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October 19, 2004

VIA HAND DELIVERY

RECEIVED
OCT 19 2004
PUBLIC SERVICE COMMISSION

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY, METRO HUMAN NEEDS ALLIANCE, INC., PEOPLE ORGANIZED AND WORKING FOR ENERGY REFORM, AND KENTUCKY ASSOCIATION FOR COMMUNITY ACTION FOR THE ESTABLISHMENT OF A HOME ENERGY ASSISTANCE PROGRAM CASE NO: 2004-00304

Dear Ms. O'Donnell

Enclosed for filing in the above-captioned case are the original and ten (10) copies of the Testimony of David H. Brown Kinloch on behalf of Metro Human Needs Alliance Inc. and People Organized and Working for Energy Reform.

Please confirm your receipt of this filing by placing the stamp of your office with the date received on the enclosed additional copy of this filing and return it to me in the self-addressed stamped envelope.

Thank you for your assistance. Please contact me if you have any questions or need further information regarding this matter.

Very truly yours,

Lisa Kilkelly

Enclosures

cc: Service List

CERTIFICATE OF SERVICE

I hereby certify that true and exact copies of the Testimony of David H. Brown Kinloch on behalf of MHNA and POWER have been served by U.S. mail postage prepaid to the persons listed below on this 17th day of October, 2004.

Lisa Kilkelly

Lisa Kilkelly

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

CASE NO. 2004-00304

JOINT APPLICATION FOR THE ESTABLISHMENT OF A HOME ENERGY ASSISTANCE PROGRAM

TESTIMONY OF

DAVID H. BROWN KINLOCH

On Behalf of

METRO HUMAN NEEDS ALLIANCE
and
PEOPLE ORGANIZED AND WORKING FOR ENERGY REFORM

OCTOBER 2004

Soft Energy Associates • 414 South Wenzel Street • Louisville, KY 40204 • 502-589-0975

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

JOINT APPLICATION OF LOUSIVILLE GAS AND ELECTRIC COMPANY, METRO HUMAN NEEDS ALLIANCE, PEOPLE ORGANIZED AND WORKING FOR ENERGY REFORM, AND KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC FOR THE ESTABLISHMENT OF A HOME ENERGY ASSISTANCE PROGRAM	) CASE NO. 2004-00304

TESTIMONY OF DAVID H. BROWN KINLOCH

Q1: PLEASE STATE YOUR NAME AND ADDRESS.

A1: My name is David H. Brown Kinloch and my business address is Soft Energy Associates, 414 S. Wenzel Street, Louisville, KY 40204.

Q2: FOR WHOM HAVE YOU PREPARED TESTIMONY?

A2: I have prepared this testimony for Metro Human Needs Alliance and People Organized and Working for Energy Reform.

Q3: PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A3: I have received two master's degrees from Rensselaer Polytechnic Institute (RPI) in Troy, New York. I also received two undergraduate degrees from the same school. My master's degrees are a Master of Engineering in Mechanical Engineering and a Master of Science in Science, Technology and Values, received in 1979 and 1981 respectively. My undergraduate degrees are in Mechanical Engineering and Philosophy. Much of my master's work included preparing Electric Generation Planning studies for the Center for Technology Assessment at Rensselaer. From this work I published two technical papers with IEEE Power Generation Division, and was a contributing author on two others. I also did work on New York State's first Energy Masterplan, one of the first comprehensive long-term planning studies in the nation.

Q4: HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS COMMISSION?

A4: Yes, I testified in the following rate cases: Louisville Gas & Electric Co. Case No. 2003-00433, Case No. 2000-00080, Case No. 90-158, Case No. 10064, and Case No. 9824; Kentucky Utilities Co. Case No. 2003-00434, Kentucky Power Co. Case No. 91-066; Union Light Heat and Power Co. Case No. 92-346 and Case No. 91-370; Big Rivers Electric Corp. Case No. 9613 and Case No. 97-204; Delta Natural Gas Co. Case No. 97-066 and Case No. 2004-00067; Western Kentucky Gas Co. 95-010; East Kentucky Power Cooperative Case No. 94-336; Clark RECC Case No. 92-219; Jackson Purchase ECC Case No. 97-224; Meade County RECC Case No. 97-209; Green River EC Case No. 97-219, Henderson

Union ECC Case No. 97-220, Kenergy Corp. Case No. 2003-00165 and Licking Valley RECC Case No. 98-321. I also presented testimony in cases involving each of East Kentucky Power's Cooperatives in the pass-through of rate reductions associated with Case No. 94-336. I also testified in the Commission's reviews of LG&E's Trimble County power plant, Case No. 9934 and Case No. 9242, and the rate impact of the 25% disallowance of that project, Case No. 10320. In addition, I presented testimony in the Certificate of Convenience and Necessity cases for Kentucky Utilities, Case No. 91-115, LG&E and KU, Case No. 2002-00029, and East Kentucky Power, Case No. 92-112, Case No. 2000-056, Case No. 2000-079, Case No. 2001-053 and Case No. 2003-030. I have also testified in Fuel Adjustment Clause cases involving Louisville Gas and Electric, Case No. 96-524, and Kentucky Utilities, Case No. 96-523; and in Environmental Surcharge cases involving Kentucky Power, Case No. 96-489; Kentucky Utilities, Case No. 93-465; and Louisville Gas and Electric, Case No. 94-332. Other cases in which I presented testimony include the Kentucky Utilities' Coal Litigation Refund case, Case No. 93-113; the Big Rivers' sale of peaking capacity to Hoosier Energy case, Case No. 93-163; the Joint Application case with LG&E to establish Demand Side Management programs, Case No. 93-150; and the Louisville Gas and Electric and Kentucky Utilities merger case, Case No. 97-300, the LG&E Energy and PowerGen merger case, Case No. 2000-095; a Union Light, Heat and Power refund case, Case No. 2000-426: and the Union Light, Heat and Power generation acquisition case, Case No. 2003-0052.

Q5: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A5: In the Commission's Order in this case, the Commission raised some questions as to the necessity of having two different Home Energy Assistance (HEA) programs in the LG&E and KU service territories. The purpose of my testimony is to provide the Commission with more details about the All Seasons Assurance Plan (ASAP) which is proposed for the LG&E service territory and explain why and how this program was developed. I will also address the viability of implementing a different HEA model in the LG&E service territory.

Q6: PLEASE EXPLAIN WHY THE ASAP PROGRAM WAS PROPOSED FOR USE IN THE LG&E SERVICE TERRITORY.

A6: The All Seasons Assurance Plan was developed eight years ago, specifically to assist low income customers in the LG&E service territory in paying their LG&E bills. This program was designed in a collaborative effort between social service providers and LG&E, as a program to distribute money from the Trimble County settlement. The goals of the program design were to develop a program that was 1) effective to solve low income customer problems and remove them from the pool of customers that caused so many problems for LG&E service and collection staff; 2) efficient to best use limited assistance dollars, and ; 3) designed around the existing LG&E computer, billing and collection system to minimize implementation costs for LG&E.

Q7: HOW WAS THE ASAP PROGRAM DESIGNED TO MAKE IT EFFECTIVE?

A7: The social service agencies brought to the table many years of experience in dealing with low income customers and problems associated with paying utility bills. In the early 1990's, the social service agencies in Jefferson County secured a limited pool of funds to administer a small 200 household Percentage of Income (PIP) pilot plan. This PIP pilot was run in parallel to the LG&E billing and collection program.

Much was learned from this PIP pilot that lead to seeking a different model. We learned from that experiment that while the PIP model was the predominant model being used in Ohio, Pennsylvania and New York, there was much room for improvement. Under the PIP plan, much of the administrative resources were used running a parallel billing system. In addition, the PIP model sent the wrong pricing signals, since there was no financial penalty for increasing energy usage, and thus did not encourage energy conservation.

Another valuable lesson from the PIP experiment was that the most effective use of administrative resources was the social service component. While the PIP model provided a subsidy that got utilities to an affordable level for many low income household, there were still many participants having payment problems. We found that there were a wide variety of other problems, in addition to affordability, that were preventing low income customer from paying their utility bills in a timely manner. Our limited investment in a social service component had a big payoff with respect to getting problems solved for payment troubled customers and getting them to pay their bills on time. The result was not

only reduced collection efforts at LG&E but also reduced late payment and disconnect/reconnect fees for the customer.

There were three very valuable lessons learned from the PIP pilot: 1) running a parallel billing system, was not the most effective use of administrative dollars and produced few additional benefits; 2) the limited use of administrative funds for a social service component produced the best results with respect to correcting payment-troubled customers' problems; and 3) the PIP model sent the wrong pricing signals and did not promote conservation of limited assistance resources.

When Trimble County settlement funds became available, lessons learned from the PIP pilot were used to create a more effective and efficient approach. A new holistic approach was adopted that focused on getting results, which emphasized "problem-solving" by placing the focus of administrative efforts on the social service component. The new approach used computers and interfaced with the LG&E billing system to dramatically reduce the amount of administrative resources used to actually make the subsidy payment. The resulting ASAP program is a very effective results oriented program that still keeps administrative costs low by placing the administrative emphasis in the area where the most results can be achieved.

Q8: HOW WAS THE ASAP PROGRAM DESIGNED TO BE EFFICIENT?

A8: Based on the input of both social service providers and LG&E staff, a carrot and stick approach was adopted. The ASAP program was designed for low-income

customers that want to be "good" LG&E customers and pay their bills on time, but simply do not have sufficient resources. Because assistance funds are limited, the program was designed to limit benefits only to levels that are actually needed. Since each low-income applicant's situation and usage pattern are different, we felt that designing a different and unique set of subsidy benefits for each potential client, based on historic usage patterns that are weather and commodity price corrected, was the most efficient use of limited assistance dollars. Thus each participant only receives assistance when they need it and only as much assistance as is needed. Using the applicant's monthly income and comparing it to anticipated utility costs for each month (based on the individual's weather and price corrected historic usage), monthly assistance levels are individually designed for applicant. This monthly subsidy varies from month to month depending on the amount of assistance needed to make their utility bill affordable. Each participant has a different set of benefits based on individual need. Many participants do not receive a benefit in every month, but only in months where there is a need for assistance, based on historic usage. The result of custom designing benefits for each applicant is that about 30% of low–income applicants for the ASAP program fail to demonstrate a need for assistance beyond the LIHEAP Subsidy award they receive in December and are thus not eligible for the ASAP program.

To help control administrative costs, applicants must qualify for at least $25.00 in annual benefits (about $2 per average month) to be enrolled in the ASAP program. This is because administrative costs per participant are similar

no matter the size of the subsidy offered. It would cost more to enroll, train and send monthly payment notices than a participant would receive in benefits, for anyone with a calculated benefit of under $25 annually. Thus a minimum annual calculated benefit of $25 is required for participation.

Q9: WHILE DESIGNING CUSTOM BENEFITS FOR EACH PARTICIPANT MAY STRETCH LIMITED ASSISTANCE DOLLARS, AREN'T THESE SAVING OFFSET BY INCREASED ADMINISTRATIVE COSTS ASSOCIATED WITH INDIVIDUALLY DESIGNING MONTHLY BENEFITS FOR EACH APPLICANT?

A9: No. Today's computer technology allows a desktop computer to process an individual's usage and income data to custom design benefits with little administrative effort. The major cost to do this is the up-front computer programming, which has already been developed and paid for, for the ASAP program. Now, the administrative effort is limited to annually receiving participant data electronically from LG&E and the LIHEAP program, inputting weather and commodity pricing correction factors, and running the program. While there are some administrative costs associated with calculating customized benefits that vary month to month, for the ASAP program this is simply a part of the annual recertification process.

Q10: YOU MENTIONED THAT THE ASAP PROGRAM WAS BASED ON A CARROT AND STICK APPROACH, PLEASE EXPLAIN WHAT YOU MEAN BY THAT?

A10: One valuable lesson learned for the PIP pilot done in the early 1990's was that simply making utility bills affordable was not the complete answer. The PIP model said that if a participant paid a set fixed amount towards his/her utilities each month, based on his/her income level, then the assistance program would cover the remaining costs. This approach had the shortcomings of failing to encourage conservation as well as a lack of an incentive for the participant to make timely payments.

The ASAP program takes a much different approach based on the carrot and stick approach. The basis for the ASAP program is the Fixed Credit model; which in many senses, is the PIP model turned upside-down. The Fixed Credit model promises to provide the participant a fixed amount of assistance each month, and then it is the participant's responsibility to pay the remaining portion of their bill. While the Fixed Credit approach is a major improvement over the PIP model, by moving responsibility for payment to the participant, which encourages conservation and personal responsibility, we felt that our PIP pilot experience offered ideas on how the Fixed Credit model could be modified or fine tuned to achieve even better results. Thus the ASAP program is based on a Modified Fixed Credit model.

I have already covered our modification that makes the fixed payment in each month variable, to provide benefits only when they are needed for each

individual client. Our other major change, based on our PIP experience, is to add a stick. The carrot is obviously the benefit of receiving a subsidy to make utilities affordable for low-income households. This carrot is enough for most recipients to be able to pay their utility bills on a timely basis, thus avoiding all of the late fees and collection costs. But there are some participants that need an additional incentive. The program ASAP was specifically designed with an additional stick. Participants that do not pay their part of their bills in a timely manner, the share that is calculated to be affordable, can be terminated from the program. Funds promised to these terminated participants can then be used to add new participant to the program.

A significant portion of ASAP administrative time is used to receive daily reports from LG&E as to participants behind on payments, and working with those delinquent participant to get their portion of bills paid so they can continue on the program. While these delinquent participant are getting caught up with their portion of past bills, they are placed in a "Hold" status and no additional subsidy payments are made to their account until they are caught up with LG&E. In addition to this stick, the participants are given a limited window of 45 days to get caught up before they are terminated from the ASAP program.

Experience has shown that with a strong social service component, most of these delinquent participants can get caught up. Without the social service component, clients are simply sent delinquent notices and methodically terminated from the program. A limited social service approach would minimize administrative costs to the short-run, but is much more expensive in the long-term

for the client, LG&E and the ASAP program. Limited intervention that results in a termination obviously is more expensive for the client due to late fees and disconnect/reconnect fees. This situation is more expensive for LG&E since this customer falls back into the troubled payment pool requiring expensive staff time focused on collection. It is also more expensive for the ASAP program, since there are significant costs associated with the intake, qualification, enrollment and training associated with adding a replacement participant. Experience has taught us that the administrative costs associated with the social service component is money well spent by increasing program participant retention rates, and thus saves all parties money in the long-run.

Q11: DOESN'T THIS SOCIAL SERVICE COMPONENT SIGNIFICANTLY INCREASE THE ADMINISTRATIVE COSTS OF THE ASAP PROGRAM?

A11: While it is true that the social service component increases ASAP administrative costs, there are significant benefits associated with this expense. And while the administrative costs are higher than if this component was omitted, the efficient ASAP program still holds administrative cost to 10% of the total program cost. The ASAP program contains administrative costs in many ways. Because of the relationship between Metro Human Needs Alliance (MHNA), the program administrator, and its member Community Ministries, intake is done at these ministry offices free of charge to the ASAP program. Likewise, recertification costs are minimized by doing this at LIHEAP subsidy program intake sites and sharing data with the administrating CAAs.

Q12: ISN'T IT TRUE THAT TO RESTART THE ASAP PROGRAM, ADDITIONAL EMPLOYEES WITH HAVE TO BE HIRED?

A12: No. To restart the ASAP program, the pre-existing program manager position will be filled. This employee is responsible for daily oversight of the program. Experience has shown us that to operate a Modified Fixed Credit program, that uses the stick of daily checks for delinquent participants and contains a strong social service component to resolve participant problems, a dedicated full time employee is necessary. To keep administrative costs down, existing MHNA staff will cover duties of the former part-time position. MHNA will provide support services, such as secretarial and bookkeeping services, that were previously accomplished by the employment of a part-time employee. Again I must emphasize that the ASAP program will keep administrative costs at or below 10% of program costs while still providing a strong social service component by hiring a full time employee.

Q13: THE THIRD DESIGN ASPECT OF THE PROGRAM THAT YOU MENTIONED WAS DESIGNING THE ASAP PROGRAM AROUND THE LG&E "SYSTEM". PLEASE EXPLAIN THE IMPORTANCE OF THIS ASPECT OF THE ASAP DESIGN.

A13: The ASAP program was custom designed in interface with the existing LG&E computer and billing system. The PIP pilot demonstrated the difficulties and expense of operating a parallel billing system associated with the PIP model.

There was significant administrative savings associated with designing our program to be based on and use the LG&E billing system. Since it made little sense for LG&E to redesign its computer programs and billing system to accommodate a new program that only served a small portion all LG&E customers, it made more sense to custom design our assistance program around the existing LG&E system. Thus a staring point for design of our ASAP program was taking the existing LG&E computer and billing system as a given that was not to be changed. It should be noted though that once we all agreed to this given assumption, LG&E has been very helpful in working with us to both extract needed data from the LG&E system as well as design seamless ways for the ASAP program to interact with the LG&E system.

A good example of this ASAP program design is how ASAP subsidy payments appear on the LG&E bill which participants receive. We wanted our ASAP payment to appear on the LG&E bill as a separate line item. The programming cost to LG&E associated with this was prohibitive. Working with LG&E, we found a way to make and log our payments a day before the meter was read. This automatically, with the existing LG&E system, had our subsidy payment appear as a credit on the bill, with the remaining amount being the responsibility of the participant.

This creative solution to use the existing system to show our payments on the bill had one hitch though. About two-thirds of participant entering the ASAP program bring an arrearage with them. The way that the LG&E computer billing program works is that any money paid in excess of the current bill is

automatically applied to the back balance. Thus using the system we had worked out for these new participants would result in none of our subsidy going to the current bill, and not really helping to keep the new participant current with their bill.

This problem was dealt with in two ways. First, subsidies paid new participants with arrearages are made after the bill is issued. As a result, the payment does not appear on the customer's bill and a separate letter is sent to the participant stating that this payment has been made to their bill, and they need to subtract this amount for the billed amount, and pay the balance. While more difficult and expensive to do things this way, it is necessary to interact with the existing LG&E billing system.

To get the new participant onto our regular system that is easier to understand and lower cost, we needed to get the customer's arrearage paid off. The ASAP program agreed to pay half of the incoming arrearage, over a 12 month period, if the participant pays off the other half. To facilitate this, LG&E was willing to reprogram its computer to automatically take any arrearage that a new ASAP participant has when entering the program and put it into a 12 month arrearage payoff plan. Part of the arrearage payoff cost to the ASAP program is offset by reduced administrative costs associated with having a participant on our regular program that does not require monthly payment notification letters. Thus an arrearage payoff program is an integral part of making the ASAP program efficient and reducing long-term administrative costs. Getting arrearages paid off is also critical to retaining participants on the ASAP program, because it reduces

the risk of termination of service by LG&E which would then result in termination from the ASAP program.

Q14: THE COMMISSION'S ORDER NOTED DIFFERENCES BETWEEN THE ASAP PROGRAM YOU HAVE PROPOSED AND THE PROGRAM BEING PROPOSED FOR THE KU SERVICE TERRITORY. IS THERE A REASON FOR THESE DIFFERENCES?

A14: Yes, there are some very important reasons for the differences. First, I was disappointed that the Order did not recognize all the similarities between the two programs. While there are a large number of different types of low-income assistance program that are in use or have been tried, both the program proposed for the KU service territory and the one we have proposed are based on the Fixed Credit model. To the credit of both the Community Action Council (CAC) and MHNA, they have both recognized the flaws with the more widely used PIP model and have both opted for the more efficient and effective Fixed Credit Model. As such, the two programs have much more in common than they have different.

While CAC has opted for a more traditional use of the Fixed Credit model, MHNA has continued the modifications made to the model to make it operate better in the LG&E service territory. It should be noted that CAC has also made some modifications to make the Fixed Credit model work better in the KU service territory.

One of the best examples of a modification that both programs have made is their approach to shoulder months (lower used months with low heating and cooling costs). The Commission correctly pointed out that a 7-month program is proposed for the KU service territory, while a 12-month program is proposed for the LG&E service territory. This is simply two different approaches to dealing with a weakness of the Fixed Credit model, the problem of subsidies in shoulder months. In this region of the country, utility bills go up in the winter due to heating costs and also go up in the summer due to cooling costs. Thus there are Spring and Fall shoulder months when the fixed credit needs to be modified due to reduced needs during these periods. CAC and MHNA have simply taken a different approach to make this needed modification.

The CAC for the KU territory has chosen to keep credit subsidies fixed for each month, but simply not pay them during shoulder months, thus resulting in a 7-month program. The ASAP program simply uses a different methodology to make this necessary modification to the Fixed Credit model. The ASAP approach is to vary the payments for each month and for each participant. This approach achieves similar results as the CAC program, but does it in a different way. Exhibit DHBK-1 uses the actual calculated benefits from the Commission approved ASAP pilot program run in 2002. This exhibit shows that not all participants receive a subsidy during the shoulder months, and that the subsidy received in shoulder month by those who do qualify is much smaller than the average benefits received during primary heating and cooling months. This exhibit also shows that the total amount paid by the ASAP program in shoulder

months is only about a quarter of the total payments, while three-quarters of subsidies are paid in heating and cooling months. So while the CAC modification results in fixed payments in 7 months, and the ASAP modification results in varying payments over 12 months, the resulting subsidy funds paid out in primary months versus shoulder months is similar.

The Commission should also be aware that others have thought that different programs might be necessary in different service territories. In the mid-1980's, legislation was introduced to adopt a statewide PIP plan for the Commonwealth. One of the primary reasons given by legislators for not passing this legislation was the diversity of energy types that would make it difficult to design a single program for all low-income household in the state. We are faced with the same differences today that makes designing one program to be used by both LG&E and KU difficult.

Q15: ANOTHER DIFFERENCE BETWEEN THE TWO PROPOSED PROGRAMS IDENTIFIED BY THE COMMISSION IS HOW ARREARAGES ARE DEALT WITH. COULD YOU PLEASE EXPLAIN WHY THERE ARE DIFFERENT APPROACHES.

A15: Again, I think it is important to recognize the similarities as well as the differences. It is important to note that both programs deal with incoming arrearages, though the approach used is a little different. These differences are a result of the different situations in which the programs are operating. The CAC

program relies on other resources that CAC has at its disposal to deal with arrearages. In should be noted that because of the CAC program design, paying off arrearages is a desirable goal, but not critical to the operation of the program. By contrast, for the ASAP program to operate smoothly and efficiently, due to the interaction with the LG&E billing system, incoming arrearages must be paid off. And while it would be desirable for other agencies to earmark money to pay off arrearages of ASAP participants, this has not happened. There is some feeling that since ASAP participants are already receiving significant assistance, that limited other assistance dollars should be used for low-income households that are not on the ASAP program. Since other agencies cannot be counted upon to pay off ASAP participant arrearages, and that eliminating these arrearages has significant long-term benefits to the ASAP program itself, it was concluded that an arrearage payoff program needed to be included in the ASAP program. While we salute CAC and its creativity in finding other funds to deal with this problem in the KU service territory, we need to deal with the realities of the LG&E service territory and include an arrearage payoff program. It should be noted that the participant is responsible for paying off half of the arrearage over 12 months, and failure to keep up with these payment could result in termination from the ASAP program.

Q16: THE COMMISSION'S ORDER REQUESTED THAT THE USE OF THE SAME PROGRAM IN BOTH SERVICE TERRITORIES BE EXPLORED. DO

YOU SEE ANY ADVANTAGES TO USING THE SAME HEA PROGRAM IN BOTH SERVICE TERRITORIES?

A16: As I discussed earlier, both proposed programs are based on the same Fixed Credit model, which has a number of advantages over the more commonly used PIP model. But the Fixed Credit model requires some modifications to make it more efficient. The differences are primarily how each program has been modified to best operate in the two different services territories.

There are significant differences between the KU and LG&E service territories that justify different modifications and have lead to the actual modifications made in different ways. First, the computer and billing systems that each program must interface with are different. And while LG&E has made great strides to bringing the two computer and billing systems together, many difference still exist. A second major difference is that LG&E is a combined gas and electric utility, with most customers being combination customers, and most customers being centralized in a single county. By contrast, KU is an electric only utility that serves 77 different counties.

These differences can be seen in the Orders issued in the cases. LG&E is required to track gas and electric charges and benefits separately, while KU has only one fund. The ASAP program is designed to assist with two utilities (gas and electric) while the KU program only deals with a single utility. And many customers and supporting agencies are familiar with the Columbia Gas program, which is the model for the KU proposed program, but are not familiar with the details of how the ASAP program operates.

The proposed programs have been designed and adapted to the realities of each service territory. The ASAP program today, while still using the same basic model and approach, has undergone a number of improvements due both to day to day operations and outside evaluations. The ASAP program today is a smoother running and more efficient program than the new program rolled out in the 1990's. In the same way, I am sure that CAC has made improvements to the Columbia Gas program to adapt it to the on-the-ground realities in which it operates. Many of the differences between the two programs are a result of adapting them to work within the local environment in which they operate.

Q17: COULD THE ASAP PROGRAM BE EASILY MODIFIED TO USE THE SAME APPROACH AS USED IN THE KU SERVICE TERRITORY?

A17: Probably not. It would probably be easier to simply start from scratch if the Commission ordered the KU program be adapted for the LG&E service territory. Beyond computer programming, all new intake forms would need to be constructed, participant training would have to be completely redesigned, and interfacing agencies would have to be completely retrained. While the cost in dollars would be high, the cost in time would probably be higher. It will be difficult the restart the ASAP program for this heating season, but it would be next to impossible to redesign a program from scratch and get it up and running in the next few months. It is impossible for me to quickly provide a cost of adopting a new program, but my best estimate would be as much as $50,000. This would include the development of new software programs, redesign of all forms and

training manuals, and retraining of all agency personnel that are involved in the intake and recertification processes. This does not include the lost productivity associated the refinement over the next few years as it will be customized to work well with the LG&E system.

I would request that the Commission keep in mind that significant funds have been invested in the past to design the existing programs for these two service territories. Taking a program designed over a period of years for one service territory and planting in another will require significant modifications and retraining of agencies and participants. In my opinion, these resources are better used to provide benefits to participants.

Q18: BASED ON YOUR KNOWLEDGE OF THE ASAP PROGRAM, DO YOU BELIEVE THAT CAC COULD EASILY ADAPT IT TO THE KU SERVICE TERRITORY?

A18: I think easy adoption of an ASAP-type program by CAC is unlikely. I have tried to explain some of the many ways that the ASAP program was designed around the LG&E computer and billing system and how it was tailored to the unique characteristics of the LG&E service territory. Making this rather complex program operate in 77 counties would be difficult. For example, to enroll in the ASAP program, a two-hour training session is required to ensure participation commitment, provide applications for weatherization services and explain the subsidy process. This can be done efficiently when participants can be trained 30 to 40 at a time. This is not a problem in Jefferson County. But in outlying

counties, the training sessions usually have two to five enrollees. KU's electric heat customers tend to be in more rural areas where few participants might be from any one area. I can't imagine the difficulties of trying to conduct the enrollment training sessions in 77 counties. It is not clear to me that the ASAP program would be a good fit for the KU service territory.

Q19: BASED ON YOUR ANALYSIS AND EXPERIENCE WITH HEA PROGRAMS, WHAT IS YOUR RECOMMENDATION FOR THE COMMISSION?

A19: As the old saying goes, "If it ain't broke, don't fix it." Both of the two HEA programs have been designed, operated and adapted for use in their respective service territories, based on the realities on the ground with respect to need, agency support, and the utility system to which they must interface. Both programs have a track record, backed up with independent evaluations that demonstrate their effectiveness and efficiency. To change one or both of these programs now would have significant costs without any anticipated benefits. In fact to remove a program that has been designed and adapted for a particular service territory, and replace it with a program designed to work in a completely different location and under different circumstances, risks coming up with something that doesn't work as well as the existing programs.

The Commission is also faced with the impending heating season. With speedy approval of the proposed programs, low-income Kentuckians will be able to receive some assistance with bills that the Commission itself has warned will

be higher than last winter. Time is of the essence. I urge the Commission to approve the two proposed programs as soon as possible, so necessary planning and implementation can begin.

Q20: DOES THIS CONCLUDE YOUR TESTIMONY?

A20: Yes it does.

I, David H. Brown Kinloch, certify that the statements contained in the foregoing testimony are true and correct to the best of my knowledge, information, and belief.

Dated this 18th day of October 2004.

David H. Brown Kinloch

Affirmed to and subscribed
before me, this 18th day
of October, 2004.

Sandra K Davidson
Notary Public

My Commission Expires: 6/23/2005

LG&E HEA Pilot 2002
Average Calculated Subsidy for the Full Year

Primary Month	Month	Average Subsidy	No. Participants Receiving Subsidy	No. Participants at Full Enrollment	Total Subsidy for Program	
*	January	$94.10	516	1207	$113,579	[new participants being added]
*	February	$74.56	683	1207	$89,994	[new participants being added]
*	March	$70.29	1174	1174	$82,520	
	April	$51.93	1126	1126	$58,473	
	May	$26.21	883	883	$23,143	[Shoulder months have fewer receipients
	June	$31.90	945	945	$30,146	and lower subsidy payments]
*	July	$47.15	1053	1053	$49,649	
*	August	$47.64	1062	1062	$50,594	
*	September	$45.92	1039	1039	$47,711	
	October	$23.54	832	832	$19,585	
	November	$38.50	1077	1077	$41,465	
*	December	$41.38	240	240	$9,931	[LIHEAP Subsidy Payments reduce need]

Primary Heating and Cooling Months	$443,978	**74%**
Shoulder Months	$159,600	**26%**
Total	$603,577	

Exhibit DHBK - 1