Comparison of Load Impacts
and Calculation of Five Year Residential Lighting Program Costs

	Load Impacts	
	Fixed Bill Program	Residential Lighting Program
First Year	9,416,000 kWhs	-732,436 kWhs
Five Year Total		-13,185,742 kWhs

First Year Fixed Bill Impacts as a percentage of Lighing Program Five Year Impact 71.41%

Annual Costs Residential Lighting Program	
Year 1	$49,000
Year 2	$80,400
Year 3	$116,600
Year 4	$125,600
Year 5	$137,000
SUM	$508,600

Data sources for this spreadsheet

1. Aquila response to OPC DR No. 2052
2. Aquila Residential Lighting Program Description filed in Case No. EO-2008-0050

Kind Rebuttal
Attachment 2

AQUILA INC.
AQUILA NETWORKS-MISSOURI (ELECTRIC)
CASE NO. EO-2007-0395
OFFICE OF PUBLIC COUNSEL
DATA REQUEST NO. OPC-2052

DATE OF REQUEST: September 12, 2007

DATE RECEIVED: September 12, 2007

DATE DUE: September 19, 2007

REQUESTOR: Ryan Kind

REQUEST:

Please provide all analysis of possible load building impacts that may result from the existing or proposed fixed bill program that has been performed by or for Aquila or its affiliates. This would include, but not be limited to, the calculation of customer load growth impacts that are reflected in the "kWh growth factor."

RESPONSE: See attached spreadsheet.

ATTACHMENTS: OPC-2052.xls

ANSWERED BY: Dennis Odell

DATE COMPLETED: September 19, 2007

Projected Usage Impact of Fixed Bill Program

Line			Notes
1	Total MWH Usage	5,211,957	January - November, 2006
2	Residential MWH Usage	2,428,634	January - November, 2006
3	Total Residential Customer Count	208,926	November, 2006
4	Residential UPC (MWH)	11.624	Line 2 / Line 3
5	Total Customers Qualifying for Fixed Bill	135,000	Estimated based on tariff criteria
6	Percentage of Qualifying Customers that Select Fixed Bill	10%	Estimated - First year probably lower
7	Total Customers Selecting Fixed Bill	13,500	Line 5 x Line 6
8	Total Usage by Customers Selecting Fixed Bill	156,929	Line 4 x Line 7
9	Percentage Increase in Usage	6.0%	6% Growth rate assumed for Fixed Bill
10	Increased Usage by Customers Selecting Fixed Bill	9,416	Line 8 x Line 9
11	Overall Percentage Increase in Usage due to Fixed Bill	**0.18%**	Line 10 / Line 1

This is a first-year impact only. Customer UPC increases are lower after the first year.
This load increase is largely off-peak.

AQUILA INC.
AQUILA NETWORKS-MISSOURI (ELECTRIC)
CASE NO. EO-2007-0395
OFFICE OF PUBLIC COUNSEL
DATA REQUEST NO. OPC-2048

DATE OF REQUEST: September 12, 2007

DATE RECEIVED: September 12, 2007

DATE DUE: September 19, 2007

REQUESTOR: Ryan Kind

REQUEST:

Please provide a current capacity balance spreadsheet for Aquila's Missouri electric operations for the next 10 years that shows the level of peak load that is forecasted (with required reserves) for each year and the specific supply-side resources that Aquila will use to serve its loads in each year. This spreadsheet would be similar in format to Table 2-3 on page 4 of Part 2 of Aquila's February 2007 IRP filing but would provide more detail on the supply side-resources that will be used to serve loads in each of the 10 years.

RESPONSE:

Please see the attached spreadsheet. It should be noted that the load forecast does not include any impact of DSM programs.

ATTACHMENTS: OPC-2048.xls

ANSWERED BY: Dennis Odell

DATE COMPLETED: September 19, 2007

Generation Capacity	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Existing Generation Capacity											
Baseload Capacity											
Sibley 1	53.8	53.8	53.8	53.8	53.8	53.8	53.8	53.8	53.8	53.8	53.8
Sibley 2	53.9	53.9	53.9	53.9	53.9	53.9	53.9	53.9	53.9	53.9	53.9
Sibley 3	400.6	400.6	400.6	400.6	400.6	400.6	400.6	400.6	400.6	400.6	400.6
Jeffrey 1	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4
Jeffrey 2	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4
Jeffrey 3	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4
Lake Road 4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4
Iatan	117.7	117.7	117.7	117.7	117.7	117.7	117.7	117.7	117.7	117.7	117.7
Total Baseload Capacity	898.6	898.6	898.6	898.6	898.6	898.6	898.6	898.6	898.6	898.6	898.6
Peaking Capacity											
Ralph Green 3	71	71	71	71	71	71	71	71	71	71	71
Greenwood 1	60	60	60	60	60	60	60	60	60	60	60
Greenwood 2	60	60	60	60	60	60	60	60	60	60	60
Greenwood 3	58	58	58	58	58	58	58	58	58	58	58
Greenwood 4	60	60	60	60	60	60	60	60	60	60	60
Nevada	20	20	20	20	20	20	20	20	20	20	20
KCI 1	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7
KCI 2	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9
South Harper 1	105	105	105	105	105	105	105	105	105	105	105
South Harper 2	105	105	105	105	105	105	105	105	105	105	105
South Harper 3	105	105	105	105	105	105	105	105	105	105	105
Lake Road 1	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7
Lake Road 2	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3
Lake Road 3	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2
Lake Road 5	68.5	68.5	68.5	68.5	68.5	68.5	68.5	68.5	68.5	68.5	68.5
Lake Road 6	21	21	21	21	21	21	21	21	21	21	21
Lake Road 7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7
Total Peaking Capacity	849.0	849.0	849.0	849.0	849.0	849.0	849.0	849.0	849.0	849.0	849.0
New Generation Capacity (Iatan 2)	0.0	0.0	0.0	153.0	153.0	153.0	153.0	153.0	153.0	153.0	153.0
Total Generation Capacity	1747.6	1747.6	1747.6	1900.6	1900.6	1900.6	1900.6	1900.6	1900.6	1900.6	1900.6

Transactions	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capacity Purchases											
NPPD	175.0	175.0	175.0	175.0	75.0	75.0	75.0	0.0	0.0	0.0	0.0
MidAmerican Energy	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Union Power Partners	225.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gray County	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Purchases, Executed	495.0	175.0	175.0	175.0	75.0	75.0	75.0	0.0	0.0	0.0	0.0

Total System Capacity	2242.6	1922.6	1922.6	2075.6	1975.6	1975.6	1975.6	1900.6	1900.6	1900.6	1900.6
System Peaks & Reserves	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Peak Demands											
Forecasted Peak MPS	1465.0	1507.0	1551.0	1595.0	1626.0	1664.0	1704.0	1745.0	1787.0	1830.0	1874.0
Forecasted Peak SJD	429.0	438.0	446.0	455.0	467.0	476.0	485.0	493.0	501.0	509.0	516.0
Coincident Peak Forecast	1888.0	1939.0	1989.0	2042.0	2083.0	2130.0	2178.0	2225.0	2274.0	2324.0	2376.0
Capacity Reserves	354.6	-16.4	-66.4	33.6	-107.4	-154.4	-202.4	-324.4	-373.4	-423.4	-475.4
Reserve Margin	18.78%	-0.85%	-3.34%	1.65%	-5.16%	-7.25%	-9.29%	-14.58%	-16.42%	-18.22%	-20.01%
Additional Capacity Required to meet 13.64% Reserve Margin	0.0	280.9	337.7	244.9	391.5	444.9	499.5	627.9	683.6	740.4	799.5

Kind Rebuttal
Attachment 4

AQUILA INC.
AQUILA NETWORKS-MISSOURI (ELECTRIC)
CASE NO. EO-2007-0395
OFFICE OF PUBLIC COUNSEL
DATA REQUEST NO. OPC-2053

DATE OF REQUEST: September 12, 2007

DATE RECEIVED: September 12, 2007

DATE DUE: September 19, 2007

REQUESTOR: Ryan Kind

REQUEST:

Is Aquila willing to make a firm commitment to hold ratepayers harmless from any possible adverse rate impacts that may result from the proposed fixed bill program if the program has load building impacts that create upward pressure on Aquila's costs and rates? If not, please fully explain why.

RESPONSE:

Aquila has taken reasonable steps, including its proposal to treat gains and losses from this program below-the-line, to ensure that nonparticipating customers are not impacted by this program. As demonstrated in Aquila's response to OPC-2052, the projected usage impacts of this program are minimal and do not necessitate any such commitment. In addition, any such ratemaking commitments would be premature given that this is a pilot program.

ATTACHMENTS: None

ANSWERED BY: Dennis Odell

DATE COMPLETED: September 19, 2007

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC., INTER-COUNTY ENERGY COOPERATIVE CORPORATION, NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION, AND SALT RIVER ELECTRIC COOPERATIVE CORPORATION, FOR AUTHORITY TO IMPLEMENT A FIXED BILL PILOT PROGRAM	)))))))	CASE NO. 2004-00330

O R D E R

On August 20, 2004, East Kentucky Power Cooperative, Inc. ("East Kentucky") and three of its member distribution cooperatives, Inter-County Energy Cooperative Corporation, Nolin Rural Electric Cooperative Corporation, and Salt River Electric Cooperative Corporation (collectively "Joint Applicants"), filed an application for approval of a pilot fixed bill program. Under the program, a limited number of residential customers could choose to pay a pre-determined, fixed amount each month for service over the next 12 months. The fixed amount paid would vary for each customer based on that customer's prior consumption adjusted to reflect normal weather.

Intervention was requested by, and granted to, the Office of the Attorney General ("AG"). The Joint Applicants responded to two data requests issued by the AG, and three data requests issued by Commission Staff. The parties agreed to file written comments in lieu of a hearing. Those comments have been filed, and the case now stands submitted for a decision.

BACKGROUND

The Joint Applicants premise their proposal on three basic goals: (1) eliminating uncertainty for customers regarding the amount of their bills; (2) improved customer satisfaction; and (3) improved system load factor. According to the Joint Applicants, some customers have been dissatisfied with the budget billing programs that are available to them because those programs require an end of the year reconciliation, or true-up payment, in month 12 if the budget amount paid for 12 months is less than the amount otherwise due based on actual usage and actual rates. The fixed bill program requires no true-up or reconciliation between the fixed amount paid for 12 months and the amount that would have been paid based on actual consumption and actual rates.

Under the program, a customer's historical annual usage is determined based on a minimum of 12 months actual experience. The historic annual usage is then adjusted to reflect normal weather and temperature conditions. This yields a normalized annual usage which is divided by 12 and then applied to current rates to derive the customer's monthly fixed bill. This amount is then increased by a risk factor premium which is intended to protect the Joint Applicants from the uncertainties and risks of abnormal weather, changes in rates, and changes in customer usage levels not related to weather. Although there is no end of the year true-up payment required, a customer's actual usage during the first 12 months under the pilot program will be recognized when calculating the customer's fixed bill amount for the next 12 months.

The Joint Applicants cited other fixed bill programs, most notably those of Georgia Power, Duke Power, Progress Energy, and Gulf Power, in support of their proposal. These other utilities had between 1 year and 3 years experience with fixed bill programs at the time East Kentucky filed this case. The citations to these other utilities' fixed bill programs primarily referenced the number of participants in each pilot and how those numbers greatly increased once the programs were made available to more customers.

Due to a claim of confidentiality for certain information, the Joint Applicants did not disclose the changes in customer usage or system-wide demand for any of these other utilities except Gulf Power. For the first year of Gulf Power's pilot program, energy usage increased by 8 percent, while most of the increase in demand occurred in shoulder and off-peak periods rather than on-peak periods. Such increases in energy sales without an increase in peak demand results in a higher load factor, which means the utility system generates more electricity while operating at the same capacity.

DISCUSSION

The AG opposes the program, citing three arguments. First, he argues that a fixed bill offering is a price-based product, which in a deregulated electric market would properly place the full risk of the offer on the seller. However, in a regulated electric market, as in Kentucky, the AG argues that the utility seller is never fully at risk because it always has the authority to seek an increase in rates. The AG notes that East Kentucky expects to add generating capacity over the next several years and that this will increase the likelihood that East Kentucky will be seeking rate increases. In a test year in which weather or other factors cause fixed bill customers to use more electricity than normal, the AG argues, East Kentucky will suffer a revenue deficiency, which will have to be made up through the rates charged to the nonparticipating customers.

Second, the AG argues that the risk factor premium will provide the utility a greater margin than that provided by standard cost-of-service rates whenever a fixed bill customer does not consume more than the normalized usage level. The utility keeps this extra profit, the AG claims, over and above the cost to serve the customer. Only if the fixed bill customer's actual usage is substantially greater than the normalized usage will the utility lose money, according to the AG. While losses and profits under the program are intended to balance over time, nothing prevents the utility from seeking a rate increase at a time of under-earning. Therefore, losses on the fixed bill program could result in increased rates for other customers. Because of this potential, the AG argues that the ratepayers will bear all of the program's risk.

Third, the AG argues that a fixed bill program encourages wasteful consumption. The AG notes that what evidence there is on other programs shows that consumption increases in the first year of the program and that the promotional information touts this as one of the benefits of the program. The AG states that the Joint Applicants have not provided sufficient detail as to the type of change in consumption that is expected to occur to allay the concerns that wasteful consumption is what gives rise to the anticipated improvement in system load factor. Given East Kentucky's present and projected need for additional generating capacity, the AG argues against pursuing a program that might exacerbate that need.

The Joint Applicants responded to the AG's first objection by stating that the fixed bill proposal is cost-based, and it is designed to recover all the costs now recovered under standard tariffed rates plus a premium to compensate for the risk assumed under the program. The Joint Applicants point out that those utilities with fixed bill programs are located in the south, southwest, or midwest, are not deregulated, and employ the principles of cost-based rates. The Joint Applicants also state that they have no intent to seek recovery of lost revenue if any does occur as a result of the pilot program

On the AG's second point, the Joint Applicants state that any excess margins will be short-term in nature and will be offset in the following year. This is because a fixed bill customer's actual consumption during the first 12 months of the program will be used to set the amount of the fixed bill in the second year, thereby eliminating the possibility of higher margins in the second year. On the other hand, the Joint Applicants state that if a fixed bill customer's usage exceeds the normalized level, the utility will under-collect compared to what a similar customer not served under the program would pay. Hence, according to the Joint Applicants, a fixed bill program does not place all the risk on ratepayers.

On the AG's third point, the Joint Applicants argue that, without empirical evidence from Kentucky customers, it is unknown whether a fixed bill will encourage wasteful consumption. It is for this reason that a limited pilot has been proposed. The Joint Applicants intend to analyze the results of the pilot to determine whether wasteful consumption did occur. The Joint Applicants point to the results of Gulf Power, which experienced no statistically significant change in peak demand, although overall energy usage did increase. While recognizing that this may not be the result in Kentucky, the Joint Applicants maintain that this experience should offer comfort to all parties that the program does not automatically result in higher peak demand.

COMMISSION FINDINGS

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that the Joint Applicants' fixed bill proposal appears to be an extraordinary response to a concern expressed by a limited number of their customers. The Joint Applicants have not surveyed their customers or performed any quantitative analysis to determine the level of demand or interest their customers have in a fixed bill program. If minimizing the amount of the true-up customers pay at the end of a budget year is an important goal of the Joint Applicants, there are other means available to achieve that goal. Budget billing plans with multiple adjustments during the budget year and levelized billing plans that eliminate the need for a year end true-up by employing a rolling average of historic usage are two means of addressing the issue of customers' true-up payments.

The Commission shares, to some extent, the AG's concerns about possible financial or rate impacts of a fixed bill program. East Kentucky's fuel costs as reflected in its monthly fuel adjustment clause rate have been increasing over the past few years. East Kentucky has also recently adopted a monthly environmental surcharge to be effective this summer. By using today's rates to calculate a fixed bill to be charged over the next 12 months, East Kentucky increases the likelihood of not recovering all its costs to serve fixed bill customers, even assuming their usage does not exceed normalized levels. Assurances offered by the Joint Applicants that they would not seek to recover related costs or losses, and the Commission's ability to fashion safeguards for the program tend to mitigate those concerns. However, if there is a major problem with this program, the Commission is always mindful that the Joint Applicants, as member-owned cooperatives, have no shareholders to absorb the costs or losses that might be incurred as a result of a fixed bill program.

The issue of greatest concern to the Commission is the potential impact a fixed bill program could have on energy consumption and demand. The limited results of the Gulf Power pilot program, contrary to the claims of the Joint Applicants, offer little comfort on this matter. An 8 percent increase in energy usage is much greater than what typically occurs due to normal growth. Particularly with East Kentucky's fuel costs increasing substantially in recent years, the merits of attempting to increase customer satisfaction by implementing a program that encourages customers to use more electricity, without sending proper pricing signals, are questionable.

While a few other utilities have implemented fixed bill programs, Gulf Power's is the only one for which information on changes in usage and demand is available. In addition, none of those other utilities, including Gulf Power, are exclusively winter peaking systems, as are the Joint Applicants. Therefore, the results of the programs of other utilities may be of little relevance to the Joint Applicants' situation. Whether those results could be relevant is not known, however, since they were not provided when requested, even though the consultant retained by the Joint Applicants to develop their fixed bill proposal was also a consultant to some of the other utilities. Without providing more information on the impacts that other fixed bill programs have had on energy usage and demand, the Joint Applicants have been unable to demonstrate that this program will not result in higher costs for all ratepayers.

The Commission takes administrative notice that East Kentucky currently has two cases pending to construct a total of over 950 Mw of capacity at a cost in excess of

$1.35 billion. This makes it highly questionable for East Kentucky to pursue a billing program that removes the link between the quantity of electricity that customers use and the cost of that electricity. With the impact of East Kentucky's recently approved environmental surcharge expected to increase customers' bills this summer, and with the forecast of a need for an additional rate increase later this decade to recover the cost of new capacity, East Kentucky's interest in pursuing a fixed bill program does not appear to be well founded.

Although the Joint Applicants point to the small size of the proposed pilot, it is the Commission's sense that a fixed bill program should not be pursued, regardless of its size, unless: (1) there is clear evidence of a demand for the program that cannot otherwise be addressed; and (2) meaningful results of other programs are available which demonstrate that the likely outcome will not adversely impact customers, in the short-run or the long-run, by creating a need for additional capacity or by increasing the utility's costs or reducing its revenues.

Although we are rejecting the fixed bill pilot program as proposed, we encourage the Joint Applicants to investigate other ways to address their customers' dissatisfaction with the current budget plans. The Commission is willing to consider proposals to modify existing budget billing plans by adopting semi-annual or quarterly adjustments, or by adopting levelized billing plans, to address ratepayer concerns about existing plans.

IT IS THEREFORE ORDERED that the fixed bill pilot program proposed by the Joint Applicants is denied.

Done at Frankfort, Kentucky, this 4th day of May, 2005.

By the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE UNION LIGHT, HEAT AND POWER COMPANY FOR APPROVAL OF FIXED BILL PROGRAM RIDERS APPLICABLE TO RESIDENTIAL CUSTOMERS	))))	CASE NO. 2004-00503

O R D E R

The Union Light, Heat and Power Company ("ULH&P") has proposed a fixed bill pilot program in which 1,000 residential customers could voluntarily participate the first year. Under the program, a customer's monthly bill would be fixed at a specific amount for a period of 12 months, based on current rates and the customer's historical usage, adjusted to reflect normal temperatures. The customer's fixed bill would also include a program fee intended to compensate ULH&P for its increased financial risks resulting from the program. There would be no true-up at the end of the 12 months, a feature which distinguishes a fixed bill program from a traditional budget billing plan. However, a customer's usage during the first 12 months of the program would form the basis for calculating the customer's fixed bill amount during the next 12 months. The Attorney General ("AG") was the only intervenor in this proceeding.

Having considered the proposal and all the evidence of record, the Commission finds that ULH&P's proposed fixed bill pilot program should be rejected for the following reasons: (1) the proposed program would eliminate the price signal that can influence customers' consumption; (2) there is little evidence of a need for or an interest in such a program; and (3) there is very little information available on the energy sales impacts and system demand impacts of other fixed bill programs.

BACKGROUND

After filing its application, ULH&P was subject to three rounds of discovery by Commission Staff and the AG. The parties agreed to file comments in lieu of a hearing. The evidentiary phase of this proceeding appeared to have concluded in April of 2005 upon the receipt of ULH&P's comments filed in reply to the AG's written comments. However, in May of 2005, ULH&P requested to reopen this case record so it could conduct further research into the level of customer interest in a fixed bill program.[1] That request was granted and ULH&P filed additional information on which the Staff and the AG issued their third and final data requests. The record is now complete and the matter is submitted for decision.

ULH&P premised its proposal on three basic goals: (1) responding to competition from non-regulated providers of heat-producing commodities; (2) eliminating customer uncertainty regarding the amount of their bills; and (3) increasing customer satisfaction. The proposed fixed bill program would be voluntary, available to 1,000 customers for the first year, and applicable to customers' gas and electric usage. After the first year, ULH&P proposed to market the program to roughly 50,000 customers while allowing the first 14,000 eligible customers who seek to enroll to participate in the program.[2] ULH&P

[1] ULH&P indicated that its request was based on the decision in Case No. 2004-00330, in which the Commission rejected the fixed bill proposal of East Kentucky Power Cooperative, Inc. ("East Kentucky Power").

[2] In response to a data request, ULH&P discounted maintaining the number of participants at 1,000 beyond the first year of the pilot, stating that it did not want to be put in a position of turning down customers who wished to take part in the program.

proposed to set the program fee annually on a customer-specific basis, while agreeing to cap it at 10 percent of the customer's bill. It also proposed that the profits and losses and incremental expenses of the program be treated "below the line" for regulatory purposes so that customers not participating in the program will not be affected by its costs. In support of its fixed bill proposal, ULH&P cited Administrative Case No. 384, in which the Commission reviewed natural gas pricing and procurement issues and stated that it would be willing to consider fixed bill programs.[3]

Under the program, a customer's historical usage (based on at least 12 months of data) would be adjusted to reflect normal temperature conditions. The "normalized" annual consumption would then be used to calculate the customer's fixed annual bill, which would be divided by 12 to derive the monthly bill. This amount, which would be based on ULH&P's existing rates, would then be increased by the program fee. This fee is intended to protect ULH&P from the uncertainties and risks of abnormal weather, potential changes in costs and changes in customer usage not related to weather.

ULH&P identified the various payment options it currently offers customers and stated its belief that the fixed bill program would complement those programs. Like many other major utilities, ULH&P allows customers to pay their bills at "pay stations," typically retailers who offer extended operating hours. It also offers an e-bill option and an automatic bank draft option. In addition, for a transaction fee, customers can pay by electronic check or credit card. ULH&P presently offers two budget billing programs: an annual plan, in which the customer's bill is trued-up in the 12th month; and a quarterly

[3] Administrative Case No. 384, An Investigation of Increasing Wholesale Natural Prices and the Impact of Such Increases on the Retail Customers Served by Kentucky's Jurisdictional Natural Gas Distribution Companies, Order dated July 17, 2001.

plan, in which the bill is adjusted every 3 months. Under the quarterly plan, any credit or balance owed at the end of the 12th month is rolled over into the following 12 months.

ULH&P cited survey results from J.D. Power and Associates ("J.D. Power") which show that, in 2004, approximately 17 percent of utility customers nationally were on some type of level payment plan. It also cited the enrollment and renewal success of fixed bill programs offered by Georgia Power, Duke Power, and Progress Energy as well as a survey of employees of its affiliate, Public Service Indiana ("PSI"), who participated in a small fixed bill pilot in 1996, as evidence of support for a fixed bill program. It noted that if the fixed bill program resulted in greater customer satisfaction, that would positively effect its ranking against the utilities with whom it competes in annual J.D. Power customer satisfaction surveys.

The information available on existing fixed bill programs of the utilities previously identified primarily references the number of participants in the pilots and how those numbers increased once the utilities were authorized to offer their programs on a wider basis. Due to confidentiality restrictions, ULH&P did not provide information on the changes in customer usage or system-wide demand for any of the utilities with fixed bill programs except for Gulf Power. The first year results of Gulf Power's pilot program showed that energy consumption increased by 8 percent, while most of the increase in demand occurred in shoulder and off-peak periods rather than on-peak periods.

DISCUSSION

The AG's Position

The AG opposed the program based on several arguments. First, he argued that a fixed bill offering is a price-based product, which in a deregulated electric market would properly place the full risk of the offer on the seller. However, in a regulated electric market, as in Kentucky, the AG argued that such a program provides monopoly protection for a pricing product that is offered as an optional billing program. The AG contended that a fixed bill is not really a billing option, but a new rate that compensates the utility for the management of the usage/financial risk of the customer taking gas or electric service.

The AG also argued that the program fee operates to provide a greater margin than that provided by standard cost-of-service rates due to the proposed program fee. The utility keeps this extra profit, the AG claimed, over and above the cost to serve the customer. The AG argued that it is anti-competitive to provide a regulated utility, such as ULH&P, the ability to charge a regulated rate for risk management services that are not inherently monopolistic by nature.

The AG claimed the program runs counter to specific statutory provisions which encourage reduced usage through demand side management and make price signals so remote as to be meaningless. He also claimed that the increase in usage has the potential to reduce off-system electric sales, which would benefit program participants at the expense of non-participants.

Although strongly opposed to the program, the AG, in his final comments filed July 29, 2005, identified specific conditions which he believed should be imposed if the Commission chooses to approve a pilot. Those conditions include: (1) that ULH&P, as a regulated utility subject to KRS 278.160, should not be allowed to determine the amount of the proposed program fee and that the fee should be set by the Commission; (2) that annual re-enrollment be required, rather than it be automatic that a customer remains with the program; (3) that the penalities of the program should be made as prominent as the benefits in the advertising and solicitation; and (4) that clear data showing the costs and benefits of participation should be required to be provided to participants.

ULH&P's Position

ULH&P argued that its fixed bill proposal is cost-based, reflecting all the costs of its standard tariffed rates, plus a premium to compensate it for the risk it assumes under the program. It claimed that its main objective is to provide customers with greater choices in terms of billing/payment options. ULH&P emphasized the fact that, as an investor-owned utility, it does not present the same concerns as those identified in the Commission's Order denying East Kentucky Power's request to implement a fixed bill pilot program.[4]

ULH&P pointed out that the revenues and expenses of the pilot program would be recorded "below the line" for regulatory purposes. It stated that any excess profits will be short-term in nature and will be offset in the following year. This is because the program will reflect a customer's consumption in the first year in setting the fixed bill amount in the second year, therefore, eliminating the possibility of higher profits in the second year. It argued that the impacts on energy and demand for the program will not be so significant as to be a cause for concern, particularly since it is not planning to add electric generating capacity in the near future, as is East Kentucky Power.

[4] Case No. 2004-00330, The Application of East Kentucky Power Cooperative, Inc., Inter-County Energy Cooperative Corporation, Nolin Rural Electric Cooperative Corporation, and Salt River Electric Cooperative Corporation for Authority to Implement a Fixed Bill Pilot Program, Order dated May 4, 2005.

ULH&P claimed that its consumer research, conducted in June of this year after the record was re-opened, supports that its customers favor a fixed bill program. Its conclusions, based on this research were: (1) a fixed bill program offers a viable option for a portion of its customers who prefer predictable monthly payments without a true-up at the end of the year; (2) customers think that a premium in the range of 5-10 percent is fair and appropriate; and (3) even customers who don't prefer the fixed bill option recognize its benefits and believe that it should be offered to other customers.

ANALYSIS

It appears that ULH&P wishes to implement a fixed bill program primarily to be able to offer customers greater choice and flexibility in billing options. However, contrary to its claims, the information provided on the PSI pilot and the consumer research it conducted in June of this year, do not demonstrate that there is a demand for, or a significant interest in, a fixed bill program. While there are many details in the research questions and the answers, the summary data table provided by ULH&P sums up the overall results. In ranking its standard bill, annual budget bill, its quarterly budget bill and its fixed bill proposal, the fixed bill proposal ranked last (although it was not far behind the quarterly budget plan).

Although its application emphasized the need to respond to competition from non-regulated providers of heat-producing commodities as a reason for proposing a fixed bill program, ULH&P's data responses indicated that its "competition" was based mainly on the advertisements of propane and heating oil dealers who offer fixed or level billing plans. It provided no evidence that it was losing customers to these competitors for heating load because of the competitors' billing plans.

ULH&P's application also emphasized that eliminating uncertainty for customers regarding the amounts of their bills was a motive for proposing a fixed bill program. However, other than eliminating the year-end true-up payment that is included in budget payment plans, the certainty offered by a fixed bill program is no greater than that of a budget plan. If minimizing or eliminating the true–up customers pay at the end of a budget year is important to ULH&P, there are other means of meeting that objective. For example, levelized billing plans, which are offered by many utilities, eliminate the customer's true-up payment. These plans use a rolling average approach, so the amount due each month changes slightly; however, this approach totally eliminates the need for a true-up.

The Commission shares, to a limited extent, the AG's concerns about possible financial or rate impacts of a fixed bill program. The fact that the revenues and expenses would be recorded "below the line" largely mitigates those concerns. We also share the AG's concerns about the impact that increased electricity usage from a fixed bill program could have on ULH&P's ability to make off-system electric sales, particularly when the outcome of Case No. 2003-00252,[5] in which ULH&P's acquisition of 1,105 Mw of generation was approved, contained provisions allowing customers to share in the profits from such off-system sales.

[5] Case No. 2003-00252, Application of The Union Light, Heat and Power Company for a Certificate of Public Convenience and Necessity to Acquire Certain Generation Resources and Related Property; for Approval of Certain Purchase Power Agreements; for Approval of Certain Accounting Treatment; and for Approval of Deviation from Requirements of KRS 278.2207 and 278.2213(6).

An issue of great significance, in the Commission's view, is the potential impact a fixed bill program could have on energy consumption and demand. The limited results of the Gulf Power pilot program offer little comfort on this issue. An 8 percent increase in energy usage is much greater than what occurs due to typical consumption growth.

While several utilities have implemented fixed bill programs, Gulf Power's is the only one on which any usage or demand results are available. Without providing more information on the impacts that other fixed bill programs have had on energy usage and demand, ULH&P has done little to alleviate the very legitimate concern that such a program could have negative consequences. Particularly with ULH&P's electric rate freeze scheduled to expire at the end of 2006 and with natural gas costs at record levels, hoping to increase customer satisfaction by implementing a program that could encourage customers to use greater amounts of electricity or natural gas appears to be misguided.

CONCLUSION

It is questionable for ULH&P to pursue a program that removes the customer's direct link between the amount of electricity and natural gas used and the cost of that usage. Although ULH&P points to the small size of the proposed pilot, it is the Commission's belief that programs such as this should not be pursued, regardless of their size, unless (1) there is clear evidence of a demand for the program that cannot be addressed otherwise and (2) meaningful results of other programs are available which demonstrate that the expected outcome will not adversely affect customers, in the short run or the long run, by creating a need for additional capacity and/or increases in rates.

IT IS THEREFORE ORDERED that the fixed bill pilot program proposed by ULH&P is denied.

Done at Frankfort, Kentucky, this 26th day of October, 2005.

By the Commission

ATTEST:

Executive Director