COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY- )
AMERICAN WATER COMPANY ) CASE NO.
FOR AN ADJUSTMENT OF RATES ) 2012-00520

PRE-FILED TESTIMONY OF JACK E. BURCH ON BEHALF OF CAC

* * * * *

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

Respectfully submitted,

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COUNSEL FOR CAC
Q: Please state your name and address, and describe your current position and professional background.

A: 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 33 neighborhood and community centers and child development centers in six counties and its Administrative Support Services are located at 710 W. 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.

Q: Please describe the purpose of your testimony.

A: The purpose of my testimony is to state the position of Community Action Council with respect to the proposed Kentucky American Water Company 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 American Water Company, is a reasonable or appropriate expectation for low-income customers especially given the three most recently approved increases of 28.9 percent in 2010, 16.7 percent in 2009, and 13.9 percent in 2007. That represents a 71 percent increase in water costs since 2007 – not including the proposed increase. 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 customers with low-income. Community Action Council is a low-income advocacy and services organization.

Q: Please describe the organization of Community Action Council and give a brief description of its activities.
A: 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 280 employees operating and administering the Council’s primary programs and services including:

- self-sufficiency
- child development
- homeless programs
- volunteer programs
- youth development
- transportation services
- housing
- energy assistance and conservation programs
- emergency assistance
- adult education and employment 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 WarmWise program and Kentucky Utilities’ Home Energy Assistance Program and WeCare Program each provide services throughout the service territory of their respective
utilities. Most notably, for this case, the Council operates the Kentucky American Water Help to
Others (H20) Program throughout the Company’s distribution area.

The Council is uniquely positioned to speak on behalf of low-income populations with utility-
related problems as staff members have extensive contact with and knowledge of this population,
performing more than 9,000 individual program intakes and assessments annually. Additionally,
Council staff members are 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.

The Council is also a member of Community Action Kentucky (CAK), a membership
organization which represents Kentucky’s 23 community action agencies throughout the state.
While CAK has not intervened in this case, as a member of the organization the Council is able
to communicate regularly and as needed to discuss matters impacting customers with low-
income served by other organizations and thus representing a broader geographic area.

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

A: 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 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. A homelessness prevention and rapid re-housing program called Emergency Shelter Grants (ESG) provides additional resources for families who are homeless or in danger of becoming homeless.

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 serves youth in Fayette County through its Literacy, Education, Experience, and Postsecondary, or LEEP, program which provides education, employment, mentoring, and life skills development for youth who have dropped out of school or are at risk of dropping out.

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 operates several additional weatherization and furnace replacement programs including the Kentucky Utilities WeCare project and Columbia Gas of Kentucky’s WarmWise high-efficiency furnace replacement program for its low-income customers.

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. The Council also implemented and administers the **Kentucky Utilities Home Energy Assistance (HEA) Program**, which serves 2,600 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.

Q: Are there initiatives through which Community Action Council partners with Kentucky American Water Company? Please discuss.

A: The Council administers Help to Others (H20) 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.

The Council has operated Help to Others since 2006, when its name was changed from Water for Life. The Water for Life program began in 2000. The Council receives no administrative funding to cover the cost of taking and processing applications for the Help to Others program, therefore maximizing the availability of benefits for customers.

Q: Please describe the low-income population in the Kentucky American Water Company service territory.

A: Based on Census data and customer counts provided by the Company, the following chart provides poverty status by county for KAWC service counties. The chart shows an estimated number of KAWC low-income customers based on the poverty rate by county. All poverty rates used are the most recent county-level data available from the U.S. Census 2011 five-year estimates.

<table>
<thead>
<tr>
<th>KAWC County</th>
<th>Service Poverty Rate</th>
<th>KAWC Customers by County</th>
<th>Estimate of KAWC Customers in Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fayette</td>
<td>17.9%</td>
<td>101,945</td>
<td>18,248</td>
</tr>
<tr>
<td>Bourbon</td>
<td>16.4%</td>
<td>806</td>
<td>132</td>
</tr>
<tr>
<td>Harrison</td>
<td>19.9%</td>
<td>96</td>
<td>19</td>
</tr>
<tr>
<td>Clark</td>
<td>16.6%</td>
<td>1,313</td>
<td>218</td>
</tr>
<tr>
<td>Scott</td>
<td>13.4%</td>
<td>4,936</td>
<td>661</td>
</tr>
<tr>
<td>Woodford</td>
<td>13.4%</td>
<td>198</td>
<td>27</td>
</tr>
<tr>
<td>Owen</td>
<td>12.8%</td>
<td>3,498</td>
<td>448</td>
</tr>
<tr>
<td>Grant</td>
<td>16.5%</td>
<td>61</td>
<td>10</td>
</tr>
<tr>
<td>Gallatin</td>
<td>18.4%</td>
<td>179</td>
<td>33</td>
</tr>
</tbody>
</table>
Census Data indicates that there are approximately 19,796 KAWC customers in poverty throughout its service territory. The percent of KAWC customers who are in poverty, according to these estimates, is at least 17.5 percent of the total customer base of 113,032. It’s important to note here that these figures represent only 100% of the Federal Poverty Guideline. This guideline is an outdated measure even according to the Federal officials who issue it. In recognition of this inaccurate capture of the number of poor in the United States, many assistance programs – including the Company’s Help to Others program – actually serve families at higher incomes such as 150 percent of the federal poverty guidelines. Were it possible to calculate using these thresholds, it is highly likely that a substantially larger percentage of the Company’s customers would be living in poverty.

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. Their expenses, as a family, exceed their revenues.

Despite 2007 and 2009 increases in the annual shareholder contribution, the Help to Others Program severely lacks resources to keep up with need among the Company’s customers unable to afford water. The table below illustrates the Company’s contribution to this program, its customers’ contributions and the number of residential accounts receiving benefits from the program in each of the past four years.

<table>
<thead>
<tr>
<th>Year</th>
<th>KAWC Contribution</th>
<th>Customer Contributions via KAWC bills</th>
<th>Contributions Directly to the Council</th>
<th>Total Program Contributions</th>
<th>Number of Approved Applications for Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$21,500</td>
<td>$996</td>
<td>$101</td>
<td>$22,597</td>
<td>442</td>
</tr>
<tr>
<td>2008</td>
<td>$50,000</td>
<td>$913</td>
<td>$10</td>
<td>$50,923</td>
<td>907</td>
</tr>
</tbody>
</table>
As seen in the table above, the Help to Others Program, at its peak in 2010, was able to provide benefits to 1,094 families. With at least 19,796 customers living in poverty (see above) this represents a small fraction of the number of customers unable to afford water. Additionally, the Company pointed out in response to information requests in this case that “We do not know the value of contributions that ratepayers made to the program during these same years via other means, such as through direct donations to Community Action Council.” The Council does have access to this information as shown above and the results are abysmal. Customer response to the H20 program has been insignificant and the Company’s contribution is well below the amount necessary to operate an effective program.

Water services are not only a basic need, but a survival need. This does not include an assessment of other basic needs that households require like food, shelter, medication, and much more. The stress of these demands stretches a family’s resources beyond what it can sustain. Unfortunately with a rate increase, the affordability gap will greatly widen.

Q: Please describe how the proposed rate increase will affect low-income people.

A: Kentucky American Water Company reports in filings that the current, average, total monthly cost for residential customers is $32.75. Based on the requested residential rate increase, the company reports the real dollar increase for the average customer will be $69.12 annually or $5.76 per month. The proposed increase would therefore change the average residential monthly rate to $38.51, a cost that represents as much as 4 percent of monthly income for a family at the
federal poverty level. The chart below illustrates the cost to low-income customers as a percentage of their monthly income. Of note is that some low-income customers may exceed the average monthly cost of water, especially larger households. Also, as with the Council’s other programs, many low-income participants’ incomes fall well below the federal poverty guideline, making the monthly KAWC bill an even larger portion of their income.

<table>
<thead>
<tr>
<th># in Household</th>
<th>Federal Poverty Level Annual Income</th>
<th>Federal Poverty Level Monthly Income</th>
<th>Average KAWC Bill as % of Monthly Income (assuming increase approved as proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$11,490</td>
<td>$957.50</td>
<td>4.0%</td>
</tr>
<tr>
<td>2</td>
<td>$15,510</td>
<td>$1,292.50</td>
<td>3.0%</td>
</tr>
<tr>
<td>3</td>
<td>$19,530</td>
<td>$1,627.50</td>
<td>2.4%</td>
</tr>
<tr>
<td>4</td>
<td>$23,550</td>
<td>$1,962.50</td>
<td>2.0%</td>
</tr>
<tr>
<td>5</td>
<td>$27,570</td>
<td>$2,297.50</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

If the 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, they will have to take two or three steps back and some back to where they started in the income versus basic needs equation. 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 assistance that will really matter.

The proposed rate increase in this case is too high and cannot be afforded by those with limited or fixed incomes. This is evident in that at current rates and fees, the affordability gap already
exists. I am encouraging Kentucky American Water Company and the Commission to reconsider the increase set forth in this filing.

Q: How does Kentucky American Water Company’s current safety net assistance program work?

A: The current Help to Others Program is available to households with incomes up to 150% of federal poverty guidelines and provides assistance for water service, activation fees and reactivation fees. Applicants must provide proof of income for all adults in the home and the Kentucky American Water Company bill must be in the applicant’s or a household member’s name.

Participants currently can receive up to $100 per fiscal year if they are in danger of having their water disconnected. Staff provides information on saving water and detecting leaks. In some cases, the $100 annual limit is inadequate because low-income customers in aging homes or rental units have had an undetected water leak.

Under Help to Others, Kentucky American Water customers also may contribute to the program through their monthly bills.

Q: Are resources for water service assistance sufficient to meet the needs of the population in the Kentucky American Water Company service territory? Please discuss.

A: No, resources are not sufficient to meet the needs of the population and the resources that exist are becoming less effective with each approved rate increase. Unlike energy assistance, for which federal LIHEAP funding, local public and private funding, and utility-supported programs are available, there are few options available to households needing assistance with their water bill. The Council has access to only a few thousand dollars in private donor funds that could be used each year for water assistance and these funds must serve the needs of all of the
organization’s more than 30,000 annual program participants. No significant resource is
available beyond the Help To Others Program described earlier in this testimony.
As the size of bills has increased the ability of the Help to Others program to meet needs has
decreased because the scope of the program remains essentially unchanged since 2007 when the
Company more than doubled its annual shareholder contribution. Customer contributions to Help
to Others have increased some due to joint efforts by the Company and the Council to promote
the opportunity to customers but the amount remains largely insignificant given the need. As
demonstrated by the chart below, the average amount of assistance per customer has increased
41 percent since 2008 and the number of customers helped has decreased each of the past two
years despite increased need and no change in the available funds. Rate increases are slowly
rendering the program void.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Customers Assisted</th>
<th>Average Amount of Assistance per Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>907</td>
<td>$47.09</td>
</tr>
<tr>
<td>2009</td>
<td>906</td>
<td>$51.04</td>
</tr>
<tr>
<td>2010</td>
<td>1,094</td>
<td>$50.19</td>
</tr>
<tr>
<td>2001</td>
<td>987</td>
<td>$55.50</td>
</tr>
<tr>
<td>2012</td>
<td>798</td>
<td>$66.70</td>
</tr>
</tbody>
</table>

In order to increase from serving only a fraction of the number of households unable to pay their
bills, the Council would need a substantial increase in funds available for the Help to Others
program. There are approximately 19,976 customers with low-income in the Company’s service
area – people unable to afford even the most basic needs. To provide $66.70 (the prior year
average) of assistance to each of them annually would require approximately $1.33 million.
Therefore, the Help To Others program is currently funded at about 4.6 percent of actual need.

Q: What do you propose the solution in this case?
Regardless of the size of the increase in rates, people with low-income already experience an affordability gap. While asking for the Company’s rate increase proposal to be denied in full or in part, I am encouraging Kentucky American Water Company and the Commission to restructure the Company’s rates to reflect customer usage. A graduated or tiered rate structure, which provides an initial amount of water at free or very low cost and then charges more as consumption levels increase would benefit all customers – especially those on low or fixed-incomes – by giving them more control over their monthly water costs. These rates would determine a minimum amount of life-sustaining water a household needs and then customers would receive that basic amount of water at a free or substantially reduced rate. A next tier of consumption would cost more followed by third or more tiers at which the cost increases in proportion to usage.

While such a rate structure is favorable for all customers as a way to control costs and incentivize conservation, it is especially preferable for customers with low-income because of the impossible decisions they often face when choosing whether to pay for housing, medicine, food and other basic necessities. With graduated rates, the customer could reduce their water costs substantially and control those costs more easily. The 2012 Water & Wastewater Rate Survey published by the American Water Works Association found that increasing block rates, such as those proposed here where water becomes more expensive with increased consumption, are a national trend. A chart from that survey is below:

Water Rate Structure Distribution¹

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Decreasing Block %</td>
<td>35</td>
<td>31</td>
<td>25</td>
<td>24</td>
<td>28</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>Uniform %</td>
<td>36</td>
<td>37</td>
<td>39</td>
<td>40</td>
<td>32</td>
<td>31</td>
<td>30</td>
</tr>
</tbody>
</table>

The Council made this same proposal in the Company’s previous rate case, 2010-00036, and the Commission ordered that the proposal “should be further studied and additional customer data gathered to permit a thorough assessment of the proposal’s potential effects.” The Commissioners further ordered the Company to initiate a meeting of interested parties to study matters of affordability and to file regular reports to the Commission on progress. Unfortunately, while the Company may have complied with the specific requirement that meetings take place and reports be filed, we feel the Company did not initiate a thorough review of all options to address the dilemma of unaffordable water costs for households with low-income.

While the Council was generally supportive of the legislation proposed by the Company during these meetings that would have allowed water utilities to grant a reduced rate service to some low-income residential customers, we are extremely disappointed by the Company’s apparent lack of interest in making any changes to its rate structure or low-income programming which could benefit its customers. The Company led the collaborative in such a way as to place the burden for research and program design on all parties but itself, despite a portfolio of such programs already available throughout the American Water network. The Council hoped to see the Company propose some changes to rate structure or programming given ineffective effort made at reaching a collaborative proposal. Instead, the Company called the collaborative together, after months of inaction, for a brief meeting just days before filing this case to quickly push for action on the “legislative option.” The timing between that meeting and the filing was not helpful to creating the kind of environment necessary to bring the diverse parties in the
matter to a solution that all of them could support. Thus, the legislative option did not get off the ground.

Therefore, since the Company has not to date created a process that would permit an open and transparent discussion of all options available to address the problems its most vulnerable customers have been facing as a result of the 71% increase in rates in recent years,”, we would urge the Commissioners to deny this rate increase pending an acceptable solution.

Q: Are there other American Water programs which may be of benefit to Kentucky American Water customers?

A: Yes, and we would encourage the Commissioners and staff to examine this programming for options which would benefit customers in Kentucky. While we acknowledge statutory and regulatory differences among the states, we find it troubling that Kentucky American Water appears to have the least generous portfolio of solutions for its most vulnerable customers of all of the American Water affiliates. Kentucky’s people with low-income deserve the same access to life sustaining water as residents of West Virginia, Texas, New Jersey, California, and other states.

In West Virginia in 2012, West Virginia American water proposed a 20 percent rate discount program for customers with low-income. The President of West Virginia American Water stated in a Company-issued press release that the program was “…a way to lessen this impact for customers struggling to make ends meet.” Also, Missouri American Water in 2009 proposed a reduced rate for qualified low-income customers. We would appreciate the same level of commitment for Kentucky customers.

In other states, including California, New Jersey, and New Mexico, American Water already has or has proposed tiered rates and has issued press releases stating the benefits of these rates for customers. A release from New Mexico American Water in 2010 stated that the tiered rate
structure “creates incentives for conservation and maintains an affordable base rate for customers that conserve.” We would ask why Kentucky American Water does not share this interest in affordability solutions.

Q: Is it Kentucky American Water Company’s responsibility to work toward solutions that impact the lives of low-income people for the positive?

A: As a public utility, Kentucky American Water Company has an obligation to its low-income customers. It is the only choice for water service. Low-income people cannot shop around for a better deal and cannot choose to go without water as it is a life-sustaining resource.

Q: In summary, please state your position regarding Kentucky American Water Company’s proposed rate increase and your recommendations regarding the same.

A: The rate increase is too high and will negatively affect the ability of low-income customers to pay for essential service. Without additional means of support like changes in rate structure, rate discounts, or a substantial increase in assistance funds, the affordability gap will be greater and continue to grow.

Q: Does this end your direct testimony?

A: Yes
CERTIFICATE OF SERVICE

I hereby certify that CAC’s April 2, 2013 electronic filing is a true and accurate copy of the Prefiled Testimony of Jack E. Burch to be filed in paper medium; and that on April 2, 2013, the electronic filing has been transmitted to the Commission, an original and one copy of the filing will be delivered to the Commission, and electronic mail notification of the electronic filing is provided to the Commission and the following:

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