AQUILA INC.
AQUILA NETWORKS-MISSOURI (ELECTRIC)
CASE NO. EO-2007-0395
OFFICE OF PUBLIC COUNSEL
DATA REQUEST NO. OPC-2087

DATE OF REQUEST: November 2, 2007

DATE RECEIVED: November 2, 2007

DATE DUE: November 9, 2007

REQUESTOR: Ryan Kind

REQUEST:

Please update your responses to OPC DR Nos. 2003, 2004, 2005, and 2006. If there are no additional responsive documents other than those already provided in response to OPC DR No. 2044, please provide a statement to that effect.

RESPONSE:

The document OPC-2003 FIXED BILL EXPENSES.doc was used for preliminary estimates. 2008 budget projections were based on the document OPC-2044 Budget Plan 2008. This document contains updated costs for software acquisition and implementation as well as detailed marketing costs.

New documents created for revenue forecasts and O&M Budgets have been provided through OPC-2044.

A white paper was recently created for Aquila management review. This document is attached. No other documents were created for management review.

ATTACHMENTS: OPC-2087 FB White Paper

ANSWERED BY: Gail Allen

DATE COMPLETED: November 9, 2007

OPC Exhibit No. 13
Case No(s). EO-2007-0395
Date 11-16-07 Rptr PF

Aquila

Providing Energy
For Better Living.

Fixed Bill Program

Background

Fixed Bill is a voluntary billing option which offers customers the convenience of receiving a predetermined, completely predictable, monthly bill for a one year period, regardless of weather variations or changes in utility rates. To provide such stability and predictability, the product includes a premium to cover expected usage changes as well as the risk of changing prices and program execution. There is no after-the-fact charge or "true-up".

Aquila received MPSC approval to offer this service on a pilot basis to its residential customers in St. Joseph for a period of two years. That pilot program was extended for an addition year with expiration on May 31, 2008. Aquila is seeking MPSC approval to extend the term of this pilot for an additional five (5) years and expand the offering throughout its entire service territory.

Program Benefits

The program is offered to enhance customer satisfaction by broadening the portfolio of billing options available to Aquila customers. Research demonstrates that customers appreciate having choices and options. A recent survey of Aquila Missouri residential customers showed 34% of our customers not familiar with Fixed Bill were interested after being read a detailed description of the program including information about the program fee.

Aquila initiated the pilot for the Fixed Bill product in St. Joseph to learn more about customer interest in the product and customer behavior on the product. The participation rate for Aquila's L&P customers in St. Joseph has been 7% with a renewal rate of 93%.

Program Risks

The following risks have been documented and analyzed:

- Fixed bill customers are likely to increase consumption. Industry experience shows they will adjust their habits and return to their normal growth levels after the initial program year. This risk is mitigated by providing energy saving tips for consumers who enter this program.
- Electricity consumption varies with weather. Predictive equations indicate how consumption is likely to change.
- The cost of providing electricity will change during the fixed bill contract year. The current customers' price of service is computed when an offer is made by using the current tariff price and the current FAC adjustment that is being billed. The risk premium component is designed to cover this possibility.
- What if only customers who were going to change consumption anyway—even in the absence of this new rate offering—were the only volunteers for the fixed bill product? What, if abusers were the only takers? This risk is also covered by the risk premium component.
- Administrative program risk: This can happen as contractual offer letters to customer are sent. Care is taken to review all offer components with respect to quantity and pricing factors. Two years of weather normalized, historical data is used to compute offers. Marketing risks are an additional component of administrative risk. The marketing risk will be mitigated by standardized marketing materials as well as balanced product offerings throughout the year.

In summary, the keys to mitigating these risks are to (1) project the resulting change in consumption; (2) model the risk that actual consumption may be different from the projection, and calculate an appropriate risk premium; and (3) compute the bill offer including the resultant risk premium.

Program Modifications

Based on what Aquila learned from its St. Joseph pilot, along with information regarding successful programs offered in other states[1], Aquila is submitting a tariff which differs from the original pilot tariff in four areas: 1) program fee (includes risk premium and quantity factor); 2) terms for voluntary withdrawal; 3) abuse clause inclusion; and 4) below-the-line accounting.

1. **Program Fee**

   Customer's usage history is used in calculating monthly weather normalized individual customer adjusted usages. The monthly adjusted usage is then priced out at current tariff rates. A program fee is added to the monthly rate. The total program fee will not exceed 12%. Aquila is asking for the flexibility to set the program fee on an annual basis within this upper limit. This flexibility will allow Aquila to manage the operational and financial risks of the program. This fee is fully disclosed in the offer letter to the customer. Care will be taken to not set the program fee too high. If the program fee is set too high, then customers will not sign up, and the program will not be successful. That alone gives Aquila an incentive to keep the program fee at the appropriate level. The program fee is comprised of two components with the percentages based on industry benchmarks and is consistent with fees charged for other Fixed Bill offerings:

   - Risk premium – not to exceed 6%

     The risk premium covers the risk of departure from expected values such as weather and pricing changes. The risk premium also covers the administrative costs and risk to operate this program.
   - Quantity factor - not to exceed 6%

     The quantity factor, or "Delta Q", denotes the percentage difference between the actual consumption of the customer and their predicted consumption.

[1] Fixed bill programs are currently offered by electric utilities in at least 13 states serving 600,000 customers.

2. **Terms for Withdrawal**

   The Fixed Bill pilot program would be available on a voluntary basis to qualified residential customers who accept an offer to participate. They may terminate the contract at the end of any program year at no charge. If the customer chooses to terminate the contract during the program year and continues service on a standard tariff at the same location, the customer will be charged an early termination fee. Additionally, the customer will not be refunded any positive difference between the amount collected under the Fixed Bill and their actual usage billed on the regular residential service tariff.

3. **Abuse Clause**

   Without the ability to remove customers from the Fixed Bill program, there is an opportunity to game the Fixed Bill system. If a customer's metered usage during a three month period exceeds the expected usage by more than 30%, Aquila may at its discretion, return the customer to the traditional tariff for the remaining months of the Fixed Bill program year. The customer will be required to pay any positive difference between their actual usages billed on their regular residential service tariff less the amount collected under the Fixed Bill.

4. **Below-the-line Accounting**

   Below-the-line accounting is being requested to ensure that the customers who are not eligible or who do not choose to participate in the Fixed Bill product do not subsidize those customers who do choose to purchase this product. The cost of providing this service is borne by the utility through the premium charged to the Fixed Bill customers. All risk associated with providing this service is borne by the utility. Other fixed bill options we have researched in eight states treat the profits/losses below-the-line as well for regulatory purposes.

   In order to accomplish this below-the-line accounting, Aquila would book revenues and costs for customers in this program as if they were on the traditional tariff service. Then, any difference between the revenue actually received by Aquila and the revenue booked would fall below-the-line, i.e. would not be included in any rate case calculations. In this way, any gain or loss on this program would not impact customers, but rather would be borne solely by Aquila.

Program Costs

The cost to implement this program is estimated at approximately $250,000 for the first year.

Program Timeline

Nov 2007 – Hearing

Dec 2007 – Order Received

If favorable order:

Jan 2008 – FB offers prepared

Feb 2008 – FB offers mailed

Mar 2008 – FB offers accepted

Conclusion

Fixed Bill is a product that has been successfully offered on a limited, pilot basis by Aquila, and is currently being offered in several other states. It is a product that certain residential customers value. Approximately 10-15% of the eligible customers will accept a fixed bill offering. Customer satisfaction will increase and Aquila will have an opportunity to increase earnings.