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VIA HAND-DELIVERY

October 28, 2008

Stephanie Stumbo, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2008-00251 – Testimony of Jack E. Burch on Behalf of CAC

Dear Ms. Stumbo:

Enclosed on behalf of Community Action Kentucky, Inc. and Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. is an original and eleven (11) copies of the above-referenced testimony on behalf of CAC.

Please return a file-stamped copy to me in the enclosed envelope. If you have any questions, do not hesitate to call.

Very truly yours,



Joe F. Childers

JFC/tmp
Enclosures

(JFC/CAC-KACA/2008 Rate Increase)

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

OCT 28 2008
PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY)
UTILITIES COMPANY FOR AN) CASE NO. 2008-00251
ADJUSTMENT OF BASE RATES)

TESTIMONY OF JACK E. BURCH ON BEHALF OF CAC

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

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

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 West High Street in Lexington, Kentucky.

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.

Please describe the purpose of your testimony.

The purpose of my testimony is to state the position of the organizations I represent with respect to the proposed Kentucky Utilities ("KU") rate increase and to provide information in support of my position. In summary, we do not believe that a rate increase, as currently proposed by Kentucky Utilities, is a reasonable or appropriate expectation for low-income customers. My testimony will provide a perspective that represents issues that should be given full consideration in rendering a decision on this

case. I am an advocate on behalf of low-income customers. CAC is a low-income services, development and advocacy organization.

Please describe the organization of the Community Action Council and give a brief description of its activities.

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 260 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; the Retired and Senior Volunteer Program extends into Jessamine County. The Columbia Gas Energy Assistance 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 has 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.

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

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 mission of the Council is to combat poverty.

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.

Other programs include senior volunteerism projects **Retired and Senior Volunteer Program (RSVP)** and the **Foster Grandparents Program (FGP)**. 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 system.

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 also implemented and administers the **Kentucky Utilities Home Energy Assistance (HEA) Program**, which serves 1,300 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 and disabled customers with the provision and installation of air conditioners.

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 continues to provide energy conservation services, such as furnace replacement, through its Weatherization programming. The Council, as a member of Community Action Kentucky, will be providing intakes and energy audits for KU’s We Care demand side management program and has proposed to the Companies to provide direct weatherization measures under that program approved earlier this year by the Commission.

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.

Are there initiatives that Community Action Council partners with KU or LG&E? Please discuss.

The Council, as a member of Community Action Kentucky, will conduct intakes and energy audits for the We Care demand side management program approved earlier this year by the Commission. Community Action Kentucky also has a proposal pending with the Companies to provide direct installation of weatherization measures for that program.

The Council administers contributions from KU customers and matching corporate funds

from KU for WinterCare. The funds are available throughout the KU service territory through the community action agency network.

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 annual event is modeled after Project Warm in Louisville, Kentucky. It was first held in Lexington in 2005 and continues to be held annually.

By mutual agreement, KU provides a customer service representative on-site during the heating season at a Council location in order to better serve low-income customers and provide a better access point.

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

Based on 2005 Census data – the most recent county-level poverty data available – the following chart provides poverty status by county for KU service counties. The chart is in descending order from most impoverished counties to least.

Several of the KU service counties report some of the highest poverty rates in Kentucky. Nineteen counties report poverty rates above 20% that, according to Census definitions, are extremely high. Clay County, with a poverty rate of 37.2% is the most impoverished county in Kentucky according to these definitions.

The Census Bureau uses income and family size as the basis for determining poverty. Poverty and need affordability is an economic equation of income versus basic needs of a family depending on the size of a family. Families in poverty, based on the limits of their income, cannot meet their basic needs.

Focusing on current energy affordability, families could not meet their basic energy needs this year as evidenced by data from the Low Income Home Energy Assistance Program (LIHEAP) in Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties administered by the Council. Between January and March 2008, the Council took 4,884 applications for LIHEAP assistance, paying more than \$266,000 to KU and \$30,000 from funding sources other than LIHEAP. Due to insufficient funding, the Crisis program closed in February 2008, marking the earliest time on record that the program has been forced to close because funds were exhausted.

It is anticipated that the high winter heating bills will begin soon even while some families are still disconnected or carrying high arrearages because the Crisis and Wintercare programs were unable to meet existing needs in the winter and spring of 2008. It is during this period that we observe families making choices to discontinue service rather than pay what is still owed in order to shift resources to meeting other needs, such as food and medicine.

Poverty Rates by KU Service County

KU Service County	Poverty Rate	KU Service County	Poverty Rate
Clay	37.20%	Caldwell	16.40%
McCreary	36.60%	McLean	16.10%
Knox	36.20%	Owen	16.10%
Bell	35.40%	Christian	16.00%
Lee	34.70%	Larue	15.70%
Harlan	31.60%	Lyon	15.40%
Estill	29.10%	Washington	15.30%
Whitley	26.90%	Union	15.30%
Casey	25.50%	Boyle	15.20%
Fulton	25.40%	Webster	15.10%
Rockcastle	25.40%	Garrard	15.00%
Adair	24.90%	Ballard	15.00%
Hart	24.20%	Henry	15.00%
Russell	24.00%	Trimble	14.70%
Grayson	23.70%	Pendleton	14.70%
Rowan	23.50%	Fayette	14.70%
Robertson	22.40%	Daviess	14.60%
Bath	22.00%	Carroll	14.40%
Laurel	20.10%	Henderson	14.40%
Muhlenberg	19.80%	Carlisle	14.20%
Marion	19.70%	Mercer	14.10%
Green	19.50%	Harrison	13.90%
Lincoln	19.30%	Clark	13.80%
Nicholas	19.10%	Livingston	13.30%
Ohio	18.90%	Bracken	12.80%
Edmonson	18.70%	Grant	12.50%
Pulaski	18.60%	Jessamine	12.50%
Fleming	18.50%	Hardin	12.50%
Taylor	18.50%	Campbell	12.10%
Mason	18.50%	Nelson	12.00%
Madison	18.10%	Franklin	11.90%
Crittenden	18.00%	Scott	10.40%
Hopkins	17.70%	Shelby	9.70%
Montgomery	17.70%	Woodford	9.10%
Barren	17.70%	Bullitt	8.90%
Hickman	17.30%	Anderson	8.80%
Gallatin	17.30%	Spencer	8.70%
Bourbon	17.10%	Oldham	5.00%
McCracken	17.00%	Poverty Rate for KU Service Area	18.20%

This data effectively illustrates the number of low-income families who cannot meet their basic needs with current income. For a senior citizen on a fixed income, utility service is not only a basic need it is a survival need. This does not include an assessment of other basic needs that households require like food, shelter, and medication. The volatile price of gasoline, for example, has forced families to make difficult decisions even to maintain their employment. The stress of these demands stretches a family's resources beyond what it can sustain. This information is based on data at the current KU rates, with a rate increase, the affordability gap will greatly widen.

Please describe how the proposed rate and fee increases will affect low-income customers.

In 2005, the Companies reported having 403,943 customers – a number that has increased by almost 10,000 in the past two years. Using the 2005 poverty estimates (as used above), the Council has calculated a poverty rate of 18.2% for the KU service counties. That means 73,518 customers are likely to be below the poverty line, using the most conservative of estimates (some areas have much higher poverty rates). Therefore, the impact of the annual electric customer charge increase (\$41.88) on low-income customers would be \$3,078,934, as illustrated by the following chart:

Low-Income Customers	Total Residential Customers (2005)	% Low-Income	Proposed Annual Rate Increase Per Customer	Impact on Low-Income
73,518	403,943	18.2%	\$41.88	\$3,078,934

It is important to consider the context of these numbers. These 73,518 customers have incomes below basic survival needs (housing, food, etc.), yet these same customers are expected to find an additional \$3,078,934 to maintain an essential service: electricity. The current economic crisis will only exacerbate the likely impact of the proposed increase.

Given current realities, existing energy assistance resources fall far short of meeting the need of low-income customers of the company. A rate increase as proposed will have a devastating impact on the poor, who already have extremely limited resources.

If the 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 will attempt to satisfy. Families have to do this now at current rates. With a rate increase, the magnitude of having to negotiate basic needs will increase and the impact will become greater. The stress of stretching resources will continue to act as a barrier to increasing opportunity and reaching self-sufficiency. For those who have made strides in increasing their incomes, the effect of a rate increase, as proposed, coupled with the current economic

stress and inability to secure credit, will be devastating. The rate increase will create a barrier but it will also create a situation where relief agencies will not be able to come close to providing the assistance that will really matter to the low-income customers they serve.

What do you propose as the solution in this case?

Regardless of the size of the increase in rates and fees, low-income customers already experience an affordability gap. I am encouraging KU to expand the safety net for its low-income customers by taking the road the company and the Commission have previously taken. I would encourage KU to reconsider the size of increase in rates as well and/or expanding the energy assistance safety net.

Specifically, the Council proposes increasing the per meter charge for the KU Home Energy Assistance Program from 0.10 per meter to .25 per meter. This 250 percent increase would expand the ability of the community action network to assist households struggling to keep their electric service from being shut off. Currently, the program is able to serve 1,600 KU customers annually. The proposed increase, while imposing a minimal burden on ratepayers, would expand services to approximately 4,000 additional customers. Ratepayers and shareholders benefit with families' increased ability to keep electric bill payments current. As discussed earlier, arrearages and shutoffs are on the increase, and result in added costs to the company and its residential customers. The HEA program has been shown to reduce arrearages and shutoffs, therefore reducing the affordability gap and the burden on ratepayers and shareholders. Everybody wins with an HEA program, which is the most cost-effective way to make electricity affordable and accessible for many low-income customers.

The current scope of the HEA program, which generates approximately \$480,000 annually from a \$0.10 per meter charge, is extremely insufficient. With only minimal marketing and recruitment for the program, the administering community action agencies have a wait list of approximately 486 families. The Council believes that the wait list would be much larger if more low-income families were aware of the program and knew that slots were available.

Please describe how energy assistance initiatives help low-income customers and the utility company.

Energy assistance programs like HEA provide a safety net for the low-income customer and help close the affordability gap. The safety net helps keep vital energy service running and makes it more affordable to the low-income customer. Energy assistance programs help companies experience less bad debt to write off and save on the costs associated with disconnects and reconnects.

Is an energy subsidy the only benefit of an energy assistance program?

No, but when a program operates in strong collaboration with a comprehensive service organization such as community action agencies, the benefits are expanded. Once enrolled in the program, customers have access to a wide-variety of both short and long-term service programs that help them strive toward self-sufficiency. Staff of such organizations are able to help participants access other assistance programs as well as other community resources to address the multiple obstacles and barriers that most low income households face. This comprehensive approach is intended to provide greater stability and self-sufficiency to these households, promoting more consistency in utility payments.

Is it KU's responsibility to contribute to improve the lives of low-income customers?

As a public utility, Kentucky Utilities has an obligation to its low-income customers. KU is the only choice for electric service. Low-income people cannot shop around for a better deal.

How does the HEA program work?

The KU HEA program reduces monthly utility bills to an affordable monthly amount for eligible households. It offers active intervention with a household in danger of shutoff. It links the customer to comprehensive short and long-term self-sufficiency programs. Applicants must be responsible for home energy costs and must be willing to re-certify annually and participants must apply for weatherization and accept services if eligible and available.

The HEA participants receive a subsidy applied directly to their account during the seven peak heating and cooling months (December, January, February, March, July, August, and September).

Is there any evidence that this type of program has been successful?

In 2007, RLW Analytics conducted an evaluation of the KU HEA program, examining program data and impact on customers. The evaluation found that administrative costs of the program were consistent with similar programs. More importantly, the evaluation concluded that “customer participation in the HEA Program significantly improves service continuity by reducing brown bills (disconnection notices), disconnections for non-payment and account closure rates.”

The evaluation also found that the HEA program results in a reduction of average KU debt – a result with significant positive impact for ratepayers and shareholders. Ultimately, the RLW evaluation found that “The HEA Program helps make low-income customers’ energy bills more affordable.”

Are resources for energy assistance sufficient to meet the needs of the population in the Kentucky Utilities service territory? Please discuss.

No, resources are not sufficient to meet the needs of the population. Federal LIHEAP funding to the state has been highly variable in the past several years. The WinterCare Energy Fund is limited primarily to individual and corporate donations, which also fluctuate (see chart below). The fund has not significantly increased in the past 10 years and, in fact, decreased from 2006 to 2007.

WinterCare Energy Fund Contributions

Year	Company Contributions	Ratepayer Contributors	Ratepayer Contributions	Total
2003	\$28,823	19,609	\$73,821	\$102,644
2004	\$58,469	18,346	\$71,684	\$130,153
2005	\$56,963	17,218	\$69,342	\$126,305
2006	\$55,922	17,989	\$80,758	\$136,680
2007	\$45,019	15,578	\$62,766	\$107,785

There continues to be a significant gap between the cost of utility service and the ability of the elderly, the working poor and other low-income households to pay for such service. Current energy assistance initiatives within the Kentucky Utilities area do not come close to addressing this gap. Each year, Community Action Council is forced to turn away hundreds of families who urgently need energy assistance for lack of available funds.

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

The rate increase is too high and will negatively affect the ability of low-income customers to pay for essential service to a significant degree. Without additional means of support, like low-income subsidies, the affordability gap will continue to grow.

Does this end your direct testimony?

Yes

I have read the above questions and answers and they are 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 27th day of
October, 2008.

My Commission expires: JUNE 25, 2009


NOTARY PUBLIC, STATE AT LARGE


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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing document has been served on
the following persons by United States mail on this the 28th day of ~~August~~ October, 2008:

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