FILED
December 18, 2007
Data Center
Missouri Public
Service Commission

AQUILA INC.
AQUILA NETWORKS-MISSOURI (ELECTRIC)
CASE NO. EO-2007-0395
OFFICE OF PUBLIC COUNSEL
DATA REQUEST NO. OPC-2006

DATE OF REQUEST: May 25, 2007

DATE RECEIVED: May 25, 2007

DATE DUE: June 11, 2007

REQUESTOR: Ryan Kind

REQUEST:

Please provide a copy of all presentations, reports, memos, etc. that have been provided to one or more members of Aquila's management regarding a possible extension or expansion of the Aquila Fixed Bill Pilot Program.

RESPONSE:

An executive summary was prepared to file with the Commission Staff and was reviewed by Sr. Director, Dennis Odell. This summary was never filed; all contents were included in Dennis Odell's direct testimony. The summary has been attached, Executive Summary for Filing.doc.

In January 2007 a presentation was prepared for Sr. Director, Dennis Odell, to outline the decisions the Product and Services department needed to make regarding the filing of the Fixed Bill program. The presentation is attached, Fixed Bill Decision Jan 2007.doc.

In December 2006 a presentation was made to Jon Empson and Ivan Vancas, senior Aquila management on the Fixed Bill program. The presentation is attached, Fixed Bill Program.ppt.

In May a planning document was created to share with our internal billing department to discuss the alternate plans of extending the St. Joe pilot for one-year.

On May 5, 2007 a status update document was emailed internally to the billing department and call center operations notifying them that the extension of Fixed Bill to all eligible MO electric customers was put on hold. The document outlined the tasks needed to be completed for the one-year St. Joe pilot extension. The document is attached, Fixed Bill Status Update.doc.

ATTACHMENTS:

OPC-2006 Executive Summary for Filing.doc
OPC-2006 Fixed Bill Decision Jan 2007.ppt
OPC-2006 Fixed Bill Program.ppt
OPC-2006 Fixed Bill Planner.doc
OPC-2006 Fixed Bill Status Update.doc

OPC Exhibit No. 14
Case No(s). EO-2007-0395
Date 11-16-07 Rptr pF

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Fixed Bill Decisions
January 2007

Missouri Electric

MOE Fixed Bill Product Goals

- **Fair to customer who receive offers**
  - ✓ *Offer - full disclosure*
  - ✓ *Fair price – accurate, consistent with industry norms*
  - ✓ *Completely voluntary*
- **Fair to customers who choose the product**
  - ✓ *Guarantee monthly charge, no true-up*
  - ✓ *12-month term*
- **Fair to customers who don't choose the product**
  - ✓ *No impact on their bill; no subsidization*
  - ✓ *Part of a larger planned portfolio*
- **Fair to utility**
  - ✓ *Provide pricing flexibility: range of risk premiums and FAC forecast*
  - ✓ *Recognize risk; booked below the line*

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Project Decisions – 2006

	Pro's	Con's
Option 1: Extend Pilot for all MO Risk Premium: 6-8% Rate Increase: Y FAC Included: ? Below Line Reporting: No	•Already approved; pilot terms are easier to update. •Summer '07 launch	•Rate case timing •FAC unknown •Tight marketing timeline •Risk premium is too low
Option 2: File Permanent AFTER Rate Case Risk Premium: 10% Rate Increase: Y FAC Included: Y Below Line Reporting: Yes	•Increased revenue potential •No risk for regulated customer	•Spring '08 launch •OPC and PSC are a challenge
Option 3: File Permanent BEFORE Rate Case Risk Premium: 10% Rate Increase: Y (with new rates) FAC Included: Y Below Line Reporting: Yes	•Increased revenue potential •No risk for regulated customer •Summer '07 launch	•Rate case timing •Tight marketing timeline •OPC and PSC are a challenge

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Overarching Project Goals

Launch the Project

1. L&P pilot expires
2. Aquila can be a Missouri first-mover
3. Build relationships with Aquila regulatory team
4. Build relationships with MO regulators
5. Product development team success

Overarching Project Goals

<u>Launch the Project</u>

1. L&P pilot expires
2. Aquila can be a Missouri first-mover
3. Build relationships with Aquila regulatory team
4. Build relationships with MO regulators
5. Product development team success

It's an uphill climb, taking one step at a time

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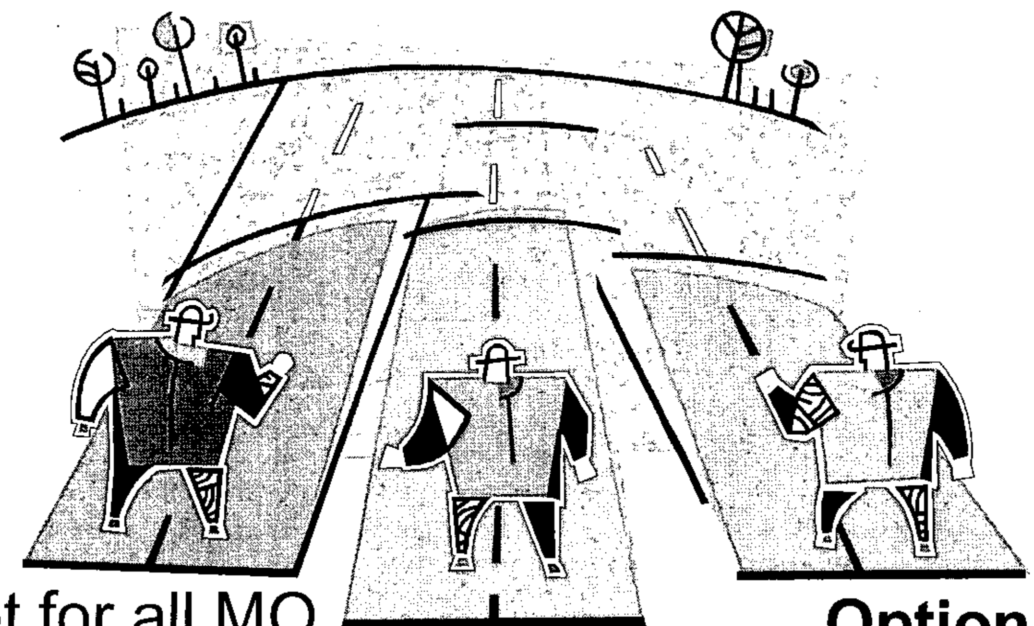
Project Path Decisions - 2007



Option 1:
- Extend Pilot for all MO
- Pilot terms remain constant

Option 2:
- Extend Pilot for all MO
- Redesign pilot terms

Option 3:
- Extend Pilot for L&P
- Redesign MO offering <u>after</u> rate case

Project Decisions - 2007

	Risk	Changes
Extend pilot for L&P only	•Low (75% - 90%)	•Utilize new rate structure
Option 1: **Extend pilot for all MO** **Pilot terms remain constant**	•Med Risk (40% -60%) •30-day filing with "pre-hearing" conference to discuss changes and long-term strategy	•Estimate rider (FAC) *(remain silent on pricing)* •Abuse provision *(growth >50% over 3-month avg. period)*
Option 2: **Extend pilot for all MO** **Redesign pilot terms**	•High Risk (5% - 10%) •Unlikely chance for a 30-day approval given the aggressive redesign of pilot	•Up to 10% premium •Below line accounting
Option 3: **Extend pilot for L&P** **Redesign pilot - offer after rate case filing is completed**	•High Risk •No product offering in 2006	•Deliberately choose path outside our current rate case cycle for permanent tariff.

Assumption: L&P customers stay with 6% program fee

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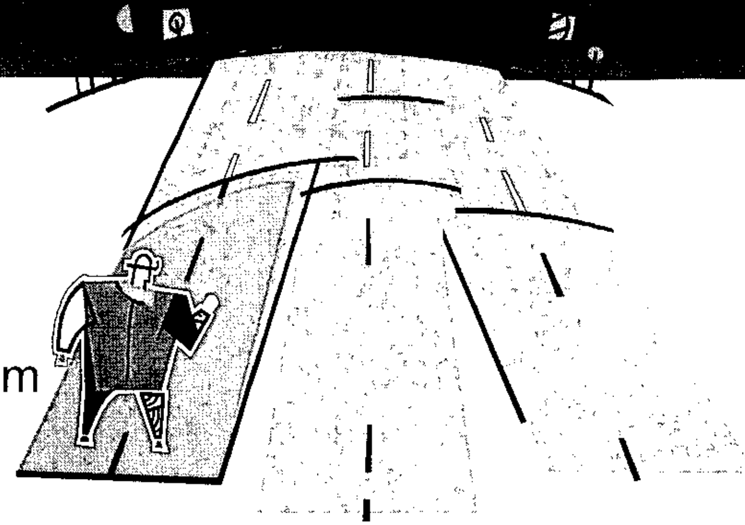
Option 1

Issues:

1. Term of Contract – Does not include abuse clause
2. Bill Formula – Energy Price is vague
   "Expected energy price structure from the appropriate rate schedule including applicable riders"
3. Program Fee – 8% may not cover Q factor growth
4. **Does not achieve MOE product goals**



Option 1

Short Term Strategy:

1. Term of Contract –Abuse clause
   - Removes .001% of customers from program
   - Minimal expense to monitor abuse
   - Aquila is a responsible agent
2. Bill Formula – Energy Price should not be revealed
   - Standard tariff rates
   - FAC factor using budgeted fuel for computation
3. Program Fee – 8% (see Program Fee Strategy)
   - Q Factor = 5½%
   - Risk Premium = 2½%
4. Phased-in marketing to reduce risk
5. Steps towards achieving MOE product goals
   - Inform Commission on product offering goals
   - Educate Commission on industry averages
   - Inform Commission this pilot is being used to gather information on all MO electric eligible customers

Program Fee Strategy – Option 1

	L&P Pilot 2005-2006	2007 MO Pilot (not L&P)	Industry Avg
Q Factor	3%	5.5%	5% - 7%
Risk Premium	3%	2.5%	5%
Total Program Fee	6%	8%	10%

Current filing supports this structure

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Program Fee Strategy – Option 1

	L&P Pilot 2005-2006	2007 MO Pilot (not L&P)	Industry Avg
Q Factor	3%	5.5%	5% - 7%
Risk Premium	3%	2.5%	5%
Total Program Fee	6%	8%	10%

Industry Averages based on ceiling percentages

CA suggests Aquila can utilize lower industry averages due to customer historical usage

Program Fee Strategy – Q Factor

	L&P Pilot 2005-2006	2007 MO Pilot (not L&P)	Industry Avg
Q Factor	3%	5.5%	5% - 7%
Risk Premium	3%	2.5%	5%
Total Program Fee	6%	8%	10%

Q Factor:

Project growth for FB 1st yr		Project growth for MOE	Industry projected growth		Observed value for L&P
2%		1.4%	2%		2.37%

MO electric customers are projected to behave like L&P customers

Program Fee Strategy – Risk Premium

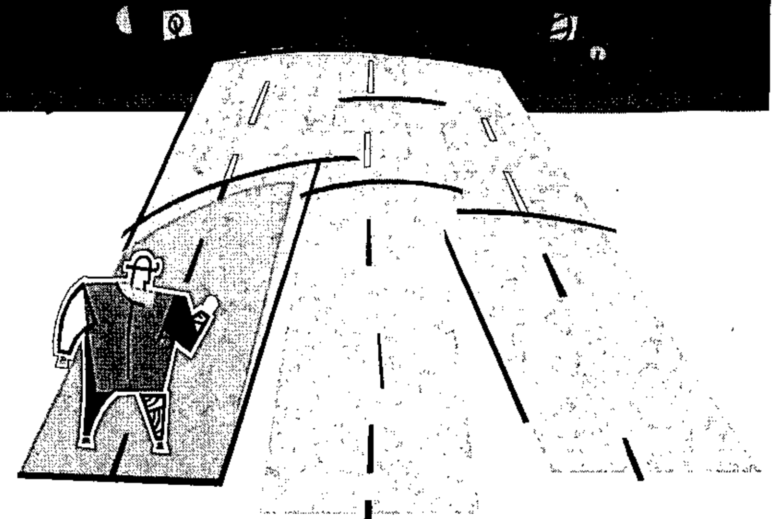
	L&P Pilot 2005-2006	2007 MO Pilot (not L&P)	Industry Avg
Q Factor	3%	5.5%	5% - 7%
Risk Premium	3%	2.5%	5%
Total Program Fee	6%	8%	10%

Risk Premium:

1. Overall program risk is highest 1st year of customer offering; pilots bear this risk
2. Program risk can be mitigated in other ways such as limiting the number of customers in piloted years
3. Risk premium does not cover the cost of the program

Option 1

Long Term Strategy:



1. <u>Program Fee</u>
   - Q Factor: absent or ceiling-based
   - Risk Fee: revert back to original pilot terms

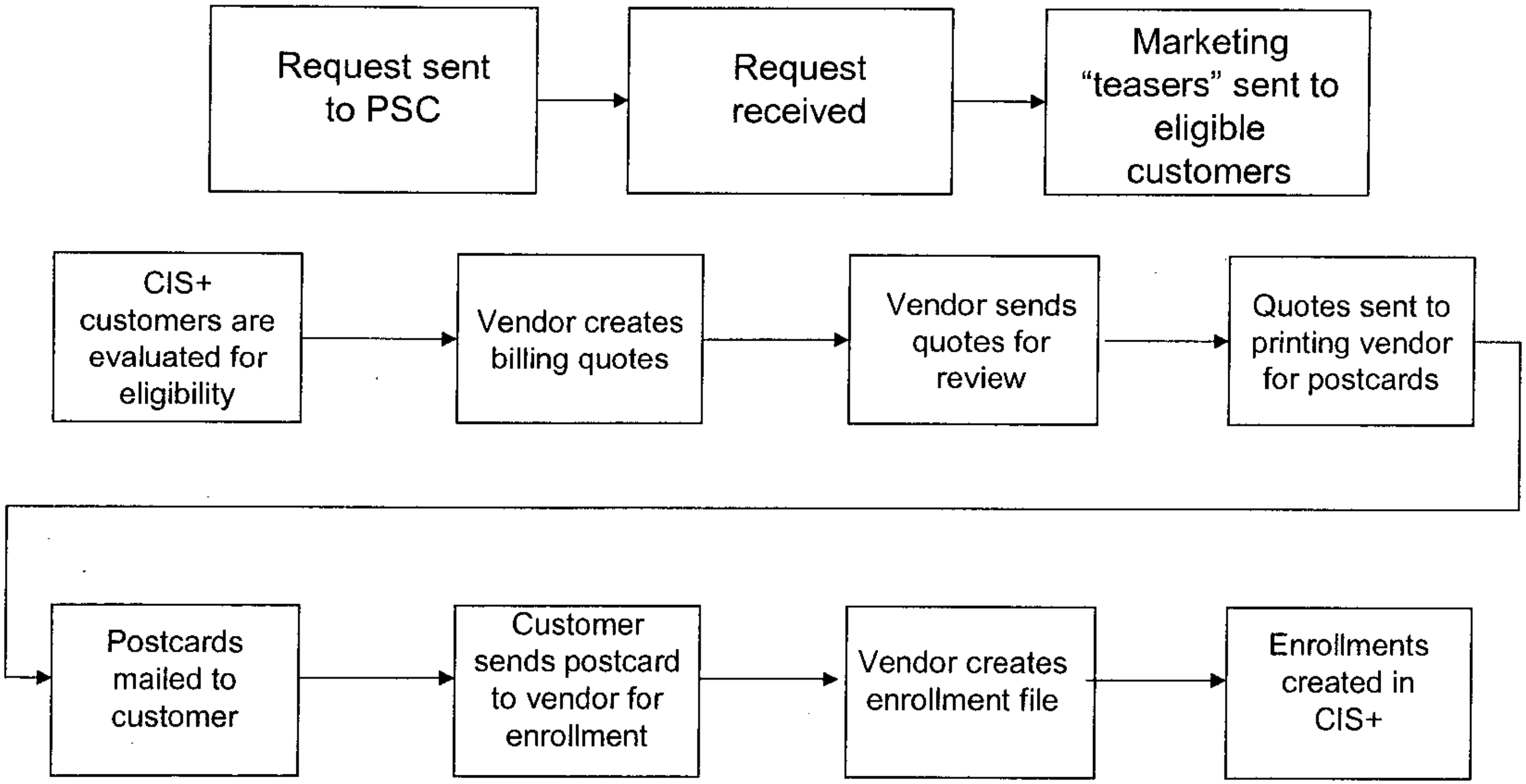
     ...the fee used to compensate Company for the incremental risks associated with offering fixed billing service. For purposes of this pilot, the risk fee will not exceed 5%...
2. Internal Acceptance
   - File outside of rate case
   - Create filing with language around ceiling-based program fees
   - Convince internal regulatory analysts that flexibility will not be abused in market
3. Pilot Program
   - Initial start-up costs are tracked above the line
   - Risk of pilot programs are held by MO customers
4. Achieving MOE product goals
   - Further educate Commission on industry averages as programs mature
   - Utilize MO & L&P pilot information to support filing
   - Transfer risk away from customer to the shareholder (below line accounting)

Option 2 – Long Term Strategy

- Extend Pilot for all MO
- Redesign pilot terms – Options to be negotiated
  1. Ceiling-based program fees
  2. Below the line accounting

Pilot Expenses

Filing Process



**Indicator entered on customer account*

Timeline

Jan. '07 Feb. Mar. Apr. May Jun. Jul. Jun. '08 Jul. '08 Sep. '08 Jun. '09

- **Complete Customer Survey**
- **Jan. 22 – Submit 30 Day Filing (3 Year Pilot)**
- **Begin development of marketing materials**
- **Send Christensen customer data through March 31**
- **Notify FB customers of FB extension, quote coming in June**
- **May 20 – Send Christensen new rate info**
- **May 31 – Quotes received from Christensen**
- **Jun. 1 – Send quotes to printer**
- **Jun. 10 – Mail quotes**
- **Jun. 26 – Enrollment responses due**
- **Jul. 1 – New FB rates begin**
- **Jun. '08 – Obtain renewals**
- **Sep. '08 – File for permanent tariff with changes (3-4 month process)**