

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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**PUBLIC SERVICE
COMMISSION**

In the Matter of:

JOINT APPLICATION OF KENTUCKY)
UTILITIES COMPANY, KENTUCKY)
ASSOCIATION FOR COMMUNITY ACTION,)
INC., AND COMMUNITY ACTION COUNCIL)
FOR LEXINGTON-FAYETTE, BOURBON,)
HARRISON AND NICHOLAS COUNTIES,)
INC. FOR THE ESTABLISHMENT OF A)
HOME ENERGY ASSISTANCE PROGRAM)

CASE NO. 2004-00303

**TESTIMONY OF JACK E. BURCH ON BEHALF OF
COMMUNITY ACTION COUNCIL**

Please state your name and organizational affiliation.

My name is Jack Burch and I am the Executive Director of Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties. I am also the President of WinterCare. Community Action Council was an intervener on the Kentucky Utilities rate case this past spring, and a joint applicant to the proposed program design and details of the Kentucky Utilities HEA program currently under review by the Kentucky Public Service Commission.

**Please describe your involvement in the development
of the current KU HEA program design.**

I was a member of the development team that designed the KU HEA program this past summer, along with representatives from Kentucky Utilities, Louisville Gas and Electric, the Office of the

Attorney General, Kentucky Association for Community Action, Community Action Council, Metro Human Needs Alliance, and POWER. The development team, facilitated by Ogden, Newell and Welch, met on two occasions at the Kentucky Utilities offices in Lexington, shared progress of design development via e-mail, and held several telephone conference calls. The development process resulted in two program designs, one for the LG&E combined utility service area, and one for the KU electric only service territory. The proposals were filed separately at the Kentucky Public Service Commission for review and approval.

The KU HEA program was designed to ensure comparable effectiveness and efficiencies as have been demonstrated and documented in the Columbia Gas Energy Assistance Program that was previously approved by the Kentucky Public Service Commission. The program design utilizes existing infrastructure and procedures already in place and easily transferable to the current program.

The program was designed with the typical low-income KU household, as well as administrative and cost effectiveness in mind. A number of the intended beneficiaries will also receive additional assistance from other resources like WinterCare and private donations intended to provide energy assistance.

Please explain how the current program designs prevent the targeted beneficiaries of the KU HEA program from also being enrolled in the LG&E HEA program given that the two companies share a 14 county service territory overlap.

The targeted beneficiaries of the proposed KU HEA program are households whose primary heat source is KU electric and who are low-income as was defined in the original program filing. The KU as primary heat source criteria prevents a low-income customer in Barren, Bullitt, Green, Hardin, Hart, Henry, LaRue, Marion, Nelson, Oldham, Shelby, Spencer, Trimble, and Washington counties from being dually enrolled in both HEA programs. A customer who has LG&E gas service will not qualify for KU HEA because that customer's primary heat source is not KU electric. A customer who has LG&E electric service will not qualify for KU HEA because that customer's primary heat source is not KU electric. Households in these counties will qualify for the KU HEA program if they have KU electric as their primary heat source. A household can only have one primary heat source.

Will LG&E low-income customers benefit from the small energy assistance fund as proposed in the KU HEA filing, thereby potentially creating an overlap between the two HEA programs?

A small number of LG&E customers might qualify for assistance from the KU HEA small energy assistance (emergency) fund. These customers could be electric customers of Kentucky Utilities and gas customers of LG&E who are in need of emergency assistance to keep their electricity operable (e.g. to run the furnace). However, the small assistance fund will only be applicable to a Kentucky Utilities related energy emergency. The assistance will only be payable to Kentucky Utilities.

The KU HEA as proposed provides a 7 month subsidy during peak high usage month instead of a 12 month subsidy, why is this important?

The primary heat source criteria identify the KU electric customers with the highest energy burden attributable to KU service including those that utilize KU electric service in the summer for cooling. If a household both heats and cools with KU electric, they are the customers with the highest KU energy burden. Summer cooling cannot be ignored in making decisions about energy assistance benefits for low-income customers as many who require cooling assistance are senior citizens, or households with members who have severe health problems. It would be ideal if this program could be open to all KU low-income customers. Given that the available resources for the HEA will only assist an estimated 3% of households in need in the KU service territory, strict criteria are required to ensure that those households with the highest energy burden attributable to KU energy are made a priority.

It is no mistake that the federal LIHEAP Subsidy is only given during the months of November and December. In the case of LIHEAP, providing this subsidy at this time provides for a preventive dose of assistance at the front end of the heating season anticipating the oncoming peak usage months. Dividing the LIHEAP Subsidy benefit of \$120 over 12 months would apply \$10 of assistance per month, which would not be very effective.

The seven-month peak usage approach targets the program subsidies, providing the dose of assistance during the months when assistance is needed most because bills are at their highest levels. To divide the subsidy, and spread it out over 12 months would be to provide assistance

during times when it is not needed. What the program is trying to avoid in its design is the accumulation of credits in customer accounts during low usage months. Providing subsidies when not needed would most likely result in periods of time when the subsidy either matches or exceeds the balance due. This would essentially create an incentive for the customer to ignore their payment obligations during low usage months. A twelve month fixed subsidy would put a household at risk during peak usage months because available household income during low usage months may have been used to pay for other household expenses.

How will the 7-month subsidy approach affect the results of the program?

A critical objective of the program, not stated clearly prior to this testimony, is to encourage the household to consistently plan to keep electric service at an affordable level during the whole year. This element reinforces the financial obligation that all households have to pay for their electric service. The seven-month subsidy design helps ensure that the customers budget and plan for this participating obligation. Accumulated credits during low usage periods would likely have the opposite impact.

Finally, this approach, i.e., limiting subsidies to the high usage periods, was tested and proven effective in the Columbia Gas EAP.

I also wanted to add that keeping the program consistent in approach with other programs available in the area ensures that there will not be additional confusion for people who must

balance their knowledge and understanding of multiple assistance programs. A subsidy program that focuses the assistance at peak need times will keep the program consistent with other programs in the area.

The KU HEA program as proposed provides a fixed subsidy instead a variable subsidy, why is this important?

Also based on the Columbia Gas EAP, the proposed KU HEA with a simple fixed subsidy structure keeps administrative overhead to a minimum (at or below the 10% administrative cap set by the Commission). The subsidy structure keeps procedures streamlined and simple. Very little in the way of technology modifications are needed since the infrastructure and systems already exist with EAP for the fixed subsidy within the Council's Intake Referral and Information System (IRIS) and is easily transferable.

Would there be an expense to changing to a different approach?

A modified variable subsidy approach would require considerable technology development and staff resources estimated at \$35,000 to \$40,000. This includes modification to the IRIS system including ability to capture and calculate variables in order to determine subsidy amounts.

Modifications would also be needed to ensure that the accurate content of data transfers to KU would ensure the accurate and timely application of subsidies to customer accounts.

Development of a new training component would also be needed, as this model would be new to the Council and its partner community action agencies who will implement the program.

Additionally, development time for a variable approach is estimated to require as much as six months, precluding implementation during the current heating season.

Based on infrastructures and procedure that are already in place, the simple fixed subsidy structure is the most cost efficient approach for this program to adopt.

How would changing from a fixed subsidy program affect the low-income customer?

From the low-income customer's point of view, the simple fixed subsidy provides a reliable and predictable subsidy factor that can be planned for and budgeted for better use of household income.

Finally, while the proposed model is based in part on the highly successful experience of the Columbia Gas EAP, we acknowledge that we have a responsibility to closely monitor results as the program is implemented. In the event that results do not match expectations, we are committed to a reassessment and redesign process.

The KU HEA program as proposed does not provide for a portion of the subsidy to be applied to the payment of arrearages, why is this the case?

As a result of our network's (community action agencies) 30 plus years experience providing energy assistance programs and services, although extremely important, we believe that payment

on arrearages is not a critical element in the primary goal of stabilizing participating households' energy cost crisis. What is critical is a stable, predictable, and planned energy burden that can become a part of the day-to-day household budget. As financial resources for a household stabilize, prior arrearages can be addressed.

It is anticipated that the subsidy will help stretch household income and keep households out of crisis, allowing them to allocate their incomes to other financial needs, like past arrearages.

Family Service Workers will provide guidance to households with arrearages that they should plan for full payment of these as agreed with KU. It is assumed that the reduction of arrearages will be an indirect result of the program.

If an arrearage is a contributing factor to a presenting crisis, WinterCare, private donations, and other resources will be available to assist in the payment of arrearages.

The KU HEA and the LG&E HEA are proposed as service delivery models that are different in their approach. Please provide a justification for the program designs of the programs being dissimilar.

For the LG&E and KU HEA programs, regardless of the delivery methods chosen, the stated outcomes and results that the low-income customer will experience are identical. This is a very important consideration. In the human services field, we know that programs designed at the local level for local circumstances are the most effective. The most effective programs are those that hold service providers accountable for outcomes and results and do not micromanage service

delivery. As long as the outcomes and results are met, flexibility in delivery of services, in a manner that will be efficient, cost effective, innovative, and responsive to local circumstances, represents the best approach.

We believe that LG&E's combined gas and electric service versus KU's electric only service, as well as the significant urban versus rural differences between the service territories of the two utilities are the primary reasons for the different program designs.

Are there differences in the populations of low-income people throughout the two companies service territories?

The LG&E service territory is primarily urban and the company is a combined gas and electric utility. The KU service territory is a more rural area and the target population of the program is all electric consumers. The KU area is more likely to have all electric dwellings, for example manufactured homes. Customers in the KU territory are also more likely to deal with multiple energy providers while in the LG&E area they are more likely to deal with a single utility for household energy.

Please explain why it is warranted and imperative that the programs' designs move forward as proposed.

At this writing, we are two weeks away from the beginning of the LIHEAP Subsidy program. This is a period of time when it is most efficient and cost effective to recruit and enroll low-income customers into the HEA program, since thousands of low-income customers will visit

community action organizations to sign up and enroll in LIHEAP. During this period, entire enrollment for the HEA programs could be completed by mid December. Without an immediate approval by the Kentucky Public Service Commission, this window of opportunity will be missed and much more intensive outreach and recruitment efforts will need to be deployed – at a greater administrative cost.

In addition, household need begins with the onset of the heating season. The increased rates for electricity are in place, the cost of energy is on the rise, and household income has not increased. The potential customers expect these additional subsidies, which have been widely publicized in the media to be available. If they do not materialize for the current heating season, households will suffer and the revenues from the surcharge, while collected, will not be available to assist them.

What consequences to people will result if the KU HEA program as proposed is required to adopt wholesale changes to the program design at this point?

Wholesale changes to the current design of the KU HEA program will cause additional delays in program start up. This will be devastating to households as described in the answer to the previous question. It will also come at an additional cost and ramp up time.

Are there benefits to having two different approaches to service delivery in these cases?

Yes, given that these programs require a comprehensive evaluation toward the close of the

program life, valuable comparisons of the two models can be made. This would provide future best practice guidance to the Commission, the companies, and low-income service providers about program models that are most effective. This knowledge will be able to be used in the design and development of future programs.

Does this conclude your testimony?

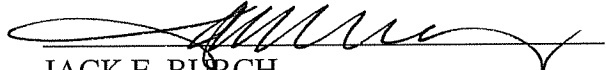
No, as an advocate for low-income people I would like to make an impassioned request to the Commission that it let these programs move forward so that those who are intended to benefit from them are not harmed this winter. I would like to ask the Commission to allow the program designs as proposed to move forward. These proposed programs have been designed with attention to details informed by over thirty years of experience of people who know what a local program designed for local people should look like. We know what is effective, and seek the opportunity to demonstrate the efficiencies and effectiveness of a program that we know we can provide. We sincerely hope this program can move forward to benefit low-income customers during the current heating season.

If the Commission feels strongly that a hearing is needed to fully flesh out the detail of the program or to make the two HEA programs more similar, I would ask the Commission to:

- a) Allow the current proposed programs to be implemented for the current heating season; and
- b) Schedule the hearing for May, 2005 so that any necessary changes may be put in place for the 2005 heating season.

This concludes my testimony.


I have read the foregoing testimony and it is true and correct to the best of my information and belief.


JACK E. BURCH

COMMONWEALTH OF KENTUCKY)
COUNTY OF FAYETTE)

Subscribed and sworn to before me by Jack E. Burch on this the 19th day of October, 2004.

My commission expires: 9 JUNE 25, 2005


NOTARY PUBLIC, STATE AT LARGE