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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 and 2008-00252
- Testimony of Kip Bowmar 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)

And

In the Matter of:

APPLICATION OF LOUISVILLE)
GAS AND ELECTRIC COMPANY) CASE NO. 2008-00252
FOR AN ADJUSTMENT OF BASE)
RATES)

TESTIMONY OF THOMAS "KIP" BOWMAR ON BEHALF OF CAK

Comes Community Action Kentucky, Inc. ("CAK," formerly Kentucky Association for Community Action, Inc.), and hereby tenders the pre-filed, written testimony of Thomas "Kip" Bowmar in support of its position in this matter.

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

My name is Thomas "Kip" Bowmar and I have served as Executive Director of Community Action Kentucky (formerly known as the Kentucky Association for Community Action, Inc. since 1994. CAK's administrative offices are located at 101 Burch Court in Frankfort, Kentucky and its 23 member Community Action Agencies provide direct services to low income households in all 120 counties of the state. One of the 23 CAK member Community Action Agencies is Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. (hereinafter "CAC"), P.O. Box 11610, Lexington, KY 40576, which is also an intervener in this rate case.

I am an honors program graduate from the University of Kentucky with a major in journalism and I earned a Masters degree in Public Administration from

Kentucky State University. I have worked with DSM/Energy assistance collaboratives with American Electric Power (Kentucky Power Company), West Kentucky Gas, Duke Energy, Louisville Gas and Electric, and Kentucky Utilities over the years. I also served on the Public Service Commission's natural gas unbundling task force and recently participated with the Commission's DSM proceedings initiated in response to House Bill One, which is looking at barriers to increased use of renewable energy.

Please describe the purpose of your testimony.

The purpose of my testimony is to state the position of Community Action Kentucky with respect to the proposed rate increases of Louisville Gas and Electric and Kentucky Utilities (KU) and to provide information in support of our position. In short, we do not believe that the currently proposed rate increase is appropriate or reasonable at this point without significant increases in resources to help protect the most vulnerable households for the coming winter. Community Action Kentucky is very concerned about the impact that the proposed rate increases would have on the 800,000 + households that lie in the companies two service territories.

Please describe the organization description of its activities with a particular emphasis on energy related programs.

CAK is a 501(c) 3 not for profit organization domiciled in the Commonwealth of Kentucky. CAK represents the 23 Community Action Agencies, which provide social services to nearly 500,000 low income individuals in all 120 counties every year through a variety of programs. Those programs run the gamut from energy assistance to head start to transportation services to energy conservation services to senior services to self sufficiency to emergency services and more.

CAK operates the federally funded Low Income Home Energy Assistance Program (LIHEAP) from the beginning of November until the end of March, or until funds are exhausted, through its network of 23 Community Action Agencies. In two recent heating seasons (2005-2006 and 2006-2007), we helped prevent shutoffs and reduce crisis situations to over 220,000 households with approximately \$32 million in benefits each year. In the 2007-2008 heating season CAK was only able to serve 175,000 households with approximately \$24 million in benefits. The program assisted households in all 120 counties of the state. As a result, over 45,000 families had to be turned away this past year as a result of a lack of resources.

LIHEAP is an important program for a wide variety of reasons not the least of which is because it assists a large number of senior citizens, disabled persons, and families with children under the age of six. Without LIHEAP services, many of our most vulnerable residents would be at a far greater health risk. The Program is funded by the Federal Department of Health and Human Services and in 2006 was also funded by the Kentucky General Assembly for the first time. Legislation in the 2008 General Assembly was stalled because of a lack of state resources. Funding for the program for the last few years

has been uneven to say the least. While federal funding has been increased for the 2008-2009 heating season, there is no guarantee that will occur again in the future.

CAK also operates the federally funded Weatherization Assistance Program from the Department of Energy. CAK operates the program statewide through a network of 22 Community Action Agencies and one unit of local government. The Weatherization program provides a wide variety of energy conservation measures including furnace repair, attic insulation, stopping air infiltration, wall insulation, repairing ducts and vents, furnace replacement, floor insulation, hot water heater wraps, refrigerator replacement (in limited cases), installation of compact fluorescent light bulbs, and more. The program also includes energy education for the households. In the 2006-2007 year, the Weatherization program in Kentucky provided these comprehensive services to over 2,500 households in all 120 counties of the state. Due to a decrease in funding there were approximately 2,20 homes that were weatherized in 2007- 2008.

The Weatherization Program is extremely important because it reduces energy usage over the long term as opposed to providing a one time benefit, such as LIHEAP assistance. Federal Department of Energy studies have shown that Weatherization may reduce a household's energy usage by up to 20%. Under CAK's adept management, these programs have worked together very closely. Federal LIHEAP regulations allow a 15% transfer from LIHEAP to Weatherization on an annual basis. We have worked with the Commonwealth of Kentucky annually to see that such a transfer occurs because Weatherization plays a large part in the long term solution in the effort to make energy affordable for low income households. This 15% transfer from LIHEAP typically makes up 40% to 50% of the Weatherization Program in any given year. One of the other reasons that the federal Weatherization program is necessary is that it is only able to serve a little over one percent of the population that is served by LIHEAP. To put this in perspective, under current funding it would take over 80 years to weatherize the homes that were served in LIHEAP in 2006-2007 alone.

CAK has also overseen and worked with two Residential Energy Assistance Challenge (REACH) grants, one with CAC in Lexington and one with Louisville Metro Community Action Partnership. Both sought to combine extensive energy conservation services with more extensive energy education to reduce energy cost burdens on low-income households.

CAK operates a demand side management program (DSM) with a contract from the Cabinet for Health and Family Services (CHFS) that seeks to create additional energy conservation and energy assistance services for low income households. As part of these efforts, CAK has intervened in many rate cases and other regulatory proceedings and offered testimony to help support those efforts. Because of this work and the work of other low income advocates, there are presently utility and ratepayer funded energy assistance and energy conservation programs in place with Kentucky Utilities, Louisville Gas and Electric, Duke Energy, American Electric Power, Columbia Gas, and Atmos.

CAK operates the Rural Community Assistance Program (RCAP), which seeks to provide low income communities with solutions to water, waste water, and community development problems. CAK's RCAP program has helped numerous communities leverage millions of dollars in water and sewer utility improvements through its training and technical assistance program.

CAK operates a housing program in conjunction with the Kentucky Housing Corporation (KHC), which assists local Community Action agencies in providing more services in rehabilitating existing housing stock.

CAK and 22 of its member agencies utilize the Castanet computerized software intake and information management system. The system is also able to incorporate data from the IRIS system that CAC utilizes. The data system is able to help CAK track necessary information from the households that we serve and to be able to generate the necessary reports for funding sources as well as data for our annual report and other documents.

**Are there programs through which CAK partners with utility companies?
Please discuss.**

CAK has a contract with Kentucky Utilities to operate the home energy assistance program through the KU service area that serves approximately 1,600 households annually. CAK works very closely with CAC and KU on this program. In addition, CAK assists with the Louisville Gas and Electric home energy assistance program as the applicants for this program apply through CAK's Low Income Home Energy Assistance Program (LIHEAP).

In addition, CAK has a contract with American Electric Power (AEP) to operate a home energy assistance program in eastern Kentucky that provided services to approximately 1,500 households this past year. CAK assists five Community Action agencies in eastern Kentucky that provide services in approximately 20 AEP served counties.

Finally, Community Action Kentucky is working with KU and LG&E to implement aspects of the We Care Program, which will seek to bring energy conservation services to 1,200 low income customers in both agencies service territories.

**What is your organization's position in regards to the proposed rate increases?
Please explain.**

Community Action Kentucky is opposed to these rate increases for a variety of reasons. While the base rate increase for KU and LG&E is not astronomical, when a household can't afford its home energy bills presently, then any increase is by definition making the affordability gap worse. In separate testimony CAC has estimated that the proposed rate increase would cost low income customers over \$3 million more per year than they are presently paying in the KU service territory alone. While the LG&E base rate increase is comparable to KU's, the cost of natural gas for LG&E residential customers has been

projected to rise anywhere from 30% to 50% over last season's prices. That is truly a pending crisis given the fact that unemployment in Kentucky is 20% higher than it was a year ago and the poverty rate is likely to increase in Kentucky from its present rate of 16.9%, according to the most recent Census Bureau figures.

The fact that customers couldn't pay their bills in the 2008 heating season was highlighted by research that Community Action Kentucky did earlier this year. In this study, CAK set out to see if there was an increase in arrearages owed to Kentucky's seven major investor owned utilities (KU, LG&E, Duke, Atmos, AEP, Delta, and Columbia) in the first four months of 2008 as opposed to the first four months of 2007.

The research showed that arrearages were up 25% from the year before, rising from \$60 million in 2007 to nearly \$76 million in 2008. This increase in arrearages was before the projected home heating cost increases for the 2008-2009 winter were taken into account.

As arrearages increase, so increase the utilities' bad debt and write offs that all residential customers have to absorb.

Significant rate increases without additional resources to meet the need for the most vulnerable citizens is a real concern, particularly given the fact that these combined companies have the highest residential disconnection rate in the state. This does account for the current proposed rate increases requested by the companies or weakened economy and 20% higher unemployment facing Kentuckians.

One of the things that the 23 Community Action Agencies have seen this year is the significant need for energy assistance dollars and energy conservation dollars, even though Kentucky has among the cheapest residential electricity prices in the country. For the first time in over 15 years, every Community Action Agency in the state expended 100% of their LIHEAP funds before the end of February. More than 50% of the agencies' LIHEAP programs in the state were closed by the first week of February.

Overall, gasoline costs, while momentarily lower, have increased dramatically. This has had the effect of significantly increasing grocery costs and other consumer goods for low income households. Many agencies reported this past winter that they saw more new households sign up for LIHEAP assistance than ever before. These were households that were barely getting by previously, but with the significant increase in gas prices and other consumer goods, they are no longer able to make ends meet. Given the significant difficulties low income households are having making ends meet now, anything that will increase the price of residential electricity in Kentucky will be devastating to low income ratepayers. The only way to lessen this burden is to increase the resources available to help low income ratepayers maintain their utility service.

Furthermore, there is a high prevalence of poverty in Kentucky. LIHEAP does not reach 100% of the eligible population. According to the recent census figures, 16.9% of Kentucky's population, nearly 700,000 people, had incomes below the federal poverty level. Applying an average household size of 2.2, approximately 320,000 Kentucky

households are below the federal poverty guidelines in Kentucky. Keeping in mind that LIHEAP serves households only to 130% of the federal poverty level, there are presently tens of thousands of eligible, yet unserved households in Kentucky.

The proposed rate increases will make this affordability gap worse.

What do you propose as the solution in this case?

Low-income ratepayers already experience great difficulty paying their utility bills. LG&E ratepayers are facing a rise between 30% and 50% in the cost of natural gas this heating season. While the company has little control over the cost of natural gas, it certainly has both the ability as well as the responsibility to anticipate what the impact of such a dramatic increase will be on its most vulnerable customers. We are encouraging the companies to expand the safety net for their low-income customers by taking the road the companies and the Commission have previously taken. We would encourage the companies to reduce the size of increase in rates as well as expanding the energy assistance safety net significantly.

Community Action Kentucky, along with Community Action Council, proposes increasing the per meter charge for the KU and LG&E 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. Ratepayers and shareholders benefit with families' increased ability to keep electric bill payments current. As discussed earlier, arrearages and shutoffs are on the increase. However, 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 everyone.

Presently the 10 cents per meter per month customer charge generates about \$1.3 million annually between both utilities combined and serves approximately 2,500 households. The additional funding would increase households served to over 6,000 and raise additional resources available to \$3.2 million. Given Kentucky's 16.9% poverty rate, according to the 2005 Census Bureau figures, over 130,000 of the nearly 850,000 households in the companies combined service territories live below the poverty line. This means even with the additional funding proposed here, the program would only be able to help less than 5% of the eligible population. Currently the companies' HEA programs are only able to serve 2% of the eligible population. Given the looming price increases for this winter in home heating costs, direct and substantive action is called for now.

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

We agree with CAC that energy assistance programs like HEA provide a safety net for the low-income customer and help close the affordability gap. The safety net does help keep vital energy service running and make such service 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. They help the customer by keeping them connected to service. As CAC indicated in its testimony, when the low income ratepayers are enrolled, they become eligible for a wide variety of other ancillary and support system benefits that can help the households become more economically self sufficient.

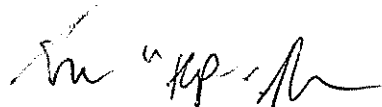
Is there any evidence that this type of program has been successful?

As indicated in CAC testimony RLW Analytics conducted an evaluation of both the LG&E and KU HEA programs, examining program data and impact on customers. The evaluation found that administrative costs of the program were in line with other 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 programs result in a reduction of average debt – a result with significant positive impact for all ratepayers and shareholders. Ultimately, the RLW evaluation found that “[t]he HEA Program helps make low-income customers’ energy bills more affordable.”

Does this conclude your direct testimony?

Yes

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


THOMAS "KIP" BOWMAR

COMMONWEALTH OF KENTUCKY)
COUNTY OF FAYETTE)

Subscribed and sworn to before me by Thomas "Kip" Bowmar on this the 28th day of October, 2008.

My Commission expires: 2/1/2010


NOTARY PUBLIC, STATE AT LARGE


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ATTORNEY FOR CAC

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 October, 2008:

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