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JACK B. BATES

IRIS G. SKIDMORE

**Via Hand-Delivery**

September 14, 2011

Mr. Jeff Derouen  
Executive Director  
Kentucky Public Service Commission  
211 Sower Blvd.  
Frankfort, KY 40601

RECEIVED

SEP 14 2011

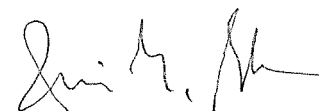
PUBLIC SERVICE  
COMMISSION

**Re: Case No. 2011-00161: The Application of Kentucky Utilities Company for  
Certificates of Public Convenience and Necessity and Approval of its 2011  
Compliance Plan for Recovery by Environmental Surcharge**

Dear Mr. Derouen:

Enclosed for filing in the above styled action are an original and ten copies of Direct Testimony of Jack E. Burch on behalf of the Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.

Sincerely,

  
Iris G. Skidmore

Enclosure

RECEIVED

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

SEP 14 2011

PUBLIC SERVICE  
COMMISSION

In the Matter of:

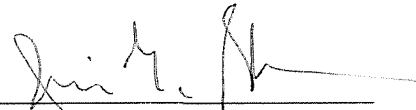
THE APPLICATION OF KENTUCKY UTILITIES )  
COMPANY FOR CERTIFICATES OF PUBLIC ) Case No. 2011-00161  
CONVENIENCE AND NECESSITY AND APPROVAL )  
OF ITS 2011 COMPLIANCE PLAN FOR RECOVERY )  
BY ENVIRONMENTAL SURCHARGE )

**DIRECT TESTIMONY OF JACK E. BURCH ON BEHALF OF CAC**

\* \* \* \* \*

Comes the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. (CAC), by counsel, and hereby tenders the pre-filed written direct testimony of Jack E. Burch in support of its position in this matter:

Respectfully submitted,



IRIS G. SKIDMORE  
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Telephone: (502)-352-2930  
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COUNSEL FOR CAC

**Q: Please indicate your name, address and describe your current position and professional background.**

A: My name is Jack E. Burch and I have served as Executive Director of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties since 1979. The Council operates 32 neighborhood and community centers and child development centers in six counties and its Administrative and Support Services offices are located at 710 W. High Street in Lexington, Ky.

I graduated from Vanderbilt University with a Masters degree in economics and hold a Bachelors degree from Rhodes College. I am also the founder and President of the WinterCare Energy Fund.

**Q: Please describe the purpose of your testimony.**

A: The purpose of my testimony is to state the position of the organization I represent with respect to the proposed increase in Kentucky Utilities (KU) Environmental Cost Recovery charge. In summary, the Council believes this increase will add to the increasingly unaffordable cost of electricity in the KU service area and unintentionally pile an additional burden onto low-income customers already hard hit by high unemployment and economic recession. The Council urges the Commissioners to approve only the most necessary and unavoidable charge and to consider all other outside factors which are impacting customers' ability to pay their KU bills. I am an advocate on behalf of low-income consumers and will explain the role of our organization and the impact this proposed increased charge is likely to have on many KU customers.

It is not my purpose to attempt to analyze the legitimacy of any specific proposals regarding how the Company will comply with environmental regulations, and whether any of those actions are necessary or reasonable. It is my goal simply to speak on behalf of low-income consumers on the impact of the proposed increase on affordability.

**Q: Please describe the organization of Community Action Council and briefly describe its activities.**

A: Community Action Council was established in 1965 as a not-for-profit community action agency of the Commonwealth of Kentucky. The Council's governance includes a Board of Directors representing low-income, public, and private sectors of the community. Its mission is to combat poverty.

There are approximately 280 employees operating and administering the Council's primary programs and services including:

- self-sufficiency
- child development
- homeless programs
- volunteer programs
- youth development
- transportation services
- clothing banks
- housing
- energy assistance and conservation programs
- emergency assistance
- community outreach and referrals.

Although the Council's core service territory includes Lexington-Fayette, Bourbon, Harrison and Nicholas counties, the Council also provides services in other Kentucky counties. For example, the Council administers the WinterCare Energy Fund providing services across most of the state; child development services extend into Scott and Madison counties; and the Retired and Senior Volunteer Program extends into Jessamine County. The Columbia Gas Energy Assistance

Program and WarmWise program and Kentucky Utilities Home Energy Assistance Program each provide services throughout the service territory of their respective utilities. The Council also operates the Kentucky American Water Help to Others (H2O) Program throughout the utility's service area.

The Council is uniquely positioned to speak on behalf of low-income populations with utility-related problems as staff members have extensive contact with and knowledge of this population. Additionally, Council staff is able to help participants access other Council assistance programs as well as other community resources to address the multiple obstacles and barriers that most low-income households face. This comprehensive approach provides greater stability and self-sufficiency to these households, supporting a family's ability to afford necessities such as utility service.

The Council is also a member of Community Action Kentucky (CAK), a membership organization which represents Kentucky's 23 community action agencies throughout the state. While CAK has not intervened in this case, as a member of the organization the Council is able to communicate regularly, and as needed, to discuss matters impacting low-income customers served by other organizations and thus representing a broader geographic area.

**Q: Please describe in detail the Council's programs and services, especially those which partner with public utilities.**

A: The Council creates opportunities for individuals and families to become self-sufficient members of the community. Created in 1965, the Council is the designated community action agency for Lexington-Fayette, Bourbon, Harrison, and Nicholas counties in Central Kentucky and serves the low-income population through advocacy, service delivery, and community involvement.

The Council operates Head Start, Early Head Start and Migrant Head Start child development programs that have been recognized nationally. The organization also operates several housing programs, including two Continuum of Care projects funded by the Department for Housing and Urban Development and a supportive housing and substance abuse/mental health treatment program funded by the Substance Abuse and Mental Health Services Administration. These projects help homeless families reconstruct their lives by working with the families to determine and address the causes of homelessness. Another housing program offered is Tenant Based Rental Assistance (TBRA), which provides assistance to Section 8-eligible households throughout the Council's service area. A homelessness prevention and rapid re-housing program called Kentucky HEARTH provides additional resources for families who are homeless or in danger of becoming homeless.

Other programs include senior volunteerism projects Retired and Senior Volunteer Program (RSVP) and the Foster Grandparents Program (FGP) and an AmeriCorps program targeted to energy education and community gardening. To support economic independence, the Council offers a Financial Fitness consumer education program that provides training on financial management and offers families the chance to save for a home, small business or higher education. Also, the Council works each year with community partners to provide tax preparation and education on the Earned Income Tax Credit (EITC) and how to apply.

The Council also operates a number of utility assistance programs in partnership with local utilities, public and private funding sources, and other community action agencies across the state. These programs are described below.

In 1983, Community Action Council initiated, with Kentucky Utilities, the establishment of the WinterCare Energy Fund. The Council has provided administrative services, financial management and marketing support for the Fund since that time. The Council has also managed

the federal LIHEAP program (Low-Income Home Energy Assistance Program) serving low-income customers in Fayette, Bourbon, Harrison and Nicholas counties since its inception.

Since 1978, the Council has operated a Weatherization Assistance Program designed to help low-income individuals and families conserve energy. Weatherization services include caulking, weather-stripping, replacement of thresholds and door sweeps, re-glazing windows and replacing broken glass, outside wall repair, minor roof repair, attic insulating, repairing and replacing skirting around the foundation, under-floor insulation including wrapping pipes and insulating heat ducts, venting the attic and crawl spaces, and repairing or replacing heating equipment and venting systems. The Council operates several additional weatherization and furnace replacement programs including the Kentucky Clean Energy Corps project and Columbia Gas of Kentucky's WarmWise high-efficiency furnace replacement program for its low-income customers.

The Council currently administers a utility funded energy subsidy program serving 850 low-income households in partnership with Columbia Gas of Kentucky and the network of community action agencies serving the Columbia Gas service territory. Also, in cooperation with Columbia Gas, the Council formerly operated a "Buyers Club" for the purchase of natural gas, aggregating low-income and other customers for collective buying power within the Columbia Gas Choice Program.

The Council implemented and administers the Kentucky Utilities Home Energy Assistance (HEA) Program, which serves 2,600 KU customers whose primary heat source is KU electricity by providing regular monthly subsidies throughout the winter and summer peak usage months.

The Council's Summer Cooling program serves seriously ill persons and those with disabilities with the provision and installation of air conditioners. This program is privately funded by contributions from individuals and businesses.

Beginning in 2003 through 2005, the Council operated a demand-side management program through the Department of Health and Human Services, Office for Community Services, called REACH (Residential Energy Assistance Challenge). Also in 2003, the Council contracted with Honeywell to assist in carrying out the Kentucky Utilities We Care demand side management program in its four core counties. That partnership continued through 2004, though the Council continued to provide energy conservation services, such as furnace replacement, through its Weatherization programming and again contracted with Honeywell in 2010.

The Council also administers Help to Others (H2O) through contributions from Kentucky American Water shareholder funds and customer donations. The funds are available throughout the Kentucky American Water service territory for customers with household incomes up to 150 percent of federal poverty guidelines. Assistance is provided for water service, activation fees and reactivation fees. Participants may receive up to \$100 in benefits per fiscal year if they are in danger of having their water disconnected. Intake staff provides information to participants about saving water and detecting leaks.

**Q: Are there initiatives in which Community Action Council partners with KU or LG&E? Please discuss.**

A: The Council has served as the lead agency in a partnership of community action agencies that provide intakes and energy audits for KU's WeCare demand side management program. Beginning in summer 2011 the Council is the sole provider of WeCare in its core counties providing intake, energy audits and installation of weatherization measures.

The Council partners with KU on the Home Energy Assistance program which provides monthly subsidies for eligible low-income customers during peak heating and cooling months.

The Council administers contributions from KU customers and matching corporate funds from KU for Wintercare.



Also, the Council and Kentucky Utilities annually co-sponsor the Winterblitz event in Lexington, which provides minimal weatherization measures in low-income homes. The Winterblitz program recruits and trains volunteers who then install low-impact weatherization measures for low-income individuals and families. The event is modeled after Project Warm in Louisville, Kentucky. It was first held in Lexington in 2005 and continues to be held annually.

**Q: Please describe the low-income population in the Kentucky Utilities service territory.**

A: Based on 2010 Census data – the most recent county-level poverty data available – the following chart provides poverty status by county for KU service counties in Kentucky. The chart is in descending order from most impoverished counties to least.

County	County Poverty Rate	County	County Poverty Rate	County	County Poverty Rate
Clay	43.3%	Breckinridge	20.8%	Bracken	16.7%
Knox	38.6%	Edmonson	20.8%	Grant	16.7%
Lee	36.8%	Hopkins	20.7%	Henderson	16.7%
Bell	36.0%	Marion	20.6%	Union	16.7%
McCreary	35.4%	Boyle	19.8%	Washington	16.6%
Harlan	33.4%	Barren	19.7%	McLean	16.4%
Whitley	33.3%	Harrison	19.7%	Nelson	15.8%
Breathitt	32.0%	Pulaski	19.5%	Carlisle	15.7%
Letcher	30.6%	Gallatin	19.3%	Trimble	15.7%
Estill	28.0%	Madison	19.2%	McCracken	15.5%
Fulton	27.8%	Muhlenberg	19.2%	Pendelton	15.4%
Menifee	27.7%	Nicholas	19.1%	Daviess	15.2%
Rowan	26.6%	Christian	19.0%	Ballard	14.9%
Casey	25.8%	Crittenden	19.0%	Hardin	14.7%
Hart	25.3%	Mason	18.8%	Livingston	14.7%
Russell	25.3%	Hickman	18.6%	Clark	14.5%
Bath	25.1%	Lyon	18.4%	Mercer	14.5%
Rockcastle	25.0%	Owen	17.7%	Jessamine	14.1%
Lincoln	24.2%	Caldwell	17.4%	Franklin	14.0%
Adair	24.0%	Fayette	17.4%	Scott	13.1%
Green	23.5%	Ohio	17.4%	Shelby	12.4%
Taylor	22.4%	Carroll	17.3%	Campbell	11.1%
Robertson	22.2%	Garrard	17.2%	Anderson	11.0%
Laurel	21.5%	Bourbon	17.1%	Bullitt	10.7%
Fleming	21.3%	Webster	17.1%	Woodford	10.1%
Montgomery	21.1%	Henry	16.8%	Spencer	9.6%
Grayson	21.0%	Larue	16.8%	Oldham	5.9%

Many of these counties report some of the *highest poverty rates* in Kentucky. *Thirty counties report poverty rates above 20%*, a rate that the Census Bureau defines as *extremely high*. Clay County, with a poverty rate of 43.3%, is the most impoverished county in Kentucky according to these definitions and ranks among the poorest counties in the United States.

The Census Bureau uses income and family size as the basis for determining poverty. Poverty and need affordability illustrates the economic equation of income versus the ability to afford the basic needs of a family. *By definition, families with incomes at or below the poverty line cannot meet their basic needs.*

**Q: Are there additional pressures impacting low-income family budgets that would make an increased KU bill more difficult to afford?**

A: Yes, and while KU may not be able to control these factors, they should be taken into consideration because they impact the ability of low-income customers to pay their electricity bill. The resulting increase in arrearages, shutoffs and other expenses to the Company would ultimately impact all customers. Some of these external pressures/factors include:

*Food costs:*

The rising cost of food is an unfortunate reality for us all, but for low-income households with children, the increased cost of food is a burden with very serious ramifications. In 2010, in a national study conducted by the Food Research and Action Center, as many as 1 in 4 households with children stated that there were times during the year in which the family did not have enough money to buy food their family needed. The study refers to this as “food hardship.”

Residents of Kentucky are currently paying more for basic groceries than they were in the beginning of 2011. According to a study conducted by the Kentucky Farm Bureau, between the months of April and June, the average cost of 40 common household groceries increased 2.2 percent from the total average cost of the same items in the first quarter of the year, which was

already up 3 percent from the last quarter in 2010. In dollars, this is equal to approximately \$2.50 more spent on the same foods, with potentially less of it given new, smaller packaging which has been appearing on grocery shelves. Alongside the ever-rising costs of oil and gas products, this new reality of higher-priced foods is not likely to decrease or even stay the same. It is likely to increase and then low-income residents will again be forced to make tough decisions as to how to spend their already stretched incomes.

*Unemployment rates:*

Currently, Kentucky is ranked the 36th lowest state for gainful employment, with the unemployment rate at 9.5 percent. Kentucky's rate is higher than the national average at 9.1 percent. In 2009, with the economy in recession, Kentucky had an unemployment rate of 10.5 percent and the rate at which people have been able to find employment since then has been very slow. In late August, the Bureau of Economic Analysis released new statistics for the Gross Domestic Product and the rate of growth was found to be 1 percent. If the rate of growth continues at the current level, it will not be enough to decrease the rate of unemployment. The relevance of these statistics is obvious. The more people who are and remain unemployed, the less they will be able to pay their essential bills, including their electricity bills.

*Transportation costs:*

In a recent study by The Mineta Transportation Institute intended to look at travel and the costs of travel for people with low-income, it was found that low-income people worry about transportation costs, whether or not they have their own transportation. The study had four areas of interest, among them, understanding how the low-income population paid for travel and how their decisions regarding transportation were affected with the increase in unemployment rates and the cost of fuel on the rise.

It was found that people with low-incomes will make changes to their budget that will enable them to pay the cost of transportation, even if it negatively affects their ability to pay for other essentials – such as electric service. Customers who receive subsidies for transportation worry about the cost of transportation and whether or not their subsidies will continue. The study revealed that some of the ways that low-income customers find to pay for transportation costs can have negative effects to their health and overall well-being, such as heightened stress levels and choosing not to participate in other activities that cost money.

*Other/Health:*

Low-income residents in Kentucky are faced with choices that many of us do not have to think about. In a climate where people are forced to choose between using their very limited resources to pay for utility bills, food or transportation, other necessities, such as dental health, are falling by the wayside. For example, Kentucky has some of the worst oral health problems in the United States, in large part due to the inability to afford a trip to the dentist. While this may at first appear to be unrelated, the effects of poor oral hygiene are far-reaching. Looking at oral hygiene data related to children, the pain from oral health problems is a main cause of absence from school. Add this to recent data from the Annie E. Casey Foundation and it is easy to see the snow-ball effect that occurs for children in poverty. Young children living in poverty are lagging behind their same age-peers and by third grade, children in poverty are found to be reading below their grade level which impacts the likelihood that these children will stay in school and graduate. Oral hygiene data related to adults from 2004 stated that 1 in 10 adults in Kentucky are missing all of their teeth which, unfortunately, may be a factor in obtaining gainful employment. This discussion of oral health and other factors is not intended to draw any direct connection to the proposed increase in the KU ECR charge but to show how this increase coupled with other rising expenses can and will affect low-income families in complex ways.

**Q: Please describe how the proposed Environmental Cost Recovery charge increases will affect low-income people.**

A: In response to questions posed by Commission staff and CAC, the Company responded with the following chart to demonstrate the monthly bill impact on KU's **average** residential customer (monthly usage of 1,297 kWh). See KPSC 1-1. The annual impact is shown in the second chart.

Monthly Increased Costs:

2012	2013	2014	2015	2016
\$1.43	\$4.12	\$8.13	\$10.91	\$11.97

Annual Increased Costs:

2012	2013	2014	2015	2016
\$17.16	\$49.44	\$97.56	\$130.92	\$143.64

While these increases may seem benign to some Kentucky families, for those living in poverty and unable to meet basic needs, these increases represent a substantial increase in their expenses. An annualized increase of \$143.64, as planned for 2016, represents the cost of 35 generic prescription drugs or about 1/4<sup>th</sup> of the monthly fair market rent in Lexington. These impacts can literally be life or death decisions for families who must forgo health care and prescriptions in order to stay warm in the winter. Also, the proposed annual increases outpace typical inflation rates and therefore exceed likely increases in Social Security and Social Security Disability payments – a primary source of income for many low-income families. Should Social Security and Social Security Disability be cut, as is currently being considered in the U.S. Congress, even existing electricity rates and charges will be well beyond an affordable range for thousands of households.

Historically these families have turned to energy assistance programs, such as the Federally funded Low-Income Home Energy Assistance Program (LIHEAP). However, current energy

assistance resources do not meet the need and those resources are facing significant proposed cuts at the Federal level. For example, current proposals in the U.S. Congress would cut LIHEAP funding by 40 percent from the previous year. If approved, the Council anticipates there would not be sufficient funding to offer the LIHEAP Crisis component in January 2012. LIHEAP Crisis served 6,678 households in 2011 providing \$1,971,346 of assistance just to families within Community Action Council's four-county core service area. This proposed cut by itself poses a significant threat to low-income households in Kentucky. When coupled with substantially rising electricity bills, the situation is even more severe.

An ECR charge increase as proposed will have a devastating impact on the poor who already struggle with limited resources. If this energy affordability gap continues to widen as a result of the outcome of this case, families will be forced to make choices about which basic needs they can afford. Families are already struggling to make ends meet. Many have to make terrible choices between food, housing, medicine and other necessities. With an increase of this magnitude, the ability of these families to afford their basic needs will significantly deteriorate. The added stress of further stretching limited resources becomes an increasing barrier to economic opportunity and self-sufficiency. For those who have made some strides in increasing their incomes, many will be forced backwards in their efforts to meet the basic needs of their families. The proposed increase will not only devastate poor households but it will also overwhelm those energy assistance agencies trying desperately to keep these households from losing their homes to foreclosure and their apartments to eviction.

**Q: What do you propose as the solution in this case?**

A: Regardless of the size of the increase in the ECR charge, low-income people already experience an affordability gap. I am encouraging KU to reconsider the size of its increase

request and for the Commission to carefully consider whether the proposed increase is reasonable and necessary.

For all of the reasons previously stated in this testimony I believe KU should not increase its ECR charge (or rates) any more than reasonably necessary to continue to ensure basic services. Customers are already experiencing some of the greatest economic challenges since the Great Depression including record unemployment rates throughout Kentucky. It is unfair to ask customers to pay more while they already struggle to secure or maintain food, shelter, medical care, and other life-sustaining necessities. Additionally, many of those on fixed incomes have seen little or no increase in their incomes over the past several years. Social Security recipients, for example, have seen no cost of living increase in their benefits since 2009. That forces these seniors, many of whom are low-income, to carve more money out of a pie that is no larger than the year before.

The time has come for the Company, the Commission, the Attorney General and other consumer advocates such as the Council to come together to seek creative, alternate solutions for low-income households. Basic assistance programs are not going to be able to keep up much longer. Continually rising rates will ultimately result in deaths – people have before and will again freeze to death in their own homes. Something must be done and quickly, whether the remedy is an innovative new rate structure or some form of lifeline rate for low-income households, it is critical that we work together to find a solution. Each of the parties involved has a history of good collaboration and I am sure would be willing to come together in the interest of the most vulnerable customers.

I would also encourage the Commissioners to consider a model used in California in which the California Public Utilities Commission has established a Low Income Oversight Board which advises the Commission on low-income issues and programming. Board members are

Commissioners, educators and gubernatorial appointees who meet regularly to review low-income needs and programming and make connections which help guide decisions on low-income issues.

**Q: In summary, please state your position regarding the Companies' proposal for an increase in the electric service charge rate**

A: The proposed ECR charge increase will negatively affect the ability of low-income customers to pay for essential services to a significant degree. I urge the Commissioners to carefully consider the impact of this increase on affordability and the potential affects on the health and safety of low-income and senior households and consider every opportunity to meet the Company's revenue needs while minimizing the negative consequences on its most vulnerable customers.

**Q: Does this end your direct testimony?**

A: Yes



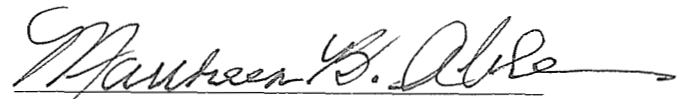
VERIFICATION

I have read the above questions and answers and I affirm that they are correct to the best of my information and belief.

  
\_\_\_\_\_  
JACK E. BURCH

COMMONWEALTH OF KENTUCKY )  
COUNTY OF FAYETTE )

Subscribed to and sworn to before me by Jack E. Burch on the 8<sup>th</sup> day of September, 2011.

  
\_\_\_\_\_  
NOTARY PUBLIC  
My commission expires: 6/25/2013

## CERTIFICATE OF SERVICE

I hereby certify that on September 14, 2011, a true and accurate copy of the foregoing Direct Testimony of Jack E. Burch on Behalf of CAC was served by United States mail, postage prepaid, to the following:

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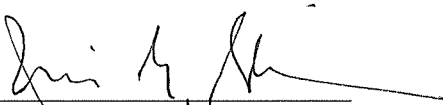
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