Exhibit No.:	
Issues:	Fixed Bill
Witness:	James A. Busch
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Rebuttal Testimony
Case No.:	EO-2007-0395
Date Testimony Prepared:	October 2, 2007

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

JAMES A. BUSCH

AQUILA, INC

CASE NO. EO-2007-0395

Jefferson City, Missouri
October 2007

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks-MPS and L&P for authority to file tariffs offering electric customers a Fixed Bill Pilot Program in the Aquila Networks-MPS and L&P area.	)))))	Case No. EO-2007-0395

AFFIDAVIT OF JAMES A. BUSCH

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James A. Busch, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 10 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

James A. Busch

Subscribed and sworn to before me this 2nd day of October, 2007.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer
Notary Public

My commission expires 9-21-10

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REBUTTAL TESTIMONY

OF

JAMES A. BUSCH

AQUILA, INC

CASE NO. EO-2007-0395

Q. Please state your name and business address.

A. My name is James A. Busch and my business address is P. O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Economist III in the Economic Analysis Section of the Energy Department, Utility Operations Division of the Missouri Public Service Commission (Staff).

Q. Please describe your educational and professional background?

A. I hold Bachelor of Science and Master of Science degrees in Economics from Southern Illinois University at Edwardsville. Previously, I worked as a Public Utility Economist with the Office of the Public Counsel (Public Counsel) from 1999 to 2005. Prior to my employment with Public Counsel, I worked as a Regulatory Economist I with the Procurement Analysis Department of the Missouri Public Service Commission from 1997 to 1999. I have been employed as a Regulatory Economist III with the Staff of the Public Service Commission (Staff) since April 2005. Also, I am a member of the Adjunct Faculty of Columbia College, Jefferson City Campus. I teach both graduate and undergraduate classes in economics.

Q. Have you previously filed testimony before the Commission?

A. Yes. The cases in which I have filed testimony before the Commission are listed on Schedule 1.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Aquila, Inc. (Aquila or Company) witness Dennis Odell regarding Aquila's proposal to expand its current Fixed Bill pilot program.

I. Executive Summary

Q. Please summarize your rebuttal testimony.

A. Staff recommends that the Commission reject the proposed modifications to Aquila's Fixed-Bill Pilot program. In light of the proposed merger between Great Plains Energy and Aquila, Staff does not believe that it is the appropriate time to make modifications to the current program. Staff also believes that the increase in the program fee from 8% to 12% is baseless. Finally, Staff does not agree with the proposed below-the-line accounting treatment of this program.

II. Background

Q. Please provide a brief procedural history of Aquila's Fixed-Bill Pilot program.

A. On March 23, 2005, the Commission approved Aquila's initial Fixed-Bill Pilot program for two years. This initial program was set to terminate on May 31, 2007. On April 13, 2007, Aquila, through the filed direct testimony of Company witness Dennis Odell, indicated that it wanted to extend, expand, and modify its Fixed-Bill program. This created the instant case, Case No. EO-2007-0395. On May 2, 2007, Aquila filed a Notice Withdrawing Motion to Extend Effective Date of Fixed Bill Pilot Program. In this Notice, Aquila indicated that it wanted to extend its initial Fixed-Bill Pilot program for another year, beyond the initial two-year pilot, and still pursue its proposed modifications in separate tariff filings. On May 3, 2007, Aquila, filed a pleading to extend its current Fixed-Bill Pilot program from May 31, 2007 to May 31, 2008. This request was approved by the Commission on May 14, 2007 in Case No. EO-2007-0427. The parties in this current proceeding, EO-2007-0395, Aquila, Public Counsel, and Staff, have had numerous discussions regarding Aquila's proposed modifications of its Fixed-Bill Pilot program over the past few months. Due to these discussion, Aquila kept pushing back the effective date of the proposed tariffs. Finally, Staff and Public Counsel asked for the Commission to suspend the tariff, which the Commission did on August 28, 2007.

Q. Please provide a brief description of Aquila's currently effective Fixed-Bill Pilot program

A. Aquila's Fixed-Bill Pilot program was initially approved for a two-year period. It was a voluntary program for residential consumers. It was offered only to residential customers in the City of St. Joseph. To be eligible, consumers needed to meet the following requirements: a) residence in their current home over the previous 24 months; b) a consistent electricity usage pattern for at least 12 consecutive months during that 24-month period; and c) a good financial standing vis-à-vis the Company. Randomly selected customers meeting the above criteria were sent fixed-bill offers. This fixed-bill offer consisted of an estimate of a customer's yearly electric costs, divided into 12 monthly payments. Added to this estimate of yearly electricity costs were a kilowatt-hour growth factor, and a risk fee. This combined "program fee" was limited to no more than 8%. The growth and risk factors were established to account for an expected increase in usage by the customers who accepted the fixed-bill offer and to cover unexpected usage due to abnormal weather conditions. Thus, an offer was made to eligible customers that consisted of weather normalized yearly usage, plus up to an 8% adder for growth and risk, divided into twelve monthly payments. At the end of the year, there would be no true-up to compare actual payments to actual costs.

Q. How many customers initially received offers from Aquila?

A. According to the Aquila Inc. Fixed-Bill Pilot Program July 2006 Evaluation Report, 16,000 customers were sent offers.

Q. How many customers accepted?

A. According to the same report, 541 offers were accepted. This represents 3.38% of the customers who received offers.

Q. How many customers renewed for year two?

A. Of the original 541 customers, 507 were sent renewal offers for year two. Those not receiving offers were customers who had not maintained a good financial standing with Aquila. Of those 507 customers, 475 accepted. This represents 87.8% of the original 541 and 93.7% of the 507 customers who were sent renewal offers.

Q. How were customers renewed?

A. Customers were automatically renewed for the program. To opt out of the program, customers had to fill out and return a cancellation card provided to them from the Company.

Q. Were any new customers sent offers?

A. Yes. Aquila sent out new offers to 15,500 customers for year two. In response to this offering, 652 customers accepted. This is a 4.2% acceptance rate.

Q. For the third year of the program, what was the renewal rate?

A. There were 1,050 renewals sent out for year three out of the 1,127 customers who had either renewed or signed up for year two. Of those 1,050 renewals, 975 accepted, which is an acceptance rate of 92.9%. Out of the 1,127 year-two customers, 86.5% renewed for year three.

III. Modifications

Q. What modifications is Aquila seeking in its Fixed-Bill Program?

A. The first modification that Aquila wants is to extend the availability of this program to its entire service territory, including both MPS and SJLP service areas. In another modification, Aquila proposes to increase the program fee from “no more than 8%” to “no more than 12%.” Further, Aquila wants to change the terms for withdrawing from the program. Also, Aquila wants to add an abuse clause. In addition, Aquila wants this program to be effective for five years. Finally, Aquila wants the accounting treatment to be below-the-line.

Q. Please describe Aquila’s plan to increase the program fee from “no more than 8%” to “no more than 12%.”

A. In the current pilot, Aquila can charge up to 4% for expected growth and up to 4% for a risk premium. Under Aquila’s proposal, both of those figures will increase to 6%. Again, the growth factor is added to the offer in anticipation of the customer’s increased consumption. The risk premium is added to cover departures from normal weather and to cover administrative costs.

Q. What is Aquila’s rationale for the increase in the program fee?

A. According to Aquila witness Odell’s testimony, the increase in the program fee gives Aquila flexibility to manage the operational and financial risks of the program (Odell direct, page 5, lines 15 – 16). Witness Odell further indicates that the higher fee is consistent with other offerings nationwide and also suggests that, since this program is voluntary, it is fair (Odell direct, page 6, lines 4 – 15). In other words, witness Odell argues that the program fee should be increased because it is higher in other states and participation in the program is voluntary.

Q. Do the costs of the program justify the program fee increase?

A. No. Aquila has offered no evidence that its costs of the program have increased. The increase in the program fee would simply go to Aquila's bottom line.

Q. Half of the program fee is to cover Aquila in case consumers simply increase their consumption due to the fixed-bill program. What was Aquila's actual experience?

A. According to the July 2006 Evaluation, "the findings of the behavioral change were surprising small for all types of customers participating on Fixed Bill program." According to page 3 of that Evaluation, increased usage due to behavioral changes of the fixed bill customers was 2.37%. This is below the 4% growth factor currently in effect and far below the 6% factor that Aquila is now seeking.

Q. Please explain the change to the withdrawal terms.

A. Currently, if a consumer withdraws from the program during the program year and returns to normal tariff billing at the same address, the customer will be charged a $50 early termination fee and the customer's bill will be debited or credited for any positive or negative balance compared to actual usage. Aquila is proposing to eliminate the section that would allow the consumer to be refunded any positive difference between the amount collected via the fixed bill and the amount that would normally have been collected based on actual usage and regular tariffed rates.

Q. Please explain the abuse clause proposed by Aquila.

A. If a customer's weather adjusted usage increases by more than 30% of expected usage in a three-month period, the Company will be allowed to terminate the customer from the Fixed-Bill Pilot program.

Q. Please explain Aquila's proposal for below-the-line accounting treatment.

A. Aquila is proposing that any profits, or losses, garnered by this program be treated below-the-line. Thus, the revenues and costs associated with this program would be netted and any gain or loss would go to stockholders and would not be included in any rate case calculation.

IV. Staff's Recommendation

Q. What is Staff's recommendation to the Commission?

A. Staff recommends that the Commission reject Aquila's proposed changes to fixed bill program.

Q. Is Staff opposed to the concept of fixed bills?

A. No. Staff recommended the approval of Aquila's current pilot and its extension. However, Staff believes that Aquila's proposed modifications are not in the best interests of its customers.

Q. Please explain Staff's recommendation.

A. First, Staff does not believe that this is the appropriate time for Aquila to expand this program. Aquila is in the process of being purchased by Great Plains Energy, the parent company of Kansas City Power & Light Company (KCPL). At this time, Staff has been unable to get Aquila to provide KCPL's opinion of fixed bill programs. If this tariff is approved on a wider scale and if the merger is approved, Staff believes that KCPL would need to be willing to continue the program. At this time, Staff does not know if the merger will be approved, or what KCPL's opinion of fixed-bill programs is. If fixed bills are important to KCPL, then Staff recommends that if the merger is approved, KCPL should file with the Commission its fixed bill proposal. If the merger is not approved, then Aquila should be permitted to come back before the Commission and ask for an expansion of its Fixed Bill Pilot program at that time.

Q. Does Staff have any alternatives if the Commission wants to expand the Fixed-Bill Pilot program in spite of Staff's recommendation?

A. Yes. In that event, Staff would urge the Commission to 1) keep the program fee at its current tariff level of no more than 8%; and 2) reject Aquila's proposed below-the-line accounting treatment of any profits or losses Aquila realizes from the program.

Q. Why does Staff recommend the program fee stay at its current level?

A. Staff does not believe the proposed increase is cost justified. Moreover, the proposed 50% increase to the four percentage point program fee will not make the program more attractive to potential consumers. Currently, less than 5% of customers offered this program chose to accept the fixed bill offer. In other words, over 95% of potential customers rejected the opportunity to fix their bill, which included a premium of up to 8% for that service. How will the acceptance rate of this program increase if the premium for a guaranteed fixed bill increases to 12%?

Currently, half of the program fee is designed to recover the expected increase in usage due to the fixed nature of the bill. This part of the fee is to increase from 4% to 6%. However, Aquila's own experience is that that usage only increased less than 3%. Nowhere in its testimony does Aquila indicate that customers in the rest of its service territory would react differently with respect to increased usage than those customers in St. Joseph. Further, this expected increase only occurred in year one. After that, the expectation that consumers will increase usage falls greatly. Therefore, if anything, the growth factor should decrease as customers continue in this program.

Secondly, the risk factor makes up the second half of this fee. Aquila is proposing to increase this component from a 4% fee to a 6%fee. There is no more risk associated with this offering than there was before. Therefore, there is no justification for Aquila to increase the risk factor from 4% to 6%.

Q. Has Aquila indicated other benefits of this program for its shareholders?

A. First, the raising of the program fee from 8% to 12% without any increase in risks or costs indicates that Aquila is attempting merely to raise the revenues it collects from these customers. Second, in a power point presentation made to Aquila's leadership team on November 9, 2004, Maurice Arnall, indicated on slide five that two of the reasons Aquila should offer a fixed bill are that 1) growth in usage will be primarily off-peak; and 2) it will be a marketing and financial product catalyst. Attached, as Schedule JAB-2 is the slide from that presentation.

Q. Does Staff have any other recommendations?

A. Yes. The Staff recommends that the accounting treatment be done above-the-line. Staff does not want these customers to be subsidized by the rest of Aquila's customers, who are not fixed-bill participants. Such could be the case if all costs associated with the program are not also treated below-the-line.

Q. Please elaborate.

A. There are many costs associated with this program that cannot easily be identified and assigned to the fixed-bill program. For example, the amount of time that Aquila's employees spend on this program instead of their regular duties is not easily determined All other factors, beyond the easily identifiable costs would need to be accounted for in a below-the-line treatment, and Staff has yet to see Aquila's plan for dealing with determining those costs. Therefore, Staff does not recommend below-the-line treatment.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Cases of Filed Testimony
James A. Busch

Company	Case No.
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GO-98-484
Laclede Gas Company	GR-98-374
St. Joseph Light & Power	GR-99-246
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-99-315
Fiber Four Corporation	TA-2000-23; et al.
Missouri American Water Company	WR-2000-281/SR-2000-282
Union Electric Company d/b/a AmerenUE	GR-2000-512
St. Louis County Water	WR-2000-844
Empire District Electric Company	ER-2001-299
Missouri Gas Energy	GR-2001-292
Laclede Gas Company	GT-2001-329
Laclede Gas Company	GO-2000-394
Laclede Gas Company	GR-2001-629
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company d/b/a AmerenUE	EC-2001-1
Laclede Gas Company	GR-2002-356
Empire District Electric Company	ER-2002-424
Southern Union Company	GM-2003-0238
Aquila, Inc.	EF-2003-0465
Missouri American Water Company	WR-2003-0500
Union Electric Company d/b/a AmerenUE	GR-2003-0517
Aquila, Inc.	ER-2004-0034
Aquila, Inc.	GR-2004-0072
Missouri Gas Energy	GR-2004-0209
Empire District Electric Company	ER-2004-0570
Aquila, Inc.	EO-2002-0384
Aquila, Inc.	ER-2005-0436
Empire District Electric Company	ER-2006-0315
Kansas City Power & Light	ER-2006-0314
Union Electric Company d/b/a AmerenUE	ER-2007-0002

AQUILA INC.
AQUILA NETWORKS-MISSOURI (ELECTRIC)
CASE NO. EO-2007-0395
OFFICE OF PUBLIC COUNSEL
DATA REQUEST NO. OPC-2005

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 the existing Aquila Fixed Bill Pilot Program.

RESPONSE:

See attached PowerPoint presentation given by Maurice Arnall to Aquila Leadership Team on Nov. 9, 2004 in preparation for the original program filing. In addition, Aquila management has been provided with the same reports that Aquila has filed with the PSC regarding the results of the existing program.

ATTACHMENTS:

OPC-2005 Fixed Bill Mgt Presentation.ppt

ANSWERED BY: Charles Gray

DATE COMPLETED: June 6, 2007

Aquila

Why Should Aquila Offer Fixed Bill?

- **Product portfolio**
- **Growth - Primarily off peak**
- **Marketing and financial product catalyst**
- **Customer satisfaction**
  - High retention
  - Open access