COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES
COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC RATES AND FOR CERTIFICATES
OF PUBLIC CONVENIENCE AND NECESSITY

CASE NO: 2016-00370

DIRECT TESTIMONY OF MALCOLM J. RATCHFORD ON BEHALF OF COMMUNITY ACTION COUNCIL FOR LEXINGTON-FAYETTE, BOURBON, HARRISON, AND NICHOLAS COUNTIES, INC.

* * * * *

Comes the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. (hereinafter “CAC”), by counsel, and hereby tenders the pre-filed Direct Testimony of Malcolm J. Ratchford in support of its position in this matter.

Respectfully submitted,

IRIS G. SKIDMORE
Bates and Skidmore
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Frankfort, KY  40601
Telephone: (502)-352-2930
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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 Malcolm J. Ratchford and I have served as Executive Director of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties ("CAC") since 2013. CAC operates 32 neighborhood and community centers, child development centers in six counties, and Administrative and Support Services offices located at 710 W. High Street in Lexington, Kentucky.

I have worked in the Community Action Network for over 21 years. Before my appointment as Executive Director, I held the position of Senior Manager for Neighborhood and Community Services for CAC. In that position, I implemented self-sufficiency programs for the low-income populations of the areas we serve.

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

Q: Please describe the purpose of your testimony.

A: The purpose of my testimony is to state the position of CAC with respect to the proposed Kentucky Utilities Company ("KU") rate increase and to provide information as to the effectiveness of current and proposed solutions to problems of rate affordability. In summary, we do not believe that a 6.4% rate increase for residential customers, as currently proposed by KU, is a reasonable or appropriate expectation for customers with low-incomes, especially as poverty levels remain at near-record high levels. My intent is to demonstrate that a rate increase,
as proposed, will have a crippling effect on the low-income customers within KU’s territory. I will also advocate against the proposed $11.25 increase in the customer charge because a smaller percentage of the average bill can be controlled by decreased consumption and conservation.

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-incomes. CAC is a low-income services, development, and advocacy organization.

Q: Please describe the organization of CAC and give a brief description of its activities.
A: CAC was established in 1965 as a not-for-profit community action agency of the Commonwealth of Kentucky. CAC is the designated community action agency for Lexington- Fayette, Bourbon, Harrison, and Nicholas counties in Central Kentucky. CAC’s governance includes a Board of Directors representing low-income, public, and private sectors of the community. Its mission states “Community Action Council prevents, reduces and eliminates poverty among individuals, families and communities through direct services and advocacy.”

There are approximately 280 employees operating and administering CAC’s primary programs and services including:

- self-sufficiency
- early childhood development/school readiness programs
- 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 CAC’s core service territory includes Lexington-Fayette, Bourbon, Harrison and Nicholas counties, CAC also provides services in other Kentucky counties. For example, CAC administers the WinterCare Energy Fund providing services across most of the state; child
development services extend into Scott and Madison counties; and the Retired and Senior Volunteer Program extends into Jessamine County. The Columbia Gas Energy Assistance Program and WarmWise program and KU’s Home Energy Assistance Program each provide services throughout the service territory of their respective utilities.

CAC 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. Additionally, staff members are able to help participants access other CAC assistance programs as well as other community resources to address the multiple obstacles and barriers that most households with low-income 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.

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

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

A: CAC creates opportunities for individuals and families to become self-sufficient members of the community, and serves the low-income population through advocacy, service delivery and community involvement.

CAC operates Head Start, Early Head Start and Migrant Head Start child development programs that have been recognized nationally. CAC also operates several housing programs, including an Emergency Family Housing initiative in Lexington-Fayette, and five
Continuum of Care projects funded by the Department for Housing and Urban Development. Another housing program offered is Tenant Based Rental Assistance (TBRA), which provides rental assistance to Section 8-eligible households throughout CAC’s service area.

To support economic independence, CAC 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. CAC’s PREPared Workshops offer participants job readiness skills and customer service training. Also, each year CAC provides tax preparation and education for thousands of households on the Earned Income Tax Credit (EITC) and how to obtain the benefit.

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

CAC 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, CAC initiated, with KU, the establishment of the WinterCare Energy Fund. CAC has provided administrative services, financial management and marketing support for the Fund since that time. CAC 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, CAC has operated the Federal Weatherization Assistance Program designed to help low-income individuals and families conserve energy. CAC operates several additional weatherization and furnace replacement programs including Kentucky Utilities’ WeCare and Columbia Gas of Kentucky’s WarmWise high-efficiency furnace replacement program for their customers with low-income.
CAC administers a utility-funded energy subsidy program serving 2,000 low-income households in partnership with the Columbia Gas of Kentucky Energy Assistance Program (EAP) and the network of community action agencies serving the Columbia Gas service territory.

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

Q: Are there initiatives in which Community Action Council partners with KU or LG&E? Please discuss.

A: CAC operates the WeCare demand side management program for low-income residential KU customers in its core counties providing intake, energy audits, and installation of weatherization measures.

As described above, CAC also partners with KU on the Home Energy Assistance program that provides monthly subsidies for eligible low-income customers during peak heating and cooling months.

CAC administers contributions from KU customers and matching corporate funds from KU for WinterCare energy assistance. The funds are available throughout the KU service territory through the community action agency network.

Also, CAC and KU annually co-sponsor the Winterblitz event in Lexington, which provides minimal weatherization measures in low-income homes. The Winterblitz program recruits and trains volunteers who then install low-impact weatherization measures for low-income individuals and families.
Q: Please describe the low-income population in the Kentucky Utilities service territory.

A: Based on customer data by county, provided by KU in response to Data Request 1 of CAC’s Initial Request for Information, and data taken from the U.S. Census Bureau, Small Area Income and Poverty Estimates (SAIPE) Program, 2015 Poverty and Median Household Income Estimates— the most recent county-level poverty data available – the following chart provides poverty status by county for KU service counties in Kentucky. The chart is in alphabetical order by county.

<table>
<thead>
<tr>
<th>County</th>
<th>Number of KU customers</th>
<th>Poverty rate for county (SAIPE 2015)</th>
<th>Number of KU customers living in poverty</th>
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<tbody>
<tr>
<td>ADAIR</td>
<td>2,000</td>
<td>27.2</td>
<td>544</td>
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<tr>
<td>ANDERSON</td>
<td>5,740</td>
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<td>1,811</td>
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<td>1,578</td>
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<td>County</td>
<td>Population</td>
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<td>1,642</td>
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<td>FRANKLIN</td>
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<td>GREEN</td>
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<td>216</td>
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<td>HARDIN</td>
<td>17,467</td>
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<td>2,620</td>
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<td>HARLAN</td>
<td>10,774</td>
<td>35.5</td>
<td>3,825</td>
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<td>HART</td>
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<td>125</td>
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<td>HOPKINS</td>
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<td>1,952</td>
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<td>381</td>
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<tr>
<td>MERCER</td>
<td>6,490</td>
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<td>980</td>
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<tr>
<td>MONTGOMERY</td>
<td>7,305</td>
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<td>MUHLENBERG</td>
<td>11,111</td>
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<td>NELSON</td>
<td>2,793</td>
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<td>349</td>
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<td>NICHOLAS</td>
<td>1,456</td>
<td>21.5</td>
<td>313</td>
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<td>OHIO</td>
<td>3,873</td>
<td>19.9</td>
<td>771</td>
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<td>OLDHAM</td>
<td>5,678</td>
<td>6.2</td>
<td>352</td>
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<tr>
<td>OWEN</td>
<td>1,593</td>
<td>16.9</td>
<td>269</td>
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<tr>
<td>PENDLETON</td>
<td>691</td>
<td>16.4</td>
<td>113</td>
</tr>
<tr>
<td>PULASKI</td>
<td>8,112</td>
<td>23.0</td>
<td>1,866</td>
</tr>
</tbody>
</table>
Many of these counties report some of the highest poverty rates in Kentucky. Thirty-one counties served by KU report poverty rates above 20%, a rate that the Census Bureau defines as extremely high.

Small Area Income and Poverty Estimates are considered a very reliable source to estimate poverty at the county level. Poverty and need affordability illustrates the economic equation of income versus the ability to afford the basic needs of a family. By definition, families with incomes at or below the poverty line cannot meet their basic needs.

Focusing on current energy affordability, thousands of families already cannot meet their basic energy needs as evidenced by the data below from CAC’s energy assistance programs in Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties administered by CAC. Between November 2016 and February 24, 2017, CAC completed 8,307 energy assistance applications, paying out $1,381,253.95 in energy assistance. During this same time, CAC paid Kentucky...
Utilities $800,717.08 to help KU customers with low-incomes keep electricity coming into their homes.

This data effectively highlights the challenges families with low-incomes already face in meeting their basic needs. For a senior citizen on a fixed income, utility service is not only a basic need, it is a survival need. With more money needed for utilities, there is less money for other basic needs like food, housing, medication, and other necessities. These demands stretch a family’s resources beyond what can be sustained. The energy assistance needs cited above represent the current situation (based on current KU rates). With the proposed rate increase, the affordability gap will greatly widen.

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

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

Food security is another issue that impacts many low-income families. According to the United States Department of Agriculture Economic Research Service (USDA ERS), 12.7 percent of households in America reported having low or very low food security in 2015. This means that nearly 15.8 million households in America lacked the resources to access enough healthy and nutritious foods for all members of the family to enjoy an active and healthy life. In Kentucky, the picture of food security is even more harrowing. During the three-year period 2013-2015, 17.6 percent of all households in Kentucky reported low or very low food security. 7.3 percent of Kentucky households, or more than 132,860 households, had very low food security, meaning that at least one person experienced hunger at some point during the year.

Families with low-income may face a number of barriers in providing enough food to feed their families, such as lack of access to transportation, distance to food retailers, and rising
food costs. The rising cost of food is a reality for us all, but for households with low-income, the
increased cost of food is a very serious burden.

The aforementioned challenges faced by low-income customers is illustrative of how this
proposed rate increase coupled with other rising costs and rate increases can and will affect
families with low-income in complex ways.

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

A: In response to the Attorney General’s Initial Request for Information, Question 8, KU stated that it conducted no studies addressing the impact of the proposed rate design on the elderly, low income, fixed income, and home bound segments of the ratepayer base.

In response to CAC data requests, KU reported 428,241 customers in 77 Kentucky counties. Small Area Income and Poverty Estimates poverty rates by county (see above); CAC has calculated that 82,814 of current KU customers have poverty level incomes. This represents 19.3 percent of all KU customers.

As the chart below documents, the cumulative effect of the proposed KU increase of $85.92 annually per household ($7.16 monthly * 12 months) is to charge $7,115,378.88 more each year to households with incomes at or below the poverty line.

<table>
<thead>
<tr>
<th># of Households with Incomes Below the Poverty Line</th>
<th>Proposed Annual Rate Increase Per Household</th>
<th>KU Cost to Households Living in Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>82,814</td>
<td>$85.92</td>
<td>$7,115,378.88</td>
</tr>
</tbody>
</table>

It is important to consider the context of these numbers. These 82,814 households have incomes below basic survival needs (housing, food, etc.). These households will now be expected to collectively find an additional $7,115,378.88 to maintain an essential service: electricity. With many customers turning to energy assistance programs or simply not able to pay
these higher bills, the Company is likely to see increased disconnections for nonpayment and uncollectible arrearages, thus impacting the overall costs to all customers.

Current energy assistance resources will not meet this need. A rate increase as proposed will have a devastating impact on families living in poverty, those with already limited resources. If the energy 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 can afford. Families are already struggling to make ends meet. Many have to make difficult choices among food, housing, medicine and other necessities. With a rate increase of this magnitude, the ability of these families to afford their basic needs will significantly deteriorate. The added stress of further stretching limited resources becomes an increasing barrier to economic opportunity and self-sufficiency. For those who have made some strides in increasing their incomes, many will be forced backwards in their efforts to meet the basic needs of their families.

Q: Please describe how the proposed basic service charge increase will affect people with low-income.

A: The proposed basic service charge (customer charge) increase will greatly add to the burden of a rate increase on low-income customers. From 2011 until 2016, the KU basic service charge increased from $8.50 to $10.75 per month. (See KU’s response to Data Request 9 of CAC’s Initial Request for Information).

<table>
<thead>
<tr>
<th>Year</th>
<th>Monthly Basic Service Charge</th>
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</thead>
<tbody>
<tr>
<td>2011</td>
<td>$8.50</td>
</tr>
<tr>
<td>2012</td>
<td>$8.50</td>
</tr>
<tr>
<td>2013</td>
<td>$10.75</td>
</tr>
<tr>
<td>2014</td>
<td>$10.75</td>
</tr>
<tr>
<td>Year</td>
<td>Charge</td>
</tr>
<tr>
<td>------------</td>
<td>---------</td>
</tr>
<tr>
<td>2015</td>
<td>$10.75</td>
</tr>
<tr>
<td>2016</td>
<td>$10.75</td>
</tr>
<tr>
<td>Proposed Charge</td>
<td>$22.00</td>
</tr>
</tbody>
</table>

The KU proposal to increase the basic service charge to $22.00 per month would be an $11.25 increase in just one year. Not only is this a large increase, but also because the basic service charge is a flat-rate charge for all customers not based upon usage, a smaller percentage of the bill can be controlled by energy usage and conservation. Customers have less incentive to conserve to lower their bills.

A customer with low-income, who is forced to make difficult decisions about how to utilize sparse monies for basic needs, is less able to adjust his/her habits in order to affect the amount of a utility bill when a large percentage of the rate increase is placed in the basic service charge. A large increase in the basic service charge will penalize low-income seniors and other low-income customers by limiting their ability to control their bills through decreased usage and energy efficiency.

Q: Are resources for energy assistance sufficient to meet the needs of the population in the Kentucky Utilities service territory? Please discuss.

A: No, resources are not sufficient to meet the needs of the population. Federal LIHEAP funding to the state has been highly variable and Congressional support varies annually. The WinterCare Energy Fund, while showing some growth in revenue due to increased Company contributions, remains inadequate to bridge the gap between public assistance programs and actual need.

CAC very much appreciates KU’s willingness to partner with CAC in programs to assist low income families. The contribution of additional KU shareholder dollars to these programs
over the last two years has increased CAC’s ability to assist families living in poverty. However, there continues to be a significant gap between the cost of utility service and the ability of the elderly, the working poor, and other households with low income to pay. Current energy assistance initiatives within the KU area do not come close to addressing this gap. Each year, Community Action Council is forced to turn away hundreds of families who urgently need energy assistance for lack of available funds.

Q: **Is KU’s HEA subsidy program, operated in partnership with CAC, still an effective means for reducing the affordability gap? Why or why not?**

A: In 2013, the HEA Subsidy amount was increased to $88 per customer per month during the seven (7) peak months designated in the program. While this has been helpful to HEA participants, it has not been sufficient to ease the burden of utility costs for customers with low income.

As noted in the Company’s response to data requests, the average monthly invoice in 2012 was $96.93, and by 2016 that average had increased to $115.65. The increase of $18.72 in just four years reduces the assistance intended by the $44.00 increase in the subsidy amount per customer granted in 2013. In the event of a rate increase, an HEA subsidy that remains unchanged would make even less of an impact on the financial strain felt by low-income customers.

Additionally, the wait-list for low-income people seeking an HEA subsidy is substantial. As of February 24, 2017, over 1,038 eligible people were on the HEA subsidy wait-list for the CAC service territory. This demonstrates a great need for the HEA program to serve more participants, despite its best efforts.

Q: **What impact would the Company’s proposed full deployment of its Advanced Metering System have on the low income community?**
A. In short, CAC does not believe that the low income community will benefit from the proposed full deployment of the Advanced Metering System. According to KU’s testimony, the “other large driver of savings results from customers using less energy and using it more efficiently as they learn more about their own usage from the web portal that will be available to them as part of the AMS deployment.” While CAC recognizes advancements in meter reading technology, the fact remains that many low income households, which include seniors and the elderly, do not have in-home access to the technology needed, such as computers and regular or reliable internet access, to access the web-based portal in order to benefit from energy conservation elements identified by KU. In response to Sierra Club’s Initial Data Requests, Question 32, KU stated that it assumes that 17 percent of residential customers will be “active users” with energy savings of 3 percent. Low income customers will likely be a very small proportion of that number.

KU stated in its response to Sierra Club’s Initial Request for Information, Question 30, that “faster disconnections is not a goal of the AMS Program” and that the same protections currently in place will remain. CAC urges the Commission to carefully consider the CPCN for full deployment of the Advanced Metering System and require KU to both protect low income households from the disadvantages of instantaneous disconnections and offer low income households realistic opportunities to benefit from the technology.

Q: What do you propose as a solution in this case?

A: CAC asks the Commission to approve the lowest possible rate increase in order to avoid placing additional burden on families with low-income. As previously discussed, customers with low-income are already unable to meet minimum financial needs for basic services like food and medicine. Continuing to widen the affordability gap will place thousands of Kentuckians at risk of illness and death from exposure to extreme temperatures as shutoffs increase.
For the same reasons, CAC also urges the Commission to approve the lowest possible basic service charge increase. While we understand the necessity of the basic service charge to support KU’s operations, placing such a large percentage of the rate increase in the basic service charge poses a heavy burden on low-income customers who are faced not only with the prospect of a high energy bill, but also with a decreased incentive to make a meaningful impact on their monthly bills through usage and energy conservation.

In order to effectively reduce the burden placed on families with low-income, CAC asks the Commission and the Company to seek a solution that increases funding available for the HEA subsidy program for the purposes of increasing the winter and summer monthly subsidy amounts and the number of customers served. This would allow those most vulnerable, including the elderly, those with disabilities, and families with children, access to a more effective solution for keeping up with their heating and cooling costs. It would also serve to diminish the long wait-list of eligible customers seeking HEA subsidies.

Q: In summary, please state your position regarding KU’s proposal for an increase in the electric service charge rate?

The requested rate increase is too high and will negatively affect the ability of customers with low-income to pay for essential services. CAC urges the Commission to consider a much lower rate increase and basic service charge than proposed by KU. CAC asks that all parties collaborate for a solution that will allow an increase in the amounts of the monthly subsidies in the HEA program and an increase in the number served to prevent low income customers from being unable to afford their monthly electric bill.
CERTIFICATE OF SERVICE

I hereby certify that CAC’s March 3, 2017 electronic filing is a true and accurate copy of Direct Testimony of Malcolm J. Ratchford on Behalf of CAC to be filed in paper medium; that the electronic filing has been transmitted to the Commission on March 3, 2017; that an original and six copies of the filing will be delivered to the Commission on March 3, 2017; that there are currently no parties excused from participation by electronic service; and that, on March 3, 2017, electronic mail notification of the electronic filing is provided to the following:

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