

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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MAR - 3 2006
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COMMISSION

In the Matter of:

THE APPLICATION OF)
COLUMBIA GAS OF KENTUCKY, INC.)
FOR AUTHORITY TO ALLOCATE) Case No. 2005-446
THE PROCEEDS OF ITS STRANDED COST/)
RECOVERY POOL)

COMMENTS OF CAC

**COMMENTS OF COMMUNITY ACTION COUNCIL FOR LEXINGTON-FAYETTE,
BOURBON, HARRISON AND NICHOLAS COUNTIES**

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

There are 243 employees operating and administering the Council's main programs and services including:

- energy assistance and conservation programs
- self-sufficiency
- child development
- homeless programs
- volunteer programs
- youth development
- transportation services
- clothing banks
- housing
- 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 counties and statewide. For example, the Council staffs the WinterCare Energy Fund providing services across most of the state; child development services extend into Scott County; the Retired and Senior Volunteer

Program extends into Jessamine County. The Columbia Gas Energy Assistance Program (EAP) and the Kentucky Utilities Home Energy Assistance Program (HEA) provide assistance to a large portion of Kentucky in partnership with the 22 community action agencies in those service territories.

The Council is uniquely positioned to serve low-income populations with energy 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.

Community Action Council supports the Columbia Gas Weatherization Program that is proposed as an "alternative" in the company's proposal regarding the Gas Stranded Cost/Recovery Pool.

In summary, with the current costs of natural gas soaring, the tools that are available to ensure affordability for low-income people need to be varied. Providing expanded and additional weatherization services including the installation of high efficiency furnaces will further help low-income families obtain one more resource to make their bills more manageable, reduce shut offs, and ensure that resources are used in the most cost effective and efficient manner. Community Action Council is a low-income advocacy organization.

The "alternative proposal" for the Stranded Cost/Recovery Pool is an excellent opportunity for the Commission to enact a proactive, high impact, and long-term cost saving measure that contributes to the greater good of all rate payers through the more efficient use of energy. Helping payment troubled households conserve energy has a longer-term pay back than simply a one-time rebate to customers.

Since 1978, the Council has operated a **Weatherization Assistance Program** designed to help low-income individuals and families conserve energy. Weatherization services include caulking, weather-stripping, replacement of thresholds and door sweeps, re-glazing windows and replacing broken glass, outside wall repair, minor roof repair, attic insulating, repairing and replacing skirting around the foundation, under-floor insulation including wrapping pipes and insulating heat ducts, venting the attic and crawl spaces, and repairing or replacing heating equipment and venting systems.

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

The Council currently administers a utility funded energy subsidy program serving approximately 850 low-income households in partnership with **Columbia Gas of Kentucky** and the network of community action agencies serving the Columbia Gas service territory.

In 2004, **Kentucky Utilities** established the Home Energy Assistance Program (HEA) as a result of its rate case at the time serving 1,300 low-income households throughout the KU service territory with regular subsidies during the primary heating and cooling months.

In 2005, **the Lexington-Fayette Urban County Council** established the Council Heating Initiative Program, providing assistance for people who do not qualify for federal energy assistance.

Additionally, the Council’s **Summer Cooling** program provides cooling assistance to elderly and medically at-risk individuals during the summer months.

Community Action Council currently administers the Columbia Gas Energy Assistance Program (EAP) in partnership with the community action agencies throughout Columbia’s service territory. Columbia Gas is also a strong WinterCare partner facilitating and matching donations from its customers.

Based on 2000 Census data, the following chart provides poverty status by county for Columbia Gas service counties. It shows an estimated number of Columbia Gas low-income customers based on the poverty rate by county. Columbia Gas customer counts by county were provided by Columbia Gas in 2002. The chart is in descending order from most impoverished counties to least.

Columbia Gas Service County	Poverty Rate	Columbia Gas Customers By County	Estimated Columbia Gas Customers in Poverty
Owsley	31.90%	24	8
Clay	30.30%	19	6
Martin	26.70%	1,281	342
Lee	26.50%	5	1
Leslie	25.60%	0	0
Morgan	24.50%	11	3
Floyd	24.10%	1,190	287
Knott	23.70%	349	83
Lewis	23.70%	92	22
Lawrence	22.60%	1,216	275
Menefee	22.00%	78	17
Letcher	21.80%	1	0
Estill	21.10%	2,093	442
Johnson	21.00%	34	7
Pike	20.70%	868	180
Carter	20.40%	6	1
Bath	18.50%	5	1
Fayette	18.10%	69,733	12,622

Robertson	17.30%	11	2
Mason	15.90%	3,531	561
Boyd	15.30%	12,120	1,854
Madison	15.00%	293	44
Greeup	14.60%	7,543	1,101
Montgomery	14.50%	3,418	496
Nicholas	14.30%	30	4
Bourbon County	13.60%	3,587	488
Harrison	12.70%	2,298	292
Clark	12.40%	7,757	962
Jessamine	12.20%	431	53
Bracken	11.70%	187	22
Franklin	10.90%	11,959	1,304
Scott	10.00%	4,827	483
Woodford	9.10%	4,895	445
		139,892	22,406

Census data for 2000 indicate there are approximately 22,406 Columbia Gas customers in poverty throughout its service territory. Several of the counties report some of the highest poverty rates in Kentucky. Sixteen counties have poverty rates higher than 20% that according to Census definitions, are extremely high. Of note, the figures represented above were provided by Columbia Gas in 2002. Since that time, according to the company's Web site, the current customer count is 145,393.

The percent of Columbia Gas customers who are in poverty, according to these estimates, is at least 16% of the total customer base of 139,892.

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.

This year's LIHEAP Subsidy program that ran from Nov. 1, 2005 through Dec. 31, 2005, provides a glimpse of the increased need for assistance that will be faced this year in light of the recent significant increases of natural gas prices. Community Action Council, serving Lexington-Fayette, Bourbon, Harrison, and Nicholas counties has documented a 14% (423 households) increase over last year's subsidy program and has paid out an additional \$32,820 in federal assistance. This increase happened even before the very cold weather has set in.

LIHEAP Crisis began on January 9, 2006 and continues to provide services. Community Action Council has documented a 20% (360 households) increase over last year's Crisis program through the same point in time. The Council has provided over \$332,012, an increase of \$135,526 over the same point in time last year, in crisis assistance through February 27.

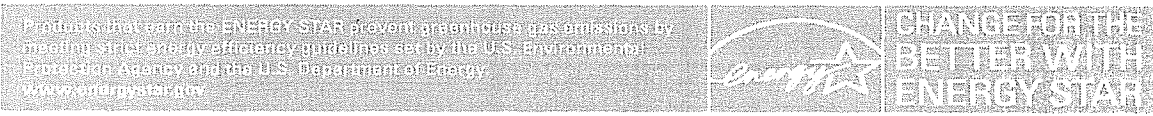
Last year, the total amount needed to pay Columbia Gas to keep service connected was \$96,119 in federal Crisis assistance. If the increase trend continues, this year's need will be much greater.

This data effectively illustrates the economic equation for low-income families who cannot meet basic needs. 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, medication, and others. The stress of these demands stretches a family's resources beyond what it can sustain.

In past years, the Weatherization program has achieved good results in making homes more energy affordable. With the current energy situation, including an anticipated increase in rates for natural gas exceeding the current \$14.6394 per MCF, it is unlikely that current measures will be enough.

The Council recently has begun to review the impact that the installation of "high efficiency" furnaces would have on household energy costs. The results are optimistic but rely on an understanding that the initial investment would be slightly higher with the return over subsequent years as beneficial to low-income customers and Columbia Gas.

Using the Energy Star savings model produced by the U.S. Environmental Protection Services and the U.S. Department of Energy, the Council has estimated area specific figures to demonstrate projected results of installing "high efficiency" furnaces.



**Life Cycle Cost Estimate for
1 ENERGY STAR Qualified Gas Furnace(s)**

This energy savings calculator was developed by the U.S. EPA and U.S. DOE and is provided for estimating purposes only. Actual energy savings may vary based on use and other factors.

Enter your own values in the gray boxes or use our default values.

Choose your furnace type from the drop-down menu	Gas		
Number of units	1		
Gas Rate (\$/therm)	\$1.46		
Choose your city from the menu	KY-Lexington		
	ENERGY STAR Qualified Unit	Conventional Unit	
Initial Cost per Unit (estimated retail price)	\$3,000	\$1,800	
Annual Fuel Utilization Efficiency (AFUE)	90.0	78.0	
Heating Capacity of Furnace (Btu/hr)	75,000	75,000	
Use with programmable Thermostat (Yes/No)	Yes	Yes	

Annual and Life Cycle Costs and Savings for 1 Gas Furnace(s)

	1 ENERGY STAR Qualified Unit(s)	1 Conventional Unit(s)	Savings with ENERGY STAR
Annual Operating Costs[*]			
Energy cost	\$2,072	\$2,390	\$319
Maintenance cost	\$0	\$0	\$0
Total	\$2,072	\$2,390	\$319
Life Cycle Costs[*]			
Operating costs (energy and maintenance)	\$26,225	\$30,260	\$4,035
Energy costs	\$26,225	\$30,260	\$4,035
Maintenance costs	\$0	\$0	\$0
Purchase price for 1 unit(s)	\$3,000	\$1,800	-\$1,200
Total	\$29,225	\$32,060	\$2,835
		Simple payback of initial additional cost (years)	3.8

^{*} Annual costs exclude the initial purchase price. All costs, except initial cost, are discounted over the products' lifetime using a real discount rate of 4%. See "Assumptions" to change factors including the discount rate.
A simple payback period of zero years means that the payback is immediate.

Summary of Benefits for 1 Gas Furnace(s)

Initial cost difference	\$1,200
Life cycle savings	\$4,035
Net life cycle savings (life cycle savings - additional cost)	\$2,835
Simple payback of additional cost (years)	3.8
Life cycle energy saved (MMBtu)	393
Life cycle air pollution reduction (lbs of CO ₂)	45,642
Air pollution reduction equivalence (number of cars removed from the road for a year)	4
Air pollution reduction equivalence (acres of forest)	6
Savings as a percent of retail price	94%

The model suggests that with an initial \$3,000 investment to install a "high efficiency" and Energy Star rated furnace, the result would be savings for the household of \$4,035 over the life

¹ MCF = 10.31 therms; current Columbia Gas rate is \$14.6394 per MCF

of the appliance. Households would experience savings annually of \$319. Payback on initial investment would happen in 3.8 years. To be conservative, the basic efficiency of a conventional furnace was figured at a 78 efficiency standard. It is more likely that many low-income households have heating units operating at a much lower efficiency level.

Coupling the savings through the new furnaces with current weatherization and assistance measures will be enough to bridge the gap in affordability for the new cost of energy. This new safety net would help keep vital energy service running and make it more affordable for the low-income customer. Measures such as this help utility companies experience less bad debt write off and save on the costs associated with disconnects, reconnects, and collections.

If households were served only through this proposal, at about \$3,000 per “high energy” furnace, the Council projects that it could serve approximately 119 households. If all households served were also served by the federal Weatherization Program (leveraging \$1,800 per household in federal funds), the Council projects that the program could serve approximately 299 households. The Council anticipates that the actual program will be a combination of these two scenarios with households served falling somewhere within the range given.

Such a program reduces monthly utility bills to a more affordable monthly amount for eligible households. The Council would organize service delivery through its partner community action agency agencies and their already functioning weatherization services. Slots would be allocated across the entire Columbia Gas service territory based on the number of total customers per county. Such an arrangement already exists with the both the Columbia Gas Energy Assistance Program.

Given that the program could potentially serve no more than 299 (1% of the potential 22,406 households), the Council believes that a program that reaches a larger target would provide more of a long-term solution to energy affordability problems. Although we are delighted at the company’s proposal and the Attorney Generals endorsement of the proposal, a 50% allocation of the stranded recovery costs would make a greater impact to the many low-income Columbia Gas customers.

Number of Program Participants	Estimated Annual Savings per Participant	Initial Investment	Total Initial Investment Compared to Life Cycle Savings
199	\$319	\$3,000	\$359,574:\$480,165
299	\$319	\$3,000	\$897,000:\$1,206,465
850	\$319	\$3,000	\$2.5 million:\$3.4 million

Increasing the program size, and, in turn, increasing the return on initial investment will have a more positive impact on the rate payer over time. Because of the compounded savings that will result there will be less bad debt write off that often results in increased costs that often in the long-term result in increased rates.

Our recommendation is that the Commission adopt the “alternative proposal” and increase funding to \$2.5 million in order to serve 850 households throughout the company’s service territory.



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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 on this the 1st day of March, 2006:

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