

Exhibit No.:
Issues: Fixed Bill Pilot Program
Witness: Dennis Odell
Sponsoring Party: Aquila Networks-MPS and
L&P
Case No.: EO-2007-0395

Before the Public Service Commission
of the State of Missouri

Surrebuttal Testimony
of
Dennis Odell

Company Exhibit No. 2
Case No(s). EO-2007-0395
Date 11-18-07 Rptr RF

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ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SURREBUTTAL TESTIMONY OF
DENNIS ODELL
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. EO-2007-0395**

1 Q. Please state your name and business address.

2 A. My name is Dennis Odell, and my business address is 10700 E. 350 HWY, Kansas City,
3 MO 64138

4 Q. Are you the same Dennis Odell that filed Direct Testimony in this case?

5 A. Yes, I am.

6 **GENERAL COMMENTS**

7 Q. Please summarize your Surrebuttal Testimony in this case?

8 A. This testimony is in response to the Rebuttal Testimony filed in this case by Mr. Ryan
9 Kind on behalf of the Office of Public Counsel ("OPC") and Mr. James A. Busch on
10 behalf of the Utility Operations Division of the Missouri Public Service Commission. In
11 this testimony, I will respond to various concerns that each of these parties raised
12 regarding Aquila's Fixed Bill proposal, and demonstrate that Aquila's proposal should be
13 approved for the benefit of its customers.

14 Q. Do you have any general comments that you would like to make in response to the
15 Rebuttal Testimony described above?

16 A. Yes. The Rebuttal Testimony filed, not surprisingly, completely ignores the benefits of
17 this program to Aquila customers. For example, Mr. Kind includes, as an attachment to
18 his testimony, a presentation made by Michael O'Sheasy (Kind Attachment 1). While

1 Mr. Kind uses one page of this 34 page presentation to make his point, he ignores the
2 primary point of the presentation. For example, Slide 3 of this presentation describes
3 some of the reasons that customers find fixed bill offerings of value. Slide 8 explains
4 how fixed bill fits into a larger portfolio of customer billing options. Slide 9 shows
5 survey results indicating that customers that have utilized fixed bill offerings have very
6 high satisfaction rates. Slides 17 and 18 recognize some of the risks that the utility takes
7 in offering such a program, as well as the upside potential. Finally, Slide 34 provides a
8 copy of a note that apparently came from a satisfied customer indicating their
9 appreciation for the fixed bill offering.

10 Q. What conclusions do you draw from such information?

11 A. When the program is considered in a balanced manner, it is apparent that it offers
12 significant benefits to a segment of customers while not harming other customers.

13 Q. How has Aquila tried to balance this program in order to ensure that it is fair to all
14 parties?

15 A. I believe that for any program to work well, it is necessary that it is fair to customers that
16 choose to participate in the program, fair to customers that choose not to participate in the
17 program, and fair to shareholders of the utility. If any of these parties is treated unfairly
18 by the program, it is not likely to be successful. It is Aquila's belief that this program is
19 fair to all parties.

20 Q. Please explain why you believe that the program is fair to customers that choose to
21 participate?

1 A. First, providing customers a choice in how they pay their bills is a significant step
2 forward. Residential customers traditionally have had few, if any, options. There was
3 (and is) typically a customer charge and a usage charge. While level payment programs
4 have existed for some time, these programs are trued-up at some point, so they only offer
5 a temporary change in the bill structure. Offering fixed billing gives customers a choice,
6 one that they are free to accept or not accept based on their own individual
7 circumstances. I consider that inherently more fair than simply forcing all customers to
8 accept the same, inflexible payment structure.

9 Beyond that, I believe that customers that are interested in such an offering are capable of
10 determining for themselves whether this offering is fair. They will do so by either
11 choosing to accept the offer that they receive, or by not choosing to accept that offer.

12 Aquila's customers will be under no obligation to sign up for this new billing option. For
13 those that choose to accept the offer, they will have made a conscious, informed decision,
14 one that I believe they should have the right to make.

15 Q. Please explain why you believe that the program is fair to customers that choose not to
16 participate?

17 A. Aquila has proposed to treat the gains or losses from this program below-the-line. As I
18 will discuss more fully later in my testimony, this protects non-participating customers
19 by ensuring that they would not end up paying for losses that may be incurred by the
20 company in the offering of the program.

21 Q. Much has been made of the load building aspects of this program. How do you respond
22 to this issue?

1 A. As I will describe more fully later in my testimony, the load building impacts of this
2 program have been exaggerated and greatly over-emphasized. For example, adding new
3 customers to the system has a much larger impact on existing customers than this
4 program will have, yet I've heard no suggestion that we should stop adding customers to
5 our system.

6 Q. Please explain why you believe it is important that the program is fair to Aquila's
7 shareholders?

8 A. New and beneficial programs, such as Fixed Bill, will never be offered if the utility's
9 shareholders can not be adequately protected. Such protection means that if there is an
10 opportunity for loss (i.e. risk) there should also be an opportunity for gain (i.e. reward).
11 Aquila has designed the program in such a way as to remove risk from both participating
12 and non-participating customers and to take that risk on itself. In return, Aquila is asking
13 for a level of premium that will fairly compensate for that risk.

14 Q. The previous pilot program in the City of St. Joseph had a maximum program fee of 8%,
15 compared to a program fee of 12% proposed for the expanded program. Why does
16 Aquila need to increase the fee?

17 A. There are several reasons for this increase. First, the pilot program was much smaller
18 than the expanded program that Aquila is now proposing. Therefore, the magnitude of
19 potential loss from the expanded program is greater. Second, the pilot program was not
20 treated below-the-line, as is currently proposed. Therefore, Aquila shareholders may not
21 have been exposed fully to any associated losses. Finally, the Fuel Adjustment Clause
22 ("FAC") did not exist during the pilot period. Therefore, Aquila already was taking all of

1 the risk for changes to fuel and purchased power costs. Under the current FAC
2 mechanism, 95% of those changes are potentially recoverable from ratepayers. Under
3 the currently proposed program, Aquila would be incurring that risk for participating
4 customers. For these reasons, the 8% program fee previously in place is no longer
5 adequate.

6 **SPECIFIC COMMENTS**

7 Q. Let's turn now to the specific concerns stated by Mr. Kind. Please summarize his
8 testimony.

9 A. Mr. Kind lists seven concerns that lead him to recommend that the Missouri Public
10 Service Commission ("MPSC") reject Aquila's filing.

11 Q. What is Mr. Kind's first concern?

12 A. His first concern is that "Aquila is proposing to offer the fixed bill program to almost all
13 of its residential customers despite the very large load building impacts that this will
14 create at the same time that it claims to be embarking on a series of energy conservation
15 initiatives that will be funded by customers through the demand-side management (DSM)
16 deferral account that was authorized recently in Case No. ER-2007-0004."

17 Q. How do you respond to this concern?

18 A. First, Aquila is doing more than "claiming to be embarking on a series of energy
19 conservation initiatives..." It already has taken positive steps to address the issue of
20 energy conservation. Aquila has filed and received approval for the first of its energy
21 efficiency programs in Case No. EO-2008-0050. Aquila is working with a collaborative
22 group, of which Mr. Kind is a member, to offer several other efficiency programs over

1 the next several months. Aquila considers helping its customers use energy more
2 efficiently as one of its primary initiatives.

3 Q. How does Aquila's commitment to providing its customers with energy efficiency
4 programs relate to offering the fixed bill program?

5 A. Mr. Kind seems to believe that these programs are at odds with one another. In fact, he
6 claims to be "dumbfounded" that a utility would offer this program at the same time it is
7 also offering energy efficiency programs. However, there are several reasons why these
8 programs are not inconsistent public policies.

9 Q. What are those reasons?

10 A. First and foremost, Mr. Kind appears to believe that all customers are the same and
11 should be treated in precisely the same manner. I disagree. Second, the definition of
12 energy efficiency needs to be considered as we discuss these programs. Finally, Mr.
13 Kind has significantly overstated the impact of the fixed bill program on system load.

14 Q. Please explain your first point more fully.

15 A. Certainly. It would appear that Mr. Kind is "dumbfounded" because Aquila might have
16 two programs that don't have the same impact on Aquila's load characteristics.

17 However, it's unclear why this should be such a surprise. Most utilities, including
18 Aquila, have programs such as economic development riders and lower rates in the
19 winter that may serve to increase load. These programs are approved by regulatory
20 commissions because they serve different but legitimate public policy objectives. For
21 example, the economic development rider might help to attract new businesses to the
22 area. Similarly, the Fixed Bill program addresses billing practices.

1 Moreover, Aquila is trying to offer a broad array of products and services to meet the
2 differing needs of its customers. Some customers will engage in energy efficiency
3 programs that Aquila offers, while others won't. Similarly, some customers will find the
4 Fixed Bill program of value, and others won't. Our expectation is that many customers
5 will engage in both.

6 Q. Why would a customer engage in energy efficiency programs if they are under the Fixed
7 Bill program?

8 A. The Fixed Bill offer is calculated by utilizing the customer's past usage history.
9 Therefore, the more efficiently the customer uses energy, the lower their Fixed Bill offer
10 will be. It is important to remember that the Fixed Bill program is not designed to offer
11 customers the lowest possible bill but, rather, the least risky. Any steps a customer takes
12 to reduce his usage will benefit him under the Fixed Bill program as well as under the
13 traditional program. In fact, Aquila includes a list of energy saving tips whenever it
14 enrolls a new Fixed Bill customer.

15 Q. Please explain your second point.

16 A. Aquila defines energy efficiency as reducing the energy or demand requirements without
17 reducing the end-use benefits. By that we mean that we want to allow customers to use
18 energy to meet their needs, whatever those might be, and we will offer them ways to do
19 that more efficiently. Refusing to offer a program that some of our customers will value,
20 such as Fixed Bill, because of the potential for some load building impacts, is not
21 consistent with the "without reducing end-use benefits" part of this definition. Energy

1 efficiency clearly is important but we do not intend to ignore the other needs our
2 customers have in the exclusive pursuit of energy efficiency practices.

3 Q. Please explain your third point.

4 A. Mr. Kind has characterized the Fixed Bill program as having "very large load building
5 impacts..." An analysis that Aquila performed (included by Mr. Kind as Attachment 3 to
6 his testimony) shows the overall percentage increase in usage is projected to be less than
7 0.2%. Compared to the load growth that Aquila has projected absent this program of
8 2.5% annually, the "astounding" load growth that Mr. Kind envisions just doesn't exist.
9 Further, this growth is primarily off-peak. During system peaks, customers typically
10 have their air conditioners running at or near capacity already, so the existence of the
11 Fixed Bill program will have little, if any, impact on the system peak. This means that
12 little, if any, additional capacity will be required in order to meet any additional load
13 from this program.

14 Q. What are Mr. Kind's second and third concerns?

15 A. He is apparently concerned with Aquila's proposal to utilize below-the-line accounting
16 treatment and protections for non-participating customers. Mr. Kind seems to be of the
17 opinion that treating the gains or losses from this program below-the-line makes it a non-
18 regulated service subject to the Affiliate Transactions and Utility Promotional Practices
19 rules.

20 Q. Do you agree with Mr. Kind's characterization of this program as non-regulated?

21 A. No. In fact, Aquila is proposing to offer this program under tariff and the full authority
22 of the MPSC. If the MPSC approves this program, it would continue to be regulated by

1 the MPSC, and Aquila understands that it would continue to be subject to all applicable
2 rules and orders of the MPSC as regards this program. The treatment of the gains or
3 losses below-the-line does nothing to change any of this, and certainly does not make the
4 program non-regulated.

5 Q. How does this impact the issues Mr. Kind describes regarding the Affiliate Transactions
6 and Utility Promotional Practices rules?

7 A. The Affiliate Transactions rule does not apply, because the program is not being offered
8 by a non-regulated affiliate, but rather by the utility. Nonetheless, Aquila is committed to
9 tracking the incremental costs (i.e. development and tracking costs, etc.) of this program
10 and taking them below-the-line in order to ensure that no such costs are paid by non-
11 participating customers.

12 Regarding the Utility Promotional Practices rule, it appears that Mr. Kind has
13 misinterpreted this rule. 4 CSR 240-14.010 (6) (J) states that "Load-building program
14 means an organized promotional effort by a utility to persuade energy-related decision
15 makers to choose the form of energy supplied by that utility instead of other forms of
16 energy for the provision of energy service or to persuade customers to increase their use
17 of that utility's form of energy, either by substituting it for other forms of energy or by
18 increasing the level or variety of energy services used." This program is not seeking to
19 persuade customers (or anyone else) to make any changes to their energy use. It is
20 merely offering an alternative payment method. Therefore, this rule does not apply.

21 Q. Mr. Kind also notes that the load building impacts of this program were not included in
22 Aquila's most recent IRP filing. How do you respond?

1 A. He is correct. Aquila's IRP filing was made prior to its Fixed Bill filing. In any case,
2 Aquila has agreed to include this analysis in future IRP filings.

3 Q. Mr. Kind has taken issue with your statement that the charges would be based on
4 currently effective tariff rates. How do you respond?

5 A. Mr. Kind appears to have two concerns. First, he notes that the proposed tariff includes
6 caps for the program fee rather than fixed amounts. This is true and the purpose of the
7 caps is to allow for the efficient lowering of the program fees in future years. This is due
8 to the expectation, as discussed previously, that usage levels will normalize after a
9 customer has one or two years on the program. Therefore, Aquila needs to have the
10 flexibility to reflect those changes by lowering the program fee as appropriate. However,
11 the fact that there is a cap means that Aquila can charge no more than the MPSC-
12 approved program fees.

13 Mr. Kind's other concern appears to be with the word "expected" in the definition of
14 energy price. Aquila has stated, and will reiterate here, that it will charge only actual
15 tariff rates from the appropriate rate schedule, including applicable riders and clauses.
16 Aquila has no objection to removing the word "expected" from this definition.

17 Q. Regarding Mr. Kind's concerns about non-participating customers not being protected,
18 how do you respond?

19 A. The very characteristic of the program that protects non-participating customers is the
20 characteristic that Mr. Kind objects to, the below-the-line accounting treatment. By
21 taking the gains or losses from this program below-the-line, non-participating customers
22 will be protected from these impacts.

1 Q. What is Mr. Kind's fourth concern?

2 A. His fourth concern seems to center around the fact that this proposal was filed outside of
3 a rate case.

4 Q. How do you respond to this concern?

5 A. This proposal was timed in accordance with the expiration of the existing Fixed Bill
6 pilot, which expired May 31, 2007. It is also worth noting that the previous pilot was
7 filed outside of a rate case as well. Finally, I would reiterate that the charges that will be
8 used are those charges approved in the most recent rate case.

9 Q. What are Mr. Kind's fifth and sixth concerns?

10 A. These seem to be reiterations of previously stated issues, which I have addressed
11 previously in this testimony.

12 Q. What is Mr. Kind's seventh concern?

13 A. Mr. Kind offers a laundry list of general concerns, including the length of the pilot and
14 what he perceives as a "the lack of commitment for a full comprehensive evaluation near
15 the end of the pilot period."

16 Q. How do you respond to these concerns?

17 A. The pilot program was intentionally set to be relatively long in order to ensure that the
18 program would have adequate experience from which to make decisions going forward.
19 As for the comprehensive evaluation, there is an entire paragraph addressing Aquila's
20 plan to evaluate and report the results of this program on Sheet 119 of the proposed tariff.
21 Aquila is certainly open to providing the MPSC with any evaluations and reports that it
22 deems reasonable and appropriate.

1 Q. Let's turn now to Mr. Busch's Rebuttal Testimony. Please summarize Mr. Busch's
2 position.

3 A. Mr. Busch also recommends that the MPSC reject the filing. His reasons for this position
4 appear to be that 1) no modifications to the now-expired pilot program should be made
5 without the express agreement of Kansas City Power & Light to maintain the program, 2)
6 the increase in the program fee is not justified, and 3) below-the-line accounting
7 treatment is unacceptable.

8 Q. How do you respond to Mr. Busch's first point?

9 A. Mr. Busch notes that "At this time, Staff has been unable to get Aquila to provide
10 KCPL's opinion of fixed bill programs." That is due to the fact that KCPL and Aquila
11 are currently working on the plan for integrating all products and services across the two
12 companies. While it is unclear at this time whether KCPL will extend such a program to
13 its existing customers, there is no reason to believe that it would seek to terminate this
14 program if it were approved and operating in Aquila's current territory. Even if KCPL
15 did terminate the program, that would merely return customers to the state in which they
16 currently find themselves, i.e. with no fixed bill option. Finally, Aquila does not intend,
17 nor would we think Staff would seek, to deprive customers of the opportunity to utilize
18 services over the next several months as the sale to Great Plains progresses.

19 Q. How do you respond to Mr. Busch's second point?

20 A. As previously discussed in this testimony, the increase in the program fee most certainly
21 has been justified. It reflects the risk of the program, and is consistent with the fees
22 charged by other utilities that are successfully offering similar programs. The fact that

1 A. As I stated in my direct testimony, Fixed Bill is a product that has been successfully
2 offered on a limited, pilot basis by Aquila, and is currently being offered in several other
3 states. It is a product that certain residential customers value. It is growing in popularity
4 across the United States. It is our belief this is a product that Aquila customers will
5 value. With the right program parameters, Aquila is willing to take on the risk of
6 providing this product. OPC and Staff have failed take a balanced approach in their
7 analysis of the program by overstating the potential issues with the program while
8 completely ignoring the benefits that would accrue to those customers that would choose
9 such a program. Aquila respectfully requests that the MPSC grant it the authority to
10 extend and expand its current Fixed Bill offering as described in this filing in order to
11 allow Missouri customers the same options that customers in several other states already
12 enjoy.

13 Q. Does this conclude your surrebuttal testimony?

14 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila)
Networks-MPS and Aquila Networks-L&P,)
for authority to file tariffs offering electric)
customers a Fixed Bill Pilot Program in)
the Aquila Networks-MPS and Aquila)
Networks-L&P area)

Case No. EO-2007-0395

County of Jackson)
State of Missouri) ss

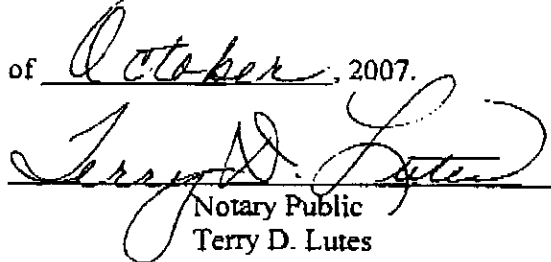
AFFIDAVIT OF DENNIS ODELL

Dennis Odell, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Dennis Odell;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.



Dennis Odell

Subscribed and sworn to before me this 16th day of October, 2007.


Notary Public
Terry D. Lutes

My Commission expires:

8-20-2008



TERRY D. LUTES
Jackson County
My Commission Expires
August 20, 2008