

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) 2015-00418

DIRECT TESTIMONY OF MALCOLM J. RATCHFORD
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 Direct Testimony of Malcolm J. Ratchford in support of its position in this matter:

Respectfully submitted,



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COUNSEL FOR CAC

1 **Q: Please indicate your name, address and describe your current position and**
2 **professional background.**

3
4 **A:** My name is Malcolm J. Ratchford and I have served as Executive Director of
5 Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties
6 (“the Council”) since 2013. The Council operates 32 neighborhood and community centers,
7 child development centers in six counties, and Administrative and Support Services offices
8 located at 710 W. High Street in Lexington, Ky.

9 I have worked in the Community Action Network for nearly 20 years. Before my appointment
10 as Executive Director, I held the position of Senior Manager for Neighborhood and Community
11 Services for the Council. In that position, I implemented self-sufficiency programs for the low-
12 income populations of the areas we serve.

13 I graduated from the University of Kentucky with a Masters degree in Family Studies, Early
14 Childhood Education and hold a Bachelors degree in History Pre-Law from Talladega College.
15 As Executive Director, I have participated in other cases before the Kentucky Public Service
16 Commission on behalf of utility customers with low-incomes. Based upon my experience at the
17 Council and within the Community Action Network, I am well-informed of the issues and
18 concerns of the low-income populations for which we are advocating in this matter

19 **Q: Please describe the purpose of your testimony.**

20 **A:** The purpose of my testimony is to state the position of Community Action Council with
21 respect to the proposed Kentucky American Water Company rate increase and to provide
22 information in support of my position. In summary, we do not believe that a rate increase, as
23 currently proposed by KAWC, is a reasonable or appropriate expectation for customers with
24 low-income as poverty levels remain high.

1 My testimony will provide a perspective that represents issues that should be given full
2 consideration in rendering a decision on this case. I am an advocate on behalf of customers with
3 low-income. Community Action Council is a low-income advocacy and services organization.

4 **Q: Please describe the organization of Community Action Council and give a brief**
5 **description of its activities.**

6
7 **A:** Community Action Council was established in 1965 as a not-for-profit community action
8 agency of the Commonwealth of Kentucky. Kentucky. The Council is the designated
9 community action agency for Lexington-Fayette, Bourbon, Harrison, and Nicholas counties in
10 Central Kentucky. The Council's governance includes a Board of Directors representing low-
11 income, public and private sectors of the community. Its mission is "Community Action Council
12 prevents, reduces and eliminates poverty among individuals, families and communities through
13 direct services and advocacy."

14 There are approximately 280 employees operating and administering the Council's primary
15 programs and services including:

- 16 • self-sufficiency
- 17 • early childhood development/school readiness programs
- 18 • homeless programs
- 19 • volunteer programs
- 20 • youth development
- 21 • transportation services
- 22 • housing
- 23 • energy assistance and conservation programs
- 24 • emergency assistance
- 25 • adult education and employment assistance
- 26 • community outreach and referrals.

27
28 Although the Council's core service territory includes Lexington-Fayette, Bourbon, Harrison and
29 Nicholas counties, the Council also provides services in other Kentucky counties. For example,
30 the Council administers the WinterCare Energy Fund providing services across most of the state;
31 child development services extend into Scott and Madison counties; the Retired and Senior

1 Volunteer Program extends into Jessamine County. The Columbia Gas Energy Assistance
2 Program and WarmWise program and Kentucky Utilities' Home Energy Assistance Program and
3 WeCare Program each provide services throughout the service territory of their respective
4 utilities.

5 The Council is uniquely positioned to speak on behalf of low-income populations with utility-
6 related problems as staff members have extensive contact with and knowledge of this population.
7 Additionally, Council staff members are able to help participants access other Council assistance
8 programs as well as other community resources to address the multiple obstacles and barriers
9 that most low-income households face. This comprehensive approach provides greater stability
10 and self-sufficiency to these households, supporting a family's ability to afford necessities such
11 as utility service.

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

14
15 **A:** The Council creates opportunities for individuals and families to become self-sufficient
16 members of the community, and serves the low-income population through advocacy, service
17 delivery and community involvement.

18 The Council operates **Head Start, Early Head Start, Migrant Head Start** and last year we
19 began a new Early Head Start and Community Child-Care partnership program called
20 **Partnering for Excellence.**

21 The organization also operates several housing programs, including five **Continuum of Care**
22 projects funded by the Department for Housing and Urban Development and a brand new
23 **Emergency Family Shelter** in Lexington. Another housing program offered is **Tenant Based**
24 **Rental Assistance (TBRA)**, which provides rental assistance to Section 8-eligible households
25 throughout the Council's service area.

1 To support economic independence, the Council offers a **Financial Fitness** consumer education
2 program; **PREPared Workshops**, which offer participants job readiness skills and customer
3 service training; and tax preparation and education for thousands of households on the **Earned**
4 **Income Tax Credit (EITC)**.

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

7 The Council also operates a number of utility assistance programs in partnership with local
8 utilities, public and private funding sources, and other community action agencies across the
9 state. These programs are described below.

10 In 1983, Community Action Council initiated, with Kentucky Utilities, the establishment of the
11 **WinterCare Energy Fund**. The Council has provided administrative services, financial
12 management and marketing support for the Fund since that time. The Council has also managed
13 the federal **LIHEAP** program (Low-Income Home Energy Assistance Program) serving low-
14 income customers in Fayette, Bourbon, Harrison and Nicholas counties since its inception.

15 Since 1978, the Council has operated the Federal **Weatherization Assistance Program**
16 designed to help low-income individuals and families conserve energy. The Council operates
17 several additional weatherization and furnace replacement programs including Kentucky
18 Utilities' **WeCare** and Columbia Gas of Kentucky's **WarmWise** high-efficiency furnace
19 replacement program for their customers with low-income.

20 The Council administers a utility-funded energy subsidy program serving 2,000 low-income
21 households in partnership with the **Columbia Gas of Kentucky Energy Assistance Program**
22 **(EAP)** and the network of community action agencies serving the Columbia Gas service
23 territory.

1 The Council implemented and administers the **Kentucky Utilities Home Energy Assistance**
2 **(HEA) Program**, which serves 2,700 KU customers whose primary heat source is KU electricity
3 by providing regular monthly subsidies throughout the winter and summer peak usage months.

4 The Council's **Summer Cooling** program serves customers who are severely ill or who have a
5 disability with the provision and installation of air conditioners.

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

8
9 **A:** Based on Census data and customer counts provided by KAWC in response to CAC's
10 First Request for Information, the following chart provides poverty status by county for KAWC
11 service counties. The chart shows an estimated number of KAWC low-income customers based
12 on the poverty rate by county. All poverty rates used are the most recent county-level data
13 available from the U.S. Census 2010-2014 five-year estimates.

KAWC Service County	Poverty Rate	KAWC Customers by County	Estimate of KAWC Customers in Poverty
Fayette	19.3%	104,220	20,114
Bourbon	17.7%	1,172	207
Harrison	21.7%	98	21
Clark	15.5%	1,405	218
Scott	10.6%	5,378	570
Woodford	12.9%	204	26
Owen	15.1%	3,550	536
Grant	18.3%	59	11
Gallatin	15.9%	170	27

14
15 Census Data indicates that there are approximately 21,730 KAWC customers in poverty
16 throughout its service territory. The percent of KAWC customers who are in poverty, according
17 to these estimates, is 18.7 percent of the total customer base of 116,256. It's important to note
18 here that these figures represent only 100% of the Federal Poverty Guideline. This guideline is
19 an outdated measure even according to the Federal officials who issue it. In recognition of this

1 inaccurate capture of the number of people living in poverty in the United States, many
2 assistance programs – including the Company’s Help to Others program – actually serve families
3 at higher incomes, such as 150 percent of the federal poverty guidelines. Were it possible to
4 calculate using these thresholds, it is highly likely that a substantially larger percentage of the
5 Company’s customers would be living in poverty.

6 The Census Bureau uses income and family size as the basis for determining poverty. Poverty
7 and need affordability is an economic equation of income versus basic needs of a family
8 depending on the size of a family. Families in poverty, based on the limits of their income,
9 cannot meet their basic needs. Their expenses, as a family, exceed their revenues. Water services
10 are not only a basic need, but a survival need.

11 **Q: Describe other challenges faced by customers with low-incomes.**

12 **A:** Low income households, as all households, require food, shelter, medication, and heat
13 and electricity. The stress of the rising costs and rate increases associated with these basic needs,
14 stretches the resources of a family living in poverty beyond what it can sustain.

15 Food security is another issue that impacts many low-income families. According to the United
16 States Department of Agriculture Economic Research Service (USDA ERS), 14.0 percent of
17 households in America reported having low or very low food security in 2014. This means that
18 nearly 17.4 million households in America lacked the resources to access enough healthy and
19 nutritious foods for all members of the family to enjoy an active and healthy life. Of these 17.4
20 million households, 6.9 million reported very low food security, meaning that the normal eating
21 habits of at least one member of the household were disrupted or reduced due to lack of
22 resources. In other words, in 5.6 percent of American households, at least one person went
23 hungry at some point in 2014 because they could not access the food that they needed. In
24 Kentucky, the picture of food insecurity is even more harrowing. During the three-year period

1 2012-2014, 17.5 percent of all households in Kentucky reported low or very low food security.
2 7.0 percent of Kentucky households, or more than 128,000 households, had very low food
3 insecurity, meaning that at least one person experienced hunger at some point during the year.
4 Families with low-income may face a number of barriers in providing enough food to feed their
5 families, such as lack of access to transportation, distance to food retailers, and rising food costs.
6 The rising cost of food is a reality for us all, but for households with low-income, the increased
7 cost of food is a very serious burden.
8 These challenges faced by low-income customers illustrate how a rate increase as large as that
9 proposed by KAWC coupled with other basic need expenses can and will affect families with
10 low-income in complex ways.

11 **Q. Please describe how the proposed rate increase will affect low-income**
12 **people.**

13
14 **A:** KAWC stated in its response to CAC's First Request for Information that the current
15 average total monthly usage for residential customers is 4,130 gallons per month. In its
16 Application Exhibit 37, Schedule N, KAWC states that the current rate for residential customers
17 is \$33.69 based on average consumption of 4000 gallons per month and the proposed increase
18 would change the average residential monthly rate to \$39.58, resulting in a 17.48% increase.
19 This proposed rate increase is the fourth increase sought by KAWC since 2008. In its rate cases
20 filed in 2008, 2010 and 2012, average residential water rates increased 16.56%, 28.01%, and
21 10.85%, respectively, according to KAWC's response to the Attorney General's First Request
22 for Information, Question 98.

23 The impact on negotiating basic needs increases with every rate increase. With the widening of
24 the affordability gap as a result of the outcome of this case, families will be forced to make
25 further choices about which basic needs to satisfy. The stress of stretching resources will
26 continue to act as a barrier to increasing opportunity and reaching self-sufficiency. For those

1 who have made strides in increasing their incomes, they will have to take two or three steps
2 back, and some back to where they started in the income versus basic needs equation. The rate
3 increase will create a barrier, but it may also create a situation where relief agencies cannot
4 provide meaningful assistance.

5 This proposed increase is too large and cannot be afforded by those with limited or fixed
6 incomes. This is evident in that at current rates and fees, the affordability gap already exists. I
7 am encouraging KAWC and the Commission to reconsider the increase set forth in this filing.

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

10
11 **A:** No, resources are not sufficient to meet the needs of the population, and the resources
12 that exist are becoming less effective with each approved rate increase. Unlike energy assistance,
13 for which federal LIHEAP funding, local public and private funding, and utility-supported
14 programs are available, there are few options available to households needing assistance with
15 their water bill. The Council has access to only a few thousand dollars in private donor funds that
16 could be used each year for water assistance and these funds must serve the needs of all of the
17 organization's nearly 30,000 annual program participants. No significant resource is available
18 beyond the Company's Help To Others Program, which has seen a leveling off of contributions
19 by the Company over the last five years, as well as a significant decrease in customer
20 contributions, as seen in the data in the table below provided by KAWC in its Response to
21 CAC's First Information Request.

Year	KAWC Assistance to Customers with Low Income	Ratepayer Contributions to H2O Program
2011	\$60,000	\$405.91
2012	\$60,000	\$586.00
2013	\$60,000	\$682.18
2014	\$64,188	\$377.00
2015	\$60,000	\$360.18

1

2 **Q. What do you propose the solution in this case?**

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

13 While such a rate structure is favorable for all customers as a way to control costs and
14 incentivize conservation, it is especially preferable for customers with low-income because of
15 the impossible decisions they often face when choosing whether to pay for housing, medicine,
16 food and other basic necessities. With graduated rates, the customer has the opportunity to exert
17 some control over the water bill.

1 As an alternative, I urge KAWC to pursue authority to offer a low-income rate.

2 **Q. What is your position regarding Kentucky American Water Company's**
3 **responsibility to its low-income customers?**

4
5 **A.** Kentucky American Water Company has a responsibility to its low-income customers to
6 make water affordable. KAWC's low-income customers cannot shop around for a better deal and
7 cannot choose to go without water, as it is a life-sustaining resource.

8 **Q. In summary, please state your position regarding Kentucky American Water**
9 **Company's proposed rate increase and your recommendations regarding the same.**

10
11 **A:** The proposed water rate increase is too great and will negatively affect the ability of low-
12 income customers to pay for this essential service. The Commission should deny the request or
13 substantially reduce the requested increase. Without additional means of support like changes in
14 rate structure, rate discounts or a substantial increase in assistance funds, the affordability gap
15 will widen.

16 **Does this end your direct testimony?**

17 Yes

CERTIFICATE OF SERVICE

I hereby certify that CAC's May 9, 2016 electronic filing is a true and accurate copy of Direct Testimony of Malcolm J. Ratchford on Behalf of CAC and cover letter to be filed in paper medium; that the electronic filing has been transmitted to the Commission on May 9, 2016; that an original and one copy of the filing will be delivered to the Commission on May 9, 2016; that there are currently no parties excused from participation by electronic service; and that, on May 9, 2016, electronic mail notification of the electronic filing is provided to the Commission and the following:

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