United States. I think, more importantly, we have always been a leader in terms of environmental compliance, even putting in place environmental technologies before they were required.

We have always recognized our obligation as a steward of the environment. We produce electricity where our customers live, where our employees live and where we raise our families, so we take that obligation very seriously and have for many, many years.

*SC: Does that have a payback in terms of reputation?*

It's a significant factor that defines LG&E Energy's corporate reputation. Yes, we want to be known as a responsible environmental steward; and, yes, we want to be known as someone who partners with the community and the regulators to make certain that we run our business in a way that protects the environment as much as possible.

There are other activities that build our reputation, too. For example, the work of the LG&E Energy Foundation. Every year we invest in our community to make it a better place to live and raise families. We support education, and we do what we can to help those who are less fortunate. We believe it is our duty to play a leadership role that makes LG&E Energy the widely respected corporate citizen that it is. Because we provide electric and/or gas service to two out of three residents in the Commonwealth of Kentucky, we feel obligated to give something back to the communities we serve.

Another thing that is very important to us is the way in which we provide service. We have some of the lowest rates and the highest levels of customer satisfaction in the United States for our residential and commercial customers. This is the third leg of the stool upon which we try to base our corporate reputation.

*SC: I was very impressed by those community partnerships, your partnerships with external and community groups.*

Part of our employer responsibility – part of the way we encourage our own officers – is that they must become involved in the communities where we provide services. Each of our officers has a role in the community, in activities ranging from the Chamber of Commerce to an urban development league, from leadership in all levels of education to a position on the board of the Fund for the Arts. In addition, the number of our employees and retirees who freely give their time to help various organizations is amazing. These dedicated efforts are making a positive impact in communities state-wide.

*SC: I would just like to return to your environmental footprint briefly... How does LG&E Energy see its role in five or ten years particularly with some of the challenges around climate change...*

I think conservation is an important feature of any utility's supply portfolio, and we have programs in place that emphasize conservation and oversee initiatives, such as energy audits and load management. Adding load management devices to customers' air conditioners, water heaters and swimming pool pumps helps us dampen the demand during peak periods without impacting our customers. It's perhaps one of the best ways to avoid the need for additional power plants.

We are also involved in national forestry programs where we are working with and protecting our natural areas. We not only work to ensure those areas are protected and viable for the future, but we help to educate our young people about the

environment through our environmental learning and training activities. This is a long-term mission that has provided, and will continue to provide, a better quality of life for future generations.

As they grow and mature, people increasingly gain a sense of environmental issues, but we are still investing in education on conservation and the environment, as well as sponsoring and supporting various initiatives dealing with forests and replanting of trees.

*SC: Where do you see the energy mix going in the future?*

More than 90% of our power is coal fired. We are now moving toward more gas-fired generation, which is, of course, more environmentally-friendly so, in essence, we are diversifying our portfolio. We are engaging in what we call "demand side management," which is a conservation initiative. But, unfortunately – and I am going to be candid with you here – because our rates are so low, it is very difficult to make conservation initiatives work. The costs of installing direct load devices and the cost of conservation are overshadowed by any savings that you see simply because you're using low-cost LG&E Energy electricity.

*SC: A universal challenge the world over – affordable energy vs. conservation.*

Our rates are so low, when you calculate the kilowatt-hour sum, you might find you're spending just 5¢ while consumers in New York are paying closer to 16¢ for that same amount of electricity. So the energy saving benefit, as you might imagine, is much more dramatic in New York than it would be here.

*SC: Is it a challenge for business customers, too, encouraging them to cut energy use?*

Having the lowest energy rates in the country is one of the most potent economic assets in Kentucky's arsenal. We attract, as a result, large manufacturers -- like car companies -- because their production processes are so energy intensive. They want to take advantage of the low rates that we provide in this area.

*SC: Your personal view – did you imagine corporate responsibility becoming such a driving factor/mainstream concept for business in the 21st Century?*

Our history dictates corporate responsibility, and our corporate values are at the heart of those efforts.

Environmental stewardship should be the cornerstone of any utility's planning. It is, and always will be, at the forefront of our planning and development process.

Our company also works very hard to meet the needs of our customers, employees and communities, and diversity is an important value for us. As I mentioned earlier, we deliver award-winning customer service and strive daily to continue that level of service and reliability.

We know our continued success depends on a diverse and creative workforce and an environment that fosters teamwork and welcomes different points of view. Our

company is committed to an inclusive workplace, and diversity is core to how we do business.

Within the community, we partner with minority institutions so that we understand their needs and can contribute to their economic success. Our Foundation's efforts and the willingness of our employees to serve in important leadership roles in their communities have helped build our reputation and allow us to give back to the community.

I believe corporate responsibility should be the obligation of every company. I'm not sure whether that's true of every corporation in today's business environment; however, in Kentucky, it's an effort we feel very honoured to lead.

*SC: And which aspect do you find most challenging, personally?*

Maintaining the company's focus each and every day on our core values. Our core values, which include hitting financial targets, achieving operational excellence, maintaining our focus on safety, continuing our human resource development, and succeeding in regulatory proceedings, are the cornerstone of our behaviour. They govern everything we do – not only our corporate responsibilities, but how we do business, how we treat one another, how we work day to day, and the kind of behaviours we expect from our employees. In some respects, that is a matter of choice rather than a matter of statutory obligation or of environmental compliance.

The fabric of our company is defined by these values, and it is those values that we have to work on every day. That is where my focus is. We are a good company, we know how to operate, we have been operating for a long time, and we understand our obligations from the environmental and customer satisfaction perspectives. I find it most important to maintain the focus on the values that have been adopted by each employee.

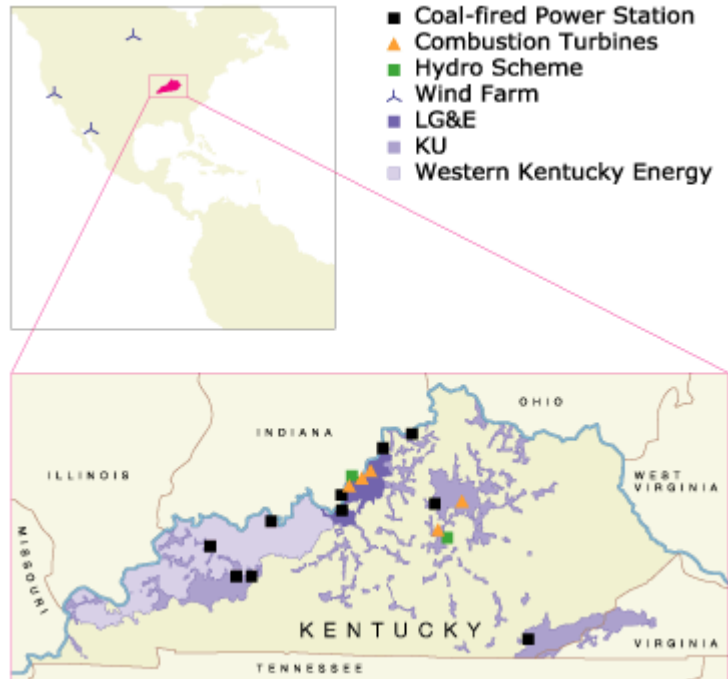
*SC: The responsible business of the future – how would you typify that? How does it relate to HR?*

It's this whole notion of trust, teamwork and speaking your mind – and appreciating the richness of a diverse workforce. You can't punish people who speak out – you've got to accept different points of view and treat people with integrity and honesty. Those are basic human principles that I think guide everything we do.

I think environmental compliance will become even more robust, and I don't see any way that environmental requirements will lessen in the future. We intend to continue to meet these obligations.

We live in the communities we serve, we raise our families here and our neighbours are our customers so I would expect our level of commitment to giving back to that community will be no less in years to come. We take great pride in what we do. We take great satisfaction in making this a better place to live and to work, and I don't see that commitment waning at all. These are the threads that make up the fabric of our company.

## Introduction Our locations



The links below provide information about our power stations over 2002.

- Cane Run, Jefferson County, KY
- Mill Creek, Jefferson County, KY
- Ohio Falls, Jefferson County, KY
- Trimble County, Trimble County, KY
- Paddy's Run, Jefferson County, KY
- Waterside, Jefferson County, KY
- Zorn, Jefferson County, KY
- EW Brown, Mercer County, KY
- Ghent, Carroll County, KY
- Green River, Muhlenberg County, KY
- Tyrone, Woodford County, KY
- Dix Dam, Mercer County, KY
- Haefling, Fayette County, KY
- Coleman, Hancock County, KY
- RD Green, Webster County, KY
- Henderson II, Henderson County, KY
- Robert Reid, Henderson County, KY
- DB Wilson, Ohio County, KY

## Introduction

### Our management

Over 2002, the senior management team of LG&E Energy Corp. was comprised as follows:



Chief Executive Officer:  
**Vic Staffieri**



Executive Vice-President General Counsel & Corporate Secretary:  
**John McCall**



Senior Vice-President – Energy Services:  
**Paul Thompson**



Senior Vice-President – Energy Delivery:  
**Chris Hermann**



Senior Vice-President – Information Technology:  
**Wendy Welsh**



Senior Vice-President – Project Engineering:  
**Roger Smith**



Chief Financial Officer:  
**Richard Aitken-Davies**



Director, Value Delivery Implementation:  
**John Gallagher**

## Introduction

### Our business

#### Our vision

LG&E Energy, as the US platform for Powergen and E.ON, will implement world-class energy practices and apply these to further expand the US energy business.

#### Our mission

To build on our tradition and achieve world-class status providing reliable, low-cost energy services and superior customer satisfaction. To promote safety, financial success and quality of life for our employees, communities and other stakeholders.

#### Our strategy

- Attract, retain and develop the best people;
- Execute our value delivery process to secure a world-class competitive advantage;
- Develop and transfer best practices in generation, customer service, distribution and supply;
- Operate our commercial hub to enhance margins and manage risks across the company;
- Pursue flexible asset portfolio management;
- Achieve scale as an integrated US electric and gas business through acquisitions and organic growth.

#### Our policies

In addition to the Powergen Group Policies, LG&E Energy has the following formal company Policies:

- **Legal Policies:**
  - Corporate Compliance Policy for the Kentucky Code of Legislative Ethics and the Executive Branch Code of Ethics;
  - Corporate Compliance Policy for Legislative Agents and Executive Agency Lobbyists Under the Kentucky Code of Legislative Ethics and the Executive Branch Code of Ethics;
  - Legislative Lobbying Worksheet – Hypothetical Situations – Anything of Value;
  - Disclosure;
  - Foreign Corrupt Practices Act Compliance;
  - Insider Trading Guidelines;
  - Intellectual Property Rights;
  - Legal Services.

- **Financial Policies:**
  - Capital;
  - Cash Advance;
  - Check Cashing;

- Contributions;
- Corporate Credit Card;
- Disbursements;
- Energy Marketing Credit Policy;
- Financial and Accounting Services;
- Inter-company Allocations;
- Operations and Maintenance / General Administrative (O&M/G&A);
- Payroll Check;
- Payroll Check Advance (Louisville Gas & Electric Co.);
- Petty Cash;
- Travel and Expense Reimbursement.

- **Employee Policies**, grouped as follows:
  - Employment and Opportunities;
  - Employee Development;
  - Employee Relations;
  - Employee Compensation;
  - Employee Benefits;
  - Absences and Leaves;
  - Employee Separations;
  - Health and Safety.

- **Operations Policies** grouped as follows:
  - General;
  - Customer;
  - Environmental Affairs Supplier.

- **Information Service Policies:**
  - Computer Hardware and Software Responsibilities;
  - Computer Network Security;
  - Computer Purchase Assistance Program ;
  - Electronic Communications;
  - General Information Security;
  - Internet;
  - Intranet;
  - Local Area Network (LANs) and Wide Area Networks (WANs);
  - Peer-To-Peer Networking;
  - Remote Network;
  - Dial-In Access;
  - Telecommunications Voice and Data;
  - Network Services;
  - Voice Mail.



- **Western Kentucky Energy Bargaining Unit Policies.**