

November 1, 2006

Ms. Beth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

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PUBLIC SERVICE
COMMISSION

Mark R. Overstreet
(502) 209-1219
(502) 223-4387 FAX
moverstreet@stites.com

RE: *P.S.C. Case No. 2006-00373 - Kentucky Power Home Energy Assistance Program*

Dear Ms. O'Donnell:

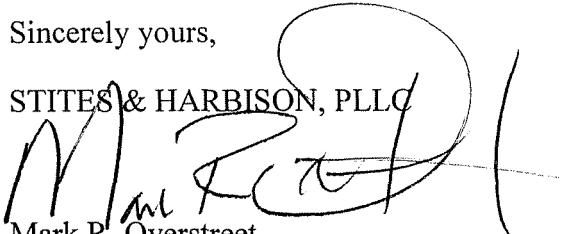
Enclosed please find the original and ten copies of Kentucky Power Company's Responses to the Attorney General's Data Requests for filing.

As the Commission may know, Kentucky Power and the Kentucky Association for Community Action, Inc. ("KACA") had hoped to begin soliciting applications for Kentucky Power's Home Energy Assistance Program soon. Kentucky Power stands ready to do whatever it can to expedite the Commission's consideration of the Joint Application of Kentucky Power and KACA for approval of the HEA Program.

Please do not hesitate to contact me if you have any questions.

Sincerely yours,

STITES & HARBISON, PLLC


Mark R. Overstreet

cc: Elizabeth E. Blackford
Lawrence Cook
Anita Mitchell

KE057:KE186:14888:1:FRANKFORT

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NOV 01 2006
PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

JOINT APPLICATION OF KENTUCKY POWER)
COMPANY AND KENTUCKY ASSOCIATION FOR)
COMMUNITY ACTION, INC. FOR THE) CASE NO. 2006-00373
ESTABLISHMENT OF A HOME ENERGY)
ASSISTANCE PROGRAM)

RESPONSE OF KENTUCKY POWER COMPANY
TO ATTORNEY GENERAL'S INITIAL DATA REQUESTS

November 1, 2006

Kentucky Power Company

REQUEST

Describe in full the policy rationale for permitting Kentucky Power ("KP") customers who do not use electricity as their primary heating source to participate in KP's HEA plan.

RESPONSE

Kentucky Power and the Kentucky Association for Community Action, Inc. (KACA) agreed, following discussions with KACA members, to provide a limited amount of benefits (in the form of credits to eligible KPCo customers' bills) to persons who do not use electricity as a primary source of residential heating. At least five reasons support the decision. Before addressing these reasons, Kentucky Power believes it is important to recognize that the Kentucky Utilities' Home Energy Assistance Program approved by the Commission includes "[a] small assistance fund ... to assist low-income customers whose primary heat source is not electric."¹ Although the Kentucky Power program provides for an increase over the Kentucky Utilities program in the percentage of available funds allocated to low-income households who do not use electricity as their primary source of heat, the differences between the Kentucky Utilities program as agreed to by the Attorney General and approved by the Commission, and Kentucky Power's proposed program, are differences in degree not kind.

Policy reasons supporting the award of benefits to low-income residential customers who do not heat with electricity include:

(a) **Providing Benefits to Customers Who Do Not Use Electricity As Their Primary Source of Heat Advances the Goals of the Program.** Kentucky Power's Home Energy Assistance Program, like Kentucky Utilities' program, subsidizes low-income residential customers during peak heating and cooling months.² It permits such persons, particularly the elderly, persons with life-threatening medical problems and families with small children, to stay in their homes when they otherwise would be required to leave because of the loss of heat or cooling as a result of their inability to pay their primary fuel bill. Yet, many coal, natural gas, propane, fuel oil and wood heating systems rely upon electrically driven blowers to operate. Thus, even where alternate fuel sources provide the primary means of heat, a loss of electric service will render the homes uninhabitable because of the loss of heat or cooling. Moreover, a home heated by alternate fuel sources that do not require electricity to operate is only slightly more habitable in January and February in the absence of lighting, or July and August, in the absence of refrigeration and lighting, as a home lacking heat or cooling.

(b) **Providing Benefits to Customers Who Do Not Use Electricity As Their Primary Source of Heat Is Consistent with the Provision of Benefits During Cooling Months.** Like the Kentucky Utilities program, Kentucky Power's Home Energy Assistance Program provides benefits during the summer cooling months. Almost all-residential cooling is powered by electricity, particularly in low-income residences. It would be anomalous at best to offer such benefits to enable low-income residential customers to cool their homes but then deny certain such customers the benefits based on the fuel used to heat their homes.

(c) **Kentucky Power's Program Avoids Subsidizing One Type of Home Heating System to the Exclusion of Others.** Kentucky Power's Home Energy Assistance Program is designed to assist low-income residential customers with their electric bills and not to subsidize any single type of home heating system. Limiting participation in the program to persons who use electricity as their primary source of heat would provide just such a subsidy.

(d) **Providing Assistance to Residential Customers Who Do Not Heat With Electricity is Equitable.** The ten cents per month Home Energy Assistance Program surcharge agreed to by the parties to Kentucky Power's rate case, including the Attorney General, is levied on all residential customers without regard to the customers' primary source of residential heating. These include the more than 62,000 Kentucky Power customers who do not use electricity as their primary source of heat.³ To deny a low-income residential customer, whose need might be as great or greater than a customer who heats with electricity, the ability to participate in the program because his or her primary source of heating is something other than electricity would be unfair and contrary to the very nature of a low-income assistance program.

(e) **Providing Assistance to Residential Customers Who Do Not Heat With Electricity Is Consistent With The Proposal to Select Participants Based Upon Need.** One of the modifications proposed by KACA and Kentucky Power to the Kentucky Utilities program approved by the Commission is to award the limited number of program slots based upon the applicants' need and not the date an application was received. The goal is to provide benefits to the most needy. Exclusion of the class of residential customers who do not heat with electricity, which includes some of Kentucky Power's most needy customers, from applying for benefits could have the effect of denying benefits to persons who are more needy than those who might receive benefits under a program limited solely to customers who use electricity as their primary source of heat.

See also, Kentucky Power's Response to Informal Conference Data Request No. 2 dated September 7, 2006.

¹ Order, *In the Matter of: Joint Application of Kentucky Utilities Company, Kentucky Association for Community Action Inc., and Community Action Counsel for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. for the Establishment of a Home Energy Assistance Program*, Case No. 2004-00303 at 3 n. 3 (November 24, 2004).

² *Id.* at 2.

³ Exhibit A to Kentucky Power's Response to Informal Conference Data Request No. 2 dated September 7, 2006.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

State whether KP customers who do not use electricity as their primary heating source will be required to use their HEA assistance payments solely for payment of the KP bill. Please include in your response a detailed description of any and all measures that the KP plan has in place to insure that HEA payments to such customers will be used solely for payment of their KP bill.

RESPONSE

Yes, all Home Energy Assistance Program benefits will be used exclusively for payment of participants' Kentucky Power bills.

Under the plan, there will be no "HEA payments to ... customers" as stated in the data request. Rather, the funds will be collected by Kentucky Power and applied by Kentucky Power as a credit to the participants' bills.⁴ Neither the participants nor the KACA and its member agencies will receive or distribute program benefits.⁵ From their receipt of the residential ten cent per month HEAP charge by Kentucky Power to their application by Kentucky Power to the participants' bills, program benefit funds will remain in the exclusive control of Kentucky Power and subject to Kentucky Power's accounting procedures. In addition, if upon termination of a participant's service for any reason there is a credit balance, any refund "will only include the portion of the credit balance in excess of the subsidy assistance provided in the then current program year."⁶

These procedures apply without regard to whether the participant uses electricity as the primary source of heat.

⁴ Joint Application dated August 3, 2006 at ¶ 21.

⁵ The program does provide for the reimbursement by Kentucky Power of KACA and its member agencies' approved costs. These payments are separate from the program benefits that are the subject of this Data Request.

⁶ Joint Application dated August 3, 2006 at ¶ 23.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Under KP's proposed plan, could a KP customer who does not use electricity as his/her primary heating source ever be eligible for an assistance payment where the amount owing on his/her bill is less than the monthly maximum amount of assistance given? If so, what happens to assistance funds not used to meet that month's bill?

RESPONSE

There will be no assistance payments in the sense that funds are paid to the participant. Instead, funds will be used as a credit to the participant's account and thus never leave Kentucky Power's accounting controls.⁷

Benefit credit amounts to persons who do not use electricity as their primary source of heat, like those to persons who use electricity as their primary source of heat, theoretically could exceed the participant's electric bill. Such likelihood is remote for at least two reasons. First, and all other things being equal, under the criteria used to select participants, participants with large utility and fuel bills are more likely to be selected to receive benefits than those who have lower utility bills.⁸ Second, the benefit amounts were calculated to provide only a portion of the average user's bill. For example, in March 2006, the average monthly usage of residential customers not using electricity as a primary heat source was 1,146 kWh.⁹ The \$33.00 benefit payment to such a participant would be sufficient to pay for approximately 500 kWh or less than 50% of the average participant's bill. Please see the attached Exhibit 1.

In the unlikely event the amount credited to the participant's account in any month exceeded the participant's bill, "the credit will carry forward to the next month's bill."¹⁰ Moreover, if upon termination of a participant's service for any reason there is a credit balance, any refund "will only include the portion of the credit balance in excess of the subsidy assistance provided in the then current program year."¹¹

These procedures apply without regard to whether the participant uses electricity as the primary source of heat.

⁷ See, Response to AG's Initial Data Request No. 2 filed herein.

⁸ See, Response to Kentucky Power's Response to Informal Conference Data Request No. 7 and Exhibit B dated September 7, 2006.

⁹ Joint Application dated August 3, 2006 at ¶ 11.

¹⁰ Joint Application dated August 3, 2006 at ¶ 21.

¹¹ Joint Application dated August 3, 2006 at ¶ 23.

WITNESS: Errol K Wagner

**Kentucky Power Company
 Home Energy Assistance Program
 Case No. 2006-00373**

EXHIBIT 1

Non-Electric Heat Customers

Program Month	Avg. kWh Used	Avg. kWh Covered by Benefit Credit	Difference	Avg. Bill Before Taxes, Fees, etc.	Program Credit Amount	Difference
(1)	(2)	(3)	(4)	(5)	(6)	(7)
December-05	1,528	558	970	\$90.38	\$33.00	\$57.38
January-06	1,343	484	859	\$91.51	\$33.00	\$58.51
February-06	1,191	564	628	\$69.73	\$33.00	\$36.73
March-06	1,146	588	558	\$64.31	\$33.00	\$31.31
July-06	1,425	476	949	\$98.83	\$33.00	\$65.83
August-06	1,496	519	977	\$95.08	\$33.00	\$62.08
September-06	761	504	258	\$49.88	\$33.00	\$16.88

Source: Page 9-1B, B&A

Note: December 2005 - March 2006 information is prior to the April 2006 base rate increase.

Kentucky Power Company

REQUEST

Describe in full the policy rationale for applying the HEA assistance payment to arrearages.

RESPONSE

Beyond the information provided in Kentucky Power's Response to Informal Conference Data Request No. 4, the Company can only reiterate that under the Commission's regulations and the Company's tariffs and practices, customers not party to a Repayment plan who have unsatisfied arrearages of approximately 60 days typically have their service terminated within five to ten days of the due date of the current statement. An unpaid current bill, by contrast, will not immediately result in termination of service. Kentucky Power believes that applying payments in a fashion that will allow low-income participants, particularly the elderly and disabled and those families with small children, to maintain electric service during the months in which the loss of service may result in forced evacuation from the participant's home or injury or death is in the public interest and is a reasonable, adequate and efficient practice.¹²

Although HEAP funds are applied first to any arrearage the customer may have, as explained in more detail in the Response to Data Request No. 5, the amount of the HEAP subsidy is used to calculate the amount of the customer's current bill in the months the HEAP subsidy is in effect.

To minimize costs by taking advantage of economies of scale, billing for all American Electric Power Company operating company subsidiaries is handled centrally through AEP's Canton, Ohio facilities. Kentucky Power, like its sister AEP operating companies, applies payments received, including any assistance credited to a customer's account, first to any arrearages. Any deviation from this protocol to require that HEAP credits be applied only to bills incurred in high heating and cooling months is likely to delay implementation of the HEAP program and require substantial costs for reprogramming Kentucky Power's billing programs.

¹² See, KRS 278.030(2).

WITNESS: Errol K. Wagner

Kentucky Power Company

REQUEST

Will HEA program payments go solely toward the participants' arrearage, or will at least a portion of each HEA plan payment go toward the participants' current usage bill?

RESPONSE

Benefit credits and payments received from the participant will first be credited to any arrearage. Only if and to the extent the total of the benefit credits and payments received exceeds the amount of any arrearage will the credits and payments be applied to the participant's current usage.¹³

Although for customer accounting purposes all funds, including any assistance credits, are first applied to a customer's arrearages, the HEAP credit also is used to calculate the amount of the current bill. Attached, as Exhibit 2 is an example illustrating this special situation. In the example, the customer has an arrearage of \$160 and qualifies to participate in the HEAP Program. To continue to receive service, the customer has agreed to a Repayment Plan requiring four consecutive monthly payments of \$40 above their current monthly bill.

In December, the customer consumes \$90 of electricity (col. 2). For purposes of determining the amount due from the customer for current service the HEAP amount is subtracted from the current usage just as it would be if the customer were not in arrears (col. 4). As a result, the customer receives the full benefit of the HEA Program credit. In addition, under the Repayment Plan the customer is obligated to pay \$40 (col. 5). The total amount due from the customer is the sum of the current usage balance, \$57 (col. 4), plus the Repayment Plan amount (\$40) (col. 5) or \$97. The total funds available to Kentucky Power for that customer for December is \$130 (col. 6), which is equal to the sum of the customer's payments (\$97) plus the HEA Program funds (\$33) (col. 3).

By calculating the current usage due from the customer in this fashion, the customer receives the full benefit of his or her participation in the HEA Program while Kentucky Power does not receive more than it would if the customer were not participating in the HEA Program.

For purposes of crediting the customer's account, however, all funds are applied first to reduce the arrearages. Thus, the \$102 (\$52 + \$50) in arrearages owing for September and October are first satisfied (cols. 8 and 9) and the remaining \$28 is applied to reduce the November arrearage to \$30 (cols. 8 and 9). No funds are credited to the customer's December usage (cols. 8 and 9).

¹³ See, Response to AG's Initial Data Request No. 4 filed herein.

WITNESS: Errol K Wagner

Kentucky Power Company
 Case No. 2006-00373
 Home Energy Assistance Program

Example of How Funds Will be Applied to Customer Account
 When Customer is Enrolled in a Payment Plan with the Company

Month (1)	Costs of Current Electric Consumed (2)	HEAP Subsidy (3)	Current Month Electric Balance (4)	Plus Amount of Payment Plan (5)	Monthly Funds to be Applied (6)	Application of Funds Amount (8)		Monthly Balance (9)
						Month (7)		
			(Col 2-3)		(Cols 3+4+5)			
September	\$52	\$0	\$52					
October	\$50	\$0	\$50					
November	\$58	\$0	\$58					
December	\$90	\$33	\$57	\$40	\$130	Credit To September	\$52	\$0
						Credit to October	\$50	\$0
						Credit to November	\$28	\$30
						Credit to December	\$0	\$90
January	\$92	\$33	\$59	\$40	\$132	Credit to November	\$30	\$0
						Credit to December	\$90	\$0
						Credit to January	\$12	\$80
February	\$70	\$33	\$37	\$40	\$110	Credit to January	\$80	\$0
						Credit to February	\$30	\$40
March	\$64	\$33	\$31	\$40	\$104	Credit to February	\$40	\$0
						Credit to March	\$64	\$0

Note: In November, a payment arrangement of \$40 above the current month's bill was agreed to begin with December's monthly bill.

Kentucky Power Company

REQUEST

Will scheduled repayment plans for arrearages precede or accompany application of the assistance payment toward arrearages?

RESPONSE

Repayment plans and the Home Energy Assistance Program are independent of each other and are either mutually exclusive or mutually inclusive. A low-income customer may qualify for the HEA Program without being required to enter into a Repayment Plan if the customer is either current or only one-month delinquent. On the other hand, a customer who is subject to a repayment plan may not be awarded benefits because of the customer's lack of need or the expected interest in the program coupled with the limited number of program slots.

WITNESS: Errol K Wagner