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**VIA OVERNIGHT MAIL**

March 3, 2005

**John J. Finnigan, Jr.**  
Senior Counsel

RECEIVED

MAR 3 4 2005

PUBLIC SERVICE  
COMMISSION

The Kentucky Public Service Commission  
Docketing  
211 Sower Boulevard  
Frankfort, KY 40602

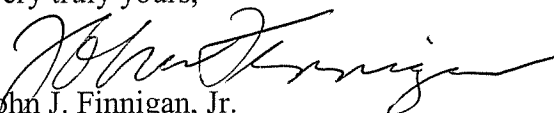
Re: The Application of The Union Light, Heat and Power Company for Approval of  
Fixed Bill Program Riders Applicable to Residential Customers  
Case No. 2004-00503

Dear Sir or Madam:

Please find enclosed an original and 10 copies of the responses of The Union Light, Heat and Power Company to the Staff's second set of Data Requests in the above-referenced case. Please date stamp the two extra copies and return them to me in the attached envelope.

Please call me at (513) 287-3601 should you have any questions.

Very truly yours,

  
John J. Finnigan, Jr.  
Senior Counsel

cc: The Honorable Elizabeth Blackford  
Assistant Attorney General

Enclosure

JJF/sew

**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-001**

**REQUEST:**

1. Refer to the response to the Commission Staff's First Data Request dated January 26, 2005 ("Staff's First Request"), Item 2.
  - a. In its response to Item 2(a), ULH&P listed the type of expense transactions associated with the fixed bill program along with amounts, but stated that it could not accurately project the program revenues. The request in Item 2(a) was only seeking a listing of the revenue and expense transactions associated with the fixed bill program, not a projection of the amounts. With this clarification, provide the requested information concerning revenues associated with the fixed bill program that would be recorded "below the line."
  - b. For each scenario response in Item 2(b), describe the accounting that would take place at the time the customer pays the monthly bills. The assumptions originally outlined in Item 2(b) are to be reflected. In addition, assume for each scenario the customer pays the bill in full.
  - c. Provide the same information requested in part (b) above, but reflect the assumption that the customer pays only 80 percent of the pending bill.

**RESPONSE:**

- a. Refer to KyPSC-DR-02-001 (b) & (c)

b.

**Accounting Process Example**

**Facts:**

Customer: One (1)

Fixed Bill Amt: \$80.17/month

Billable amount under Standard Tariff for April 2005: \$68.17

**Record customer billing under Fixed Bill Program**

Account	Debit	Credit
142 (accounts receivable)	80.17 (1)	
440 (residential sales)		80.17 (1)

Journal Entry ED267: To record the monthly delta associated with Fixed Bill Program

Account	Debit	Credit
440 (residential revenues)	12.00 (1)	
415(non-jurisdictional sales)		12.00 (1)

Journal Entry AR001: Accounts Receivable Transaction

Account	Debit	Credit
131 (cash)	80.17 (1)	
142 (accounts receivable)		80.17 (1)

In the example above, the customer's fixed bill amount is \$80.17 and the standard tariff revenue is \$68.17. The delta in this example is \$12.00 (\$80.17 - \$68.17) and this amount reduced the jurisdictional residential revenues (FERC account 440) to reflect the amount of revenues absent the Fixed Bill program and increased non-jurisdictional revenues (FERC account 415) to isolate any profits or losses from the Fixed Bill program. This amount (\$80.17) is paid in full by the due date as cash.

**Facts:**

Customer: Two (2)

Fixed Bill Amt: \$101.44/month

Billable amount under Standard Tariff for April 2005: \$109.44

Record customer billing under Fixed Bill Program

Account	Debit	Credit
142 (accounts receivable)	101.44 (2)	
480 (residential sales)		101.44 (2)

Journal Entry ED267: To record the monthly delta associated with Fixed Bill Program

Account	Debit	Credit
480 (residential sales)		8.00 (2)
415(non-jurisdictional sales)	8.00 (2)	

Journal Entry AR001: Accounts Receivable Transaction

Account	Debit	Credit
131 (cash)	101.44 (2)	
142 (accounts receivable)		101.44 (2)

In the example above, the customer's fixed bill amount is \$101.44 and the standard tariff revenue is \$109.44. The delta in this example is - \$8.00 (\$101.44 - \$109.44) and this amount reduced the non-jurisdictional revenues (FERC account 415) to reflect the amount of revenues lost by the Fixed Bill program and decreased non-jurisdictional revenues (FERC account 415) to isolate any profits or losses from the Fixed Bill program. This amount (101.44) is paid in full by the due date as cash.

**Facts:**

Customer: Three (3) with electric (e) and gas (g)  
Fixed Bill Gas Amt: \$112.29/month  
Fixed Bill Electric Amt: \$54.95/month  
Billable amount under Fixed Bill Tariff for April 2005: \$167.24  
Regulated Bill Gas Amt: \$104.29/month  
Regulated Bill Electric Amt: \$64.95/month  
Billable amount under Standard Tariff for April 2005: \$169.24

Record customer billing under Fixed Bill Program

Account	Debit	Credit
142 (accounts receivable)	54.95 (3e) 112.29 (3g)	
440 (residential sales)		54.95 (3e)
480 (residential sales)		112.29 (3g)

Journal Entry ED267: To record the monthly delta associated with Fixed Bill Program

Account	Debit	Credit
440 (residential sales)		10.00 (3e)
415(non-jurisdictional sales)	10.00 (3e)	
480 (residential sales)	8.00 (3g)	

415(non-jurisdictional sales)		8.00 (3g)
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Journal Entry AR001: Accounts Receivable Transaction

Account	Debit	Credit
	54.95 (3e)	
131 (cash)	112.29 (3g)	
		54.95 (3e)
142 (accounts receivable)		112.29 (3g)

In the example above, the customer's fixed bill amount is \$167.24 and the standard tariff revenue is \$169.24. The delta in this example is - \$2.00 (\$167.24 - \$169.24) and this amount reduced the non-jurisdictional revenues (FERC account 415) to reflect the amount of revenues lost by the Fixed Bill program and decreased non-jurisdictional revenues (FERC account 415) to isolate any profits or losses from the Fixed Bill program. This amount (\$167.24) is paid in full by the due date as cash.

**c.**  
**Accounting Process Example**

**Facts:**

Customer: One (1)

Fixed Bill Amt: \$80.17/month

Billable amount under Standard Tariff for April 2005: \$68.17

Record customer billing under Fixed Bill Program

Account	Debit	Credit
142 (accounts receivable)	80.17 (1)	
440 (residential sales)		80.17 (1)

Journal Entry ED267: To record the monthly delta associated with Fixed Bill Program

Account	Debit	Credit
440 (residential revenues)	12.00 (1)	
415(non-jurisdictional sales)		12.00 (1)

Journal Entry AR001: Accounts Receivable Transaction

Account	Debit	Credit
131 (cash)	64.14 (1)	
142 (accounts receivable)		64.14 (1)

In the example above, the customer's fixed bill amount is \$80.17 and the standard tariff revenue is \$68.17. The delta in this example is \$12.00 (\$80.17 - \$68.17) and this amount reduced the jurisdictional revenues (FERC account 440) to reflect the amount of revenues absent the Fixed Bill program and increased non-jurisdictional revenues (FERC account 415) to isolate any profits or losses from the Fixed Bill program. This amount (\$64.14) is paid at the 80% level by the due date as cash.

**Facts:**

Customer: Two (2)

Fixed Bill Amt: \$101.44/month

Billable amount under Standard Tariff for April 2005: \$109.44

Record customer billing under Fixed Bill Program

Account	Debit	Credit
142 (accounts receivable)	101.44 (2)	
480 (residential sales)		101.44 (2)

Journal Entry ED267: To record the monthly delta associated with Fixed Bill Program

Account	Debit	Credit
480 (residential sales)		8.00 (2)
415(non-jurisdictional sales)	8.00 (2)	

Journal Entry AR001: Accounts Receivable Transaction

Account	Debit	Credit
131 (cash)	81.15 (2)	
142 (accounts receivable)		81.15 (2)

In the example above, the customer's fixed bill amount is \$101.44 and the standard tariff revenue is \$109.44. The delta in this example is - \$8.00 (\$101.44 - \$109.44) and this amount reduced the non-jurisdictional revenues (FERC account 415) to reflect the amount of revenues lost by the Fixed Bill program and decreased non-jurisdictional revenues (FERC account 415) to isolate any profits or losses from the Fixed Bill program. This amount (\$81.15) is paid at the 80% level by the due date as cash.

**Facts:**

Customer: Three (3) with electric (e) and gas (g)  
 Fixed Bill Gas Amt: \$112.29/month  
 Fixed Bill Electric Amt: \$54.95/month  
 Billable amount under Fixed Bill Tariff for April 2005: \$167.24  
 Regulated Bill Gas Amt: \$104.29/month  
 Regulated Bill Electric Amt: \$64.95/month  
 Billable amount under Standard Tariff for April 2005: \$169.24

Record customer billing under Fixed Bill Program

Account	Debit	Credit
142 (accounts receivable)	54.95 (3e) 112.29 (3g)	
440 (residential sales)		54.95 (3e)
480 (residential sales)		112.29 (3g)

Journal Entry ED267: To record the monthly delta associated with Fixed Bill Program

Account	Debit	Credit
440 (residential sales)		10.00 (3e)
415(non-jurisdictional sales)	10.00 (3e)	
480 (residential sales)	8.00 (3g)	
415(non-jurisdictional sales)		8.00 (3g)

Journal Entry AR001: Accounts Receivable Transaction

Account	Debit	Credit
131 (cash)	43.96 (3e) 89.83 (3g)	
142 (accounts receivable)		43.96 (3e)

89.83 (3g)

In the example above, the customer's fixed bill amount is \$167.24 and the standard tariff revenue is \$169.24. The delta in this example is - \$2.00 (\$167.24 - \$169.24) and this amount reduced the non-jurisdictional revenues (FERC account 415) to reflect the amount of revenues lost by the Fixed Bill program and decreased non-jurisdictional revenues (FERC account 415) to isolate any profits or losses from the Fixed Bill program. This amount is paid (\$43.96 + \$89.83 = \$133.79) at the 80% level by the due date as cash.

**WITNESS RESPONSIBLE:** Michael Goldenberg (a.) /Jeff Pipher (b.) & (c.)



**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-002**

**REQUEST:**

2. Refer to the response to the Staff's First Request, Item 3.
  - a. Would ULH&P agree that the proposed tariff language under "Applicable Removal Charges" stating that a "customer may be charged" the \$50 administrative fee is broader and more flexible than ULH&P's stated intent to have flexibility in the case of extenuating circumstances? Explain the response.
  - b. Would the following language be acceptable to ULH&P as a substitute for the last sentence under "Applicable Removable Charges"? "In either case, except under extenuating circumstances, the customer will be charged an Administrative fee of \$50 and will be returned to the previous Standard Residential Tariff." Explain the response.

**RESPONSE:**

- a. No. Cinergy has limited experience with Fixed Bill customers and the reasons they may want to leave the program. Cinergy has relied on the experience from other companies to determine the penalties and their assessment. These companies have been flexible with their own customers when it comes time to administer (or not) "Applicable Removal Charges". Cinergy simply wants to assess these charges based on the circumstances of the customer.
- b. Yes.

**WITNESS RESPONSIBLE:** Michael Goldenberg

**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-003**

**REQUEST:**

3. Refer to the response to the Staff's First Request, Item 4(b).
  - a. Provide any documents in ULH&P's possession that originated with Christensen Associates, which reflect Christensen Associates' experience as mentioned in the second paragraph of the response.
  - b. Provide the study conducted by Gulf Power which suggests that the expectation that increases in usage will occur in off-peak periods is reasonable.

**RESPONSE:**

- a. Please refer to Attachment KyPSC-DR-02-003(a).
- b. Please refer to EKPC application in Case No. 2004-00330, attachment MTO-4, provided at Attachment KyPSC-DR-02-003(b).

**WITNESS RESPONSIBLE:** Tom Osterhus



Laurits R. Christensen Associates, Inc.  
4610 University Avenue, Suite 700  
Madison, Wisconsin 53705-2164

Voice 608.231.2266 Fax 608.231.1365

## MEMORANDUM

TO: Tom Osterhus, Cinergy Corporation

FROM: Bruce Chapman, David Glycer and Mike O'Sheasy

DATE: February 18, 2003

SUBJECT: Fixed Billing Issues

In a recent e-mail message, you asked us about a range of issues that will affect your interest in fixed billing at Cinergy. This memorandum addresses those issues. We provide restatements of your questions and brief answers below.

- 1. How should customer usage response to fixed billing be anticipated?** A key element of profitable fixed billing is anticipating the degree to which participating customers will expand usage. Cinergy has a couple of options. First, you can rely on Christensen Associates' expertise to provide a range from which to select a value. The selection would also rely on your own intuition about your customers' preferences. We are thoroughly familiar with the pricing incentives of fixed billing and our theoretical perspective is buttressed by our knowledge of response elsewhere to fixed billing and similar programs. Alternatively, you can estimate response by Cinergy customers to a program similar to fixed billing. The leading candidate for such analysis is budget billing, which has been used by other utilities for this purpose. Christensen Associates is capable of conducting this analysis with data provided from Cinergy's own customer data base. The first strategy is attractive because it is cost-effective and serves until Cinergy can measure actual response by its own fixed bill customers. The second strategy is useful when direct evidence of behavior by Cinergy customers is useful in securing internal and regulatory approval. Christensen Associates is the industry pioneer and leader in this area.
- 2. How should Cinergy conduct modeling and weather normalizing to develop customer fixed bill offers?** We recommend that Cinergy conduct customer-specific regression analysis of weather sensitivity to arrive at consumption at normal weather levels under their current tariff. Cinergy can then use these consumption levels as a

basis for computing fixed bill offers. We can provide Cinergy with a complete and proven weather normalization software model.

Christensen Associates' model matches customers to appropriate weather stations and makes use of weather indexes based on publicly available weather data for those stations.<sup>1</sup> The model requires only limited amounts of billing data – typically one to three years of data – and allows for the fact that not all customers have stable consumption histories. Finally, we offer guidance in handling variations in the quality of the offer across customers.

**3. What are the characteristics of the software provided by Christensen Associates?**

Our firm provides two types of software. “Offer” software develops offers for eligible customers while “tracking” software computes the components of load changes while the customer is served by fixed billing. Both packages are the property of Christensen Associates. They are customized to the needs and protocols of the utility and licensed for use at the utility’s offices. The software is PC-based and is written in Visual Basic and makes use of Access databases.

The **offer software** generates customer-specific contract offers. Inputs include conventional customer billing data (kWh and bill values) and weather indexes, both normal values and history for the dates matching customer billing data. The outputs are expected normal-weather consumption quantities by billing period and the offer value itself, along with weather sensitivity parameters and regression statistics. The program operates as described above: it estimates weather sensitivity by customer, computes normal-weather consumption and then the offer.

The **tracking software** computes expected consumption for each billing period of service under *actual* (not normal) weather and calculates the difference between actual and expected consumption. This separates the change in consumption into weather-induced and other changes. This distinction is essential to 1) monitor abuse by customers; 2) track profitability; and 3) determine how to price the product in the future. (Such information is vital for reporting, since profitability can be understood only when the impact of weather is removed.)

**4. How is the riskiness of the product estimated and costed? Specifically, how does one represent the “worst-case” scenario?**

Christensen Associates uses the well-known Value at Risk (VaR) approach to cost the risk associated with fixed billing. We have identified the main sources of risk associated with fixed billing and have developed a method to jointly quantify those risks based on the underlying distributions of the individual risks. We have found that the joint distribution can be obtained analytically, although it could also be derived from simulations under alternative risk analysis approaches. Once a joint distribution exists, the VaR approach selects a given scenario, usually the 95<sup>th</sup> percentile (ranking from best to worst) as the basis for risk computation. Taking the difference between the values at the 95<sup>th</sup> percentile and expected scenarios gives an estimate of VaR and provides a basis for determining a risk premium to cover adequately this value at risk.

**5. How long will it take to get a fixed bill program into the field, excluding regulatory review?**

Our experience to date has been that it takes about four months to design a

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<sup>1</sup> We have also used a utility’s proprietary weather data when available.

product, review it internally and compute offers for delivery to customers. (Offers should go to customers two months before service startup.) Cinergy should allow a minimum of four weeks for design (without quantitative analysis of the sort discussed in issue number 1 above) and six weeks for software customization, testing and offer computation. If Cinergy wishes to have a review of response to budget billing by Cinergy customers undertaken, it should allow another two to four weeks. To some degree this additional time can overlap with the other tasks, depending on when the information is needed in the process at Cinergy.

6. **What resources will be needed to conduct “back office pricing” and “up-front customer interface”?** The product earnings success will easily cover many times these program expenses. We anticipate that you will need to provide resources on the scale suggested below.
- a. A product manager may devote 50-60% of their time on the product during the initial first couple of program years.
  - b. A rate designer can handle the filing effort, periodic analyses of the program, and subsequent program enhancements; this would consume 40% of their time during the first year and 15% thereafter.
  - c. Billing system enhancement requirements are moderate and manageable because the programming of offers generally takes place “off-board” and typically it is not costly to upgrade the billing system to allow for a customer-specific customer charge.
  - d. Customer care and direct marketing are manageable as well. The required efforts in these areas are best addressed by Jan Moore at Direct Options. We will ask him to call you if you wish.
  - e. Internal marketing and education involve training of the call center, billing, and marketing reps; normally 1/2 day devoted to each group is sufficient.

If you are interested in more information on these topics, we can provide you with contact names at Georgia Power Company and Duke Power.

Once you have had a chance to review our responses to these issues, please call with any additional questions.

CHRISTENSEN  
ASSOCIATES

Laurits R. Christensen Associates, Inc.  
4610 University Avenue, Suite 700  
Madison, Wisconsin 53705-2164

Voice 608.231.2266 Fax 608.231.1365

## MEMORANDUM

TO: Tom Osterhus, Cinergy Corporation

FROM: Bruce Chapman, David Glycer and Michael O'Sheasy

DATE: March 21, 2003

SUBJECT: Representative Offer and Tracking Software Outputs

This memorandum responds to your request to get an impression of the outputs of fixed bill "offer" and "tracking" software. As you know, **offer software** computes the offers to be transmitted to customers. **Tracking software**, in contrast, keeps track of customer behavior during the fixed bill contract period, providing information on how changes in customer behavior are to be attributed to the impacts of weather and customer response to fixed billing.

Offer software makes use of customer billing history and weather history to estimate each customer's weather sensitivity, then forecasts expected consumption during the contract period and computes an offer based on the standard tariff and the fixed bill pricing parameters. These parameters are 1) the Quantity Factor and 2) the Risk Premium. The former represents the expected change in average fixed bill customer consumption from the previous year and the risk premium is the charge for the incremental risk that Cinergy bears by offering fixed billing. The software outputs the dollar figure of the offer itself plus the kWh for each forecasted billing month that serve as the basis for the offer.

Tracking software makes use of the customer's actual consumption under fixed billing, the offer value with those twelve forecasted kWh values and actual weather during the contract period to compare 1) the actual consumption of the customer with 2) the expected consumption under actual weather and 3) the expected consumption under normal weather for each billing period.<sup>1</sup> The tracking software computes 2) while the offer software produces 3). This allows Cinergy to apportion the change in each customer's actual consumption in each month to customer response to fixed billing [1)-2)] and weather [2)-3)]. The software also computes the dollar counterparts to these values.

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<sup>1</sup> We do not have the real "normal" weather. As a proxy for illustrative purposes, we have used the average across the period of the observations. This makes the expected and actual weather relatively similar.

The comparisons derived from the tracking software allow you to monitor “abuse” during the contract period and to evaluate customer response for future pricing with the effects of weather removed.

We have used representative data from seven Cinergy customers to provide quantitative examples of these computations and of the model outputs. These seven customers had four and one-half years of data available.<sup>2</sup> We used the data from the first three and one-half years to develop offers and then used the actual consumption in the last twelve months as the proxy for the first year of fixed bill consumption.

Table 1 presents the offer generation process for these customers. Column 1 presents their weather normalized consumption, which is then adjusted for expected growth (the Quantity Factor, common to all fixed bill customers and set here at 4 percent for illustration) to produce the expected consumption under normal weather (in Column 2). Columns 3 and 4 present the annual bills under the standard tariff that correspond to columns 1 and 2. Column 5 presents the offer, which equals Column 4 scaled up by the Risk Premium (set at 5 percent for illustration).

**Table 1: Generating Offers**

Customer	Expected Usage		Billings		
	Normal Weather	Normal Weather with Quantity Factor	Normal Weather	Normal Weather with Quantity Factor	Offer
	(1)	(2)	(3)	(4)	(5)
1	6,974	7,253	\$612	\$632	\$663
2	15,208	15,816	\$1,237	\$1,288	\$1,353
4	12,097	12,581	\$1,008	\$1,046	\$1,098
6	4,854	5,049	\$462	\$476	\$499
8	20,781	21,612	\$1,709	\$1,779	\$1,868
9	6,582	6,845	\$584	\$602	\$632
10	9,385	9,760	\$793	\$822	\$863
Average	10,840	11,274	\$915	\$949	\$997

Table 2 presents the tracking process, with consumption appearing in the top half of the table and billings in the bottom half. When computing tracking results, the Cinergy analyst will have the actual weather that occurred in the billing period and be able to compute, using the same model as that which generated the offer, each customer’s expected usage under actual weather. The table presents annual results but this can be done at the end of every billing period.

Columns 1 through 3 show the consumption values: expected under normal weather (from Column 2 of Table 1), expected under actual weather, and actual. Column 4 shows the percentage difference between the expected consumption level given actual weather and the actual level of consumption. The average consumption change by these customers (beyond the expected consumption increase of the Quantity Factor) is 1.02 percent, excluding the effects of

<sup>2</sup> Cinergy provided data for ten customers but three of them had missing billing periods. We elected to not use their data since the seven customers provided adequate data to prepare the example calculations.

weather. There is a wide degree of dispersion, with one customer using over 16 percent more electricity than expected and another using more than 10 percent less.<sup>3</sup>

**Table 2: Tracking Customer Behavior**

Customer	Expected Usage, including Quantity Factor		Actual Usage	Change in Usage, excluding Weather
	Normal Weather	Actual Weather		
	(1)	(2)	(3)	(4)
1	7,253	7,452	8,174	9.69%
2	15,816	15,011	14,639	-2.48%
4	12,581	11,804	13,773	16.68%
6	5,049	4,764	4,557	-4.35%
8	21,612	21,236	20,740	-2.34%
9	6,845	6,662	6,809	2.20%
10	9,760	9,240	8,258	-10.63%
Average	11,274	10,881	10,993	1.024%

Customer	Expected Billings, including Quantity Factor		Billings Under Standard Tariff at Actual Usage	Offer	Bill Difference, excluding Weather
	Normal Weather	Actual Weather			
	(5)	(6)	(7)	(8)	(9)
1	\$632	\$649	\$702	\$663	-\$38
2	\$1,288	\$1,220	\$1,191	\$1,353	\$162
4	\$1,046	\$985	\$1,137	\$1,098	-\$39
6	\$476	\$456	\$441	\$499	\$58
8	\$1,779	\$1,748	\$1,705	\$1,868	\$163
9	\$602	\$589	\$600	\$632	\$33
10	\$822	\$784	\$709	\$863	\$153
Average	\$949	\$919	\$926	\$997	\$70

In the bottom half of the table, columns 5 through 9 present the billing values under the standard tariff that are based on the consumption levels in the top half of the table, as well as the offer value from Table 1. Column 9 shows that these customers had fixed billing that exceeded the standard tariff billings under actual weather by an average of \$70 (or about 7 percent). If Cinergy puts standard tariff revenue above the line and fixed bill premium below in its accounting, then column 7 provides the regulatory revenue and column 9 the revenues below the line. (This accounting treatment was explained by Mike O'Sheasy during his recent visit.) Otherwise, column 8 represents regulatory revenue. By comparing the values in columns 5 through 7, the Cinergy analyst can decompose the changes into the revenue impacts of weather (column 6 minus column 5) and of customer behavior (column 7 minus column 6). Thus, the

<sup>3</sup> The standard deviation around the mean is 8.3%.



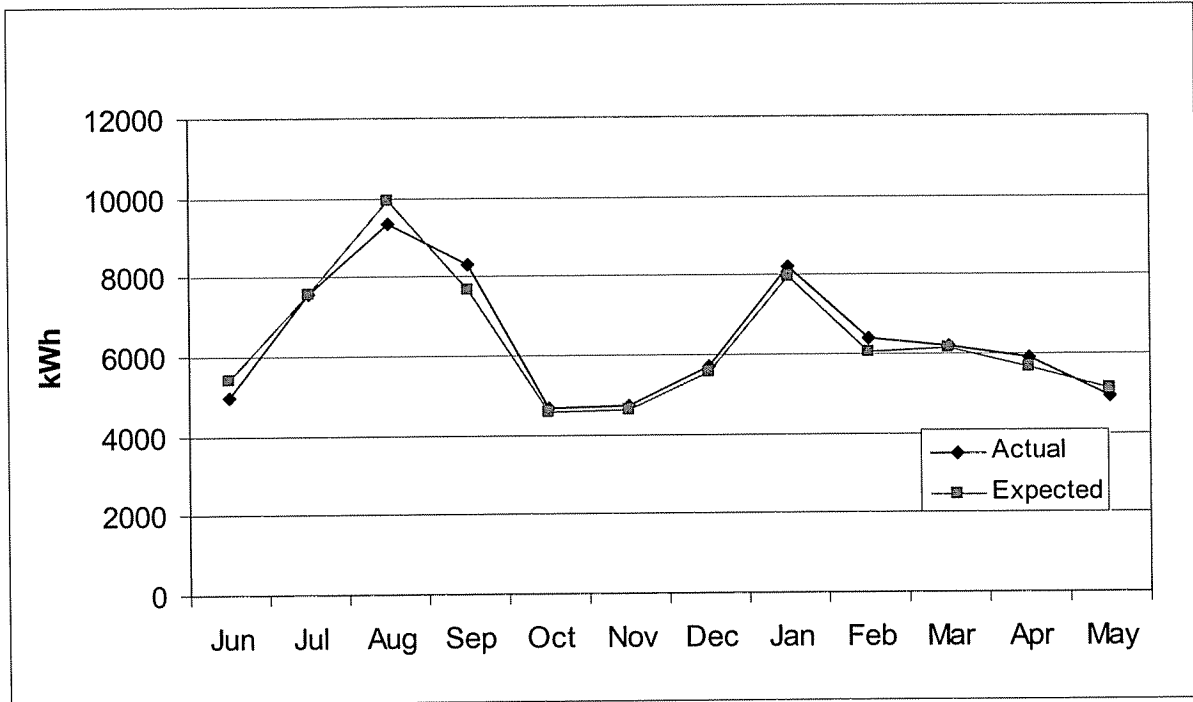
tracking software computes all the essential data for evaluating behavior and keeping track of the product's financial impacts.

The tracking process can also be seen graphically, which helps to illustrate the monthly patterns that can occur. The key for customer monitoring is the difference between actual consumption and expected consumption given actual weather. Figure 1 graphs these values for the seven customers as a composite. Figure 2 presents the same perspective for a single customer. As might be expected, the potential difference between actual and expected is more significant for an individual customer, both in total and on a month-by-month basis. This information is instructive because it shows that, even after correcting for weather, it is important not to draw inferences about customer behavior from individual months of data. A single-month definition of "abuse" or "excessive growth" would need to be based on a higher threshold than would a seasonal definition.

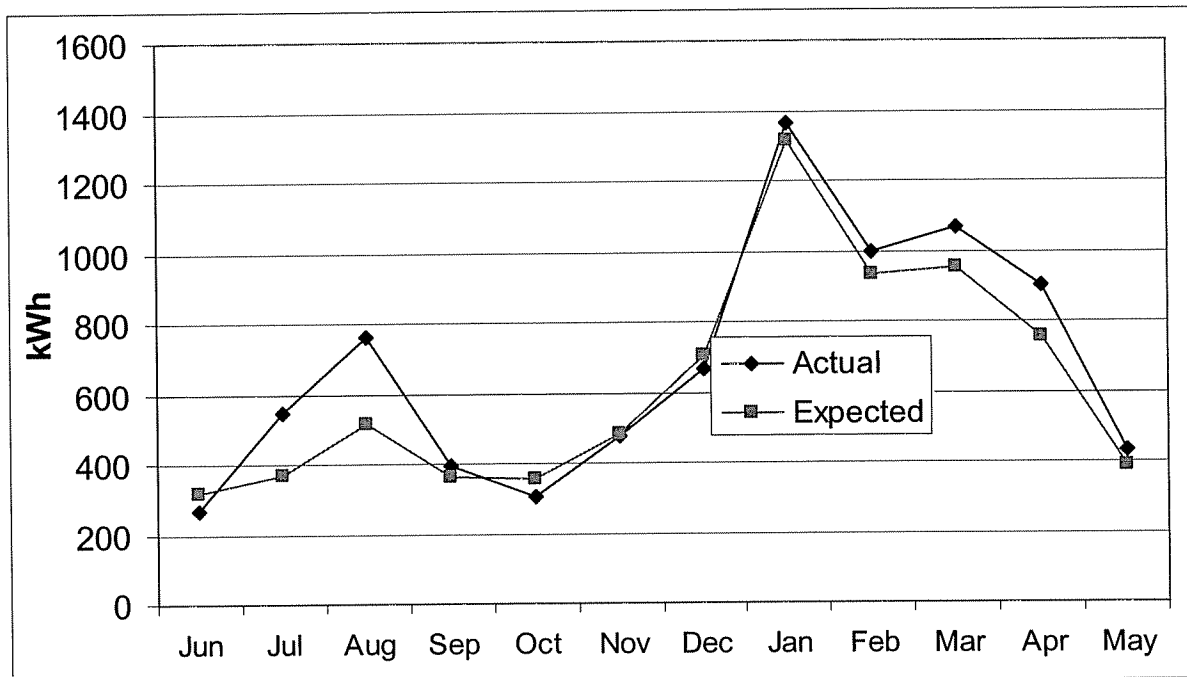
In summary, offer software outputs the dollar value of each customer's offer plus the monthly consumption and standard tariff billing quantities that underlie the offer. These quantities represent history, at normal weather, adjusted for the expected average change in consumption due to participation in fixed billing. Bills also reflect the addition of the fixed bill premium. This information is produced prior to the contract year.

Tracking software outputs each customer's expected consumption in each billing period, given *actual* weather, as well as the standard tariff bill that such usage implies. Along with information about actual consumption and expected consumption given *normal* weather, this provides the utility with all the information necessary to evaluate the billing impacts of weather and customer behavior on the utility's revenues. This information is produced as the contract year unfolds. It is essential for financial analysis and for future fixed bill pricing updates.

**Figure 1: Monthly Actual and Expected Consumption, Group Composite  
 (Based on Actual Weather)**



**Figure 2: Monthly Actual and Expected Consumption, Single Customer  
 (Based on Actual Weather)**



**EXHIBIT MTO-4****ATTACHMENT B****Results of Gulf Power Company's *FlatBill*<sup>®</sup> Pilot Program****Summary**

As part of Gulf Power's most recent rate case, the Company sought and was granted authorization to conduct a *FlatBill*<sup>®</sup> pilot program.

The *FlatBill*<sup>®</sup> pilot introduced a pricing program which offered residential (Rate Schedule RS) and small commercial customers (Rate Schedule GS) the opportunity to purchase retail electric service at a fixed or flat monthly bill amount, customized for each customer, for 12 months. It was the Company's belief that this new rate would be a valuable energy product/price optional package that would be well received by customers. The purpose of the pilot program was to gather information in order to decide whether or not a broad-scale application of such a program at Gulf Power would be appropriate. The major focus of this data collection involved evaluating consumptive behavior changes of the participating customers, the resulting impact on peak demand and the determination of the customers' satisfaction with the program.

With the pilot now complete, the Company has been able to gather energy consumption data needed to analyze the customers' behavior changes as a result of being billed on the *FlatBill*<sup>®</sup> rate and the impact those changes had on peak demand. In addition, a customer survey was conducted which produced valuable feedback.

Following is an overview of the *FlatBill*<sup>®</sup> pilot program results.

**Gulf Power *FlatBill*<sup>®</sup> Pilot Program**

The *FlatBill*<sup>®</sup> pilot program at Gulf Power began in the fall of 2002, when approximately 5,000 *FlatBill*<sup>®</sup> offers were mailed to a group of residential and small commercial customers. Accounts fitting the criteria for participation in the program were identified. The criteria used for identification were accounts with at least 12 months usage history at the premise and good credit standing with the Company. The 5,000 offers were randomly selected from that pool of accounts.

From the 5,000 offers mailed, 3,000 to residential customers and 2,000 to small commercial customers, 386 acceptances were received. Of those, 256 were from residential customers and 130 were from small commercial customers.

Each customer that enrolled in the program was sent a letter to confirm their participation and monthly *FlatBill*<sup>®</sup> bill amount. Enclosed with the confirmation letter was a pamphlet of conservation/energy efficiency tips and recommendations for both summer and winter energy savings. Customers who enrolled in the program received their first of twelve bills on the *FlatBill*<sup>®</sup> rate in January 2003 and their final bill on the *FlatBill*<sup>®</sup> rate in December 2003.

The *FlatBill*<sup>®</sup> monthly bill amounts were derived from each individual customer's historical kWh usage, weather normalized, and adjusted for the expected increase resulting from participation in the program. This resulted in an estimated annual kWh. These kWh were then multiplied by the appropriate base rate and cost recovery clause adders for the contract period. The resulting sum was added to the annualized customer charge, and divided by 12 to arrive at the monthly *FlatBill*<sup>®</sup> amount.

There were three areas of interest for which the Company sought to collect information in this pilot program: (1) Impact on kWh consumption; (2) Impact on Peak Demand; and, (3) Customer Reaction. Each of these is discussed below.

#### **Impact on kWh Consumption**

The customers who participated in the *FlatBill*<sup>®</sup> pilot program, on average, did increase their kWh consumption. In order to assess the amount by which the energy consumption increased, a usage comparison was done between the actual and predicted kWh consumption of the *FlatBill*<sup>®</sup> customers.

For each month, January through December 2003, actual kWh consumption was measured for each *FlatBill*<sup>®</sup> customer. In addition, for each of these months, a calculation was made to predict, based on actual weather, what each of the customers would have used if they had not been in the *FlatBill*<sup>®</sup> program. Averages of both the actual and predicted totals by month were used to show the difference in usage that can be attributed to the fact that these customers were on the *FlatBill*<sup>®</sup> rate.

There was an increase in consumption accounted for by the customers being on the *FlatBill*<sup>®</sup> rate.

**Impact on Company Peak Demand**

In order to determine the impact that the *FlatBill*<sup>®</sup> customers would have on the Company's peak demand, *FlatBill*<sup>®</sup> sample and control groups were established. At the beginning of the pilot, approximately 140 load research meters were deployed at participating *FlatBill*<sup>®</sup> customers' premises to make up the sample group. This sample was selected randomly and represents over one third of the total pilot population. The control group was selected, based on energy consumption matches, from the existing load research meters already deployed in the field and approved by the Cost of Service Load Research Rule filed by the Company with the Florida Public Service Commission.

For each Gulf monthly peak hour in the months of January to December 2003, the difference between the mean kW of the control group and the mean kW of the *FlatBill*<sup>®</sup> sample group was calculated. In addition, the confidence intervals (CI) around this difference were calculated at the 90 percent level, which means that there is a 90 percent certainty that the difference between the two groups will fall between the upper and lower CI bounds.

A statistical test was performed on all months to see if the CI included the value of zero. According to this test, if the CI included the value of zero, there was statistically no significant difference between the demands for the test and control groups for that month. If this is the case, the *FlatBill*<sup>®</sup> group did not affect the Gulf system peak for that month.

For all months except November, the CI included the value of zero. In November, the Upper Bound of the CI was close to zero but did not include that value.

Since there is no statistically significant difference between the demands at the monthly system peak hours for the *FlatBill*<sup>®</sup> sample and control groups, except for one month of the twelve, the conclusion is that, during the Pilot, the usage patterns shown by the *FlatBill*<sup>®</sup> customers had basically no more effect on the Gulf Power monthly peak demand than if they had not been in the *FlatBill*<sup>®</sup> program.

In other words, although there was an increase in kWh consumption attributed to the *FlatBill*<sup>®</sup> customers, this additional usage did not have a noticeable impact on peak demand.

### **Customer Reaction**

During the month of October 2003, Gulf Power conducted a mail survey of all of its *FlatBill*<sup>®</sup> pilot program participants. Three hundred and Fifty-three surveys were mailed, with 214 responses received (61%). This is an extraordinarily high response rate to a mail survey.

The vast majority of the responses received were very positive. For instance, when asked for their overall satisfaction with the program, on a scale of 1 – 10, with 10 representing “Very Satisfied”, 95% of the respondents scored the program an 8 or above. When asked if, given the chance and knowing their *FlatBill*<sup>®</sup> offer for the upcoming year would be based on consumption from the current year, they would renew their contract, 76% of the respondents answered that they would “Very Likely” renew.

Some of the comments received back included: “Senior citizens, fixed income (social security), we know exactly what we have to do to maintain budget”; “Important thing is that you are on a fixed income, it’s hard to pay large bills...thank you for giving us a chance to pay our bill each month with the *FlatBill*<sup>®</sup> program”; “Allows us to stay within our budget, best thing to come along in a while, especially when you have a limited budget”; “Thank you so much for helping me on my small business.”

In addition, it is important to mention, that the *FlatBill*<sup>®</sup> pilot program participants did not abandon conservation efforts as a result of being on *FlatBill*<sup>®</sup>. As a matter of fact, 82% of the *FlatBill*<sup>®</sup> customers who responded to our survey implemented energy tips included with their confirmation letter.

### **Conclusion**

The *FlatBill*<sup>®</sup> Pilot Program was completed in December 2003. The Company has successfully gathered the data that was identified to reach the goals established for the pilot.

**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-004**

**REQUEST:**

4. Refer to the response to the Staff's First Request, Item 5(d). Explain in detail why ULH&P's current billing system does not retain budget billing program information from one year to the next.

**RESPONSE:**

The BBP information is provided from the system as of the day requested; therefore, providing information on customers that are currently enrolled. There are no standard reports that are generated to provide BBP information on a monthly, annual basis except for ad hoc queries to the billing system and usually those queries request totals only; therefore, it does not capture the detail at the account level.

**WITNESS RESPONSIBLE:** Todd Arnold

**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-005**

**REQUEST:**

5. Refer to the response to the Staff's First Request, Item 6(a). ULH&P provided copies of a 1996 focus group study as the basis for the comments about customer dissatisfaction with ULH&P's budget billing program contained in the Direct Testimony of Todd W. Arnold ("Arnold Testimony"), page 7, lines 11 through 19.
  - a. Were the recommendations contained in the 1996 focus group study implemented by ULH&P? Explain the response.
  - b. Explain in detail how ULH&P can conclude that the results of a focus group study conducted nearly 9 years ago still reflects its customers' attitudes concerning its budget billing program and the desire for a fixed bill program.

**RESPONSE:**

- a. The study became the foundation of our current programs and many of the findings have been incorporated to better align the needs of the customer with the attributes of Budget Billing Plans.
- b. The same limitations that were part of budget billing nine years ago, still exist today. Cinergy addressed some of the concerns at the time with the addition of "quarterly" budget billing. However, one concern that could not be addressed was the finding that the "unpredictability of the 'settle-up' is considered too much of a risk for most customers." At the time of the study, Cinergy could not offer a Fixed Bill program due to billing system constraints. For this reason, customers were not surveyed specifically regarding their thoughts and opinions of a fixed bill program. Cinergy now has the ability to address this concern with the development of *Your FixedBill*. ULH&P also conducted a more recent customer survey in 2002 in connection with its hedging program. The responses to question #6 of the survey indicated that customers would be willing to pay more each month in order to stabilize their bill, which a fixed bill option achieves. (See Attachment KyPSC-DR-02-005.)

**WITNESS RESPONSIBLE:** Todd Arnold



# ULH&P Gas Price Hedging Customer Survey Report October 31, 2002

## **Introduction**

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ULH&P uses natural gas price hedging to provide gas customers with some measure of protection against gas price volatility. In an Order dated June 7, 2002 in Case No. 2001-128, the Commission ordered ULH&P to meet with Commission Staff and the Attorney General to develop a customer survey to obtain feedback among customers regarding these hedging activities. In response, ULH&P asked Shaw Strategic Marketing (SSM) to conduct a survey of residential and commercial customers in ULH&P's service territory.

## **Methodology**

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Individual interviews were conducted with 27 (10 commercial and 17 residential) gas customers in ULH&P's service territory on October 15, 16 & 17, 2002. Respondents were recruited to Service Industry Research Systems, Inc., a research facility near the campus of Northern Kentucky University. Customers were recruited at random from a list provided by ULH&P. All residential participants were a head of the household involved in energy decisions. All commercial customers were the chief energy decision-maker in the company. As is common industry practice, all participants were compensated for their participation. Residential customers received \$50 and Commercial customers received \$85.

The interview session was designed to fairly and carefully educate customers on the concept and practice of price hedging, and give examples of how the practice has impacted typical gas bills in a colder than normal winter and a warmer than normal winter. The interview explored customer reactions to the price hedging approach, their understanding of the concept, their preference or aversion to price hedging, whether they thought the utility should continue with the practice (and why), how much of the annual gas supply they think should be price-hedged, and how appropriate they felt the practice of price hedging was.

Managers from ULH&P observed the interviews. Each session was audio and video taped for further review. Ron Shaw, President of Shaw Strategic Marketing, moderated all interviews and developed this report, a summary recap of key findings.

### ***Projectability of Findings***

Qualitative research provides a rich source of information helpful in clarifying existing theories, creating hypotheses, and providing direction for future research and testing. Although the respondents were drawn from the population from which we seek answers, they were not chosen on any statistical basis. Therefore, no statistical inferences should be drawn from the results of the discussions.

### ***About This Report***

This brief recap provides key findings from research conducted by Shaw Strategic Marketing. It was prepared from the moderator's notes and interview exercises. We encourage the management of ULH&P to use this report to help guide future program and communications development.

## Key Findings

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### *Note to Key Findings:*

Two respondents, one commercial and one residential, did understand the concept enough to give valid responses. The following data is based on the 25 remaining respondents (9 Commercial and 16 Residential) who did understand the concept.

### **Preferences: Price Hedging vs. Market Pricing**

Given the choice, all respondents (Commercial and Residential) preferred a Price Hedging approach vs. a Market Pricing approach.

### **Whether the Utility Should Continue the Practice of Hedging**

When asked whether their gas utility should continue the practice of price hedging, all respondents (Commercial and Residential) said that the utility should continue the practice. Respondents gave the following primary reasons;

- **Common, Proven Strategy:** Similar concepts are found in common life situations i.e. buying insurance to manage risk or getting Christmas presents at lower prices before the holiday rush. Some commercial respondents had first hand experience with hedging and know it works. To them, it makes good economic sense.

*“The advantages outweigh the disadvantages.”*

- **Expect Utilities to Do It:** Customers expect utilities to be experts in this area and be better able to execute hedging strategies than other types of businesses could. They just assume utilities are doing it.

*“It’s their right to do what’s best for the customer.”*

### **Perceived Customer Benefits**

Commercial and residential respondents cited a number of customer benefits they believe are derived from price hedging. The most frequently mentioned customer benefits were;

- **Stability:** Helping control the degree of fluctuation in gas bills, especially during high gas usage periods. This was especially important to residential customers on fixed or limited incomes.

*“It helps you know what to expect.”*

- **Protection:** Helping protect the customer from high, unexpected peaks in gas bills during particularly cold winters.

*“We saw a very high winter last year!”*

- **Potential Savings:** Potentially providing net cost savings to them over the long term.

*“On average you’ll make out better.”*

### **Concept Understanding**

The vast majority of respondents (25 of 27) understood the concept enough to assess it intelligently. They gave consistent answers and demonstrated their understanding in various ways. When asked to explain how it all worked, typical responses were;

*“They can buy at lower prices if they buy ahead of the season.”*

*"You'll come out ahead if it's a colder than normal winter, but worse off if it's warmer than normal."*

*"It evens out in the long run. It's a conservative move."*

Two respondents (1 Commercial and 1 Residential) however, believed that price hedging would lead to 'guaranteed' prices and to a predictable / fixed gas bill. They also had difficulty grasping that both price per unit and unit volume together drive gas bills. (As mentioned previously, their responses have not been included in the final data tables, attached.)

### ***Percent of Annual Gas Supply That Should Be Price-Hedged***

Overall, respondents said that a majority (74%) of the annual gas supply should be price hedged. (Commercial, 71%; Residential, 76%) For the most part, respondents believed the more that is price-hedged, the greater their 'protection' will be during the winter months. Interestingly, Residential customers want higher hedging rates than Commercial customers. Over 40% of Residential customers (vs. 0% of Commercial customers) said that 90% or more of the annual gas supply should be price-hedged.

### ***Appropriateness for the Utility to Stabilize Gas Bill Prices***

All respondents (Commercial and Residential) said it was either 'Somewhat' or 'Very' appropriate for the utility to stabilize gas bill prices. Typical responses were;

*"It's an invisible thing. I always assumed they did it."*

*"They're trying hard to help."*

### ***Additional Amount Customers Would Spend***

When asked how much more they would be willing to spend on a 'typical January gas bill of \$160' to keep it closer to that level, respondents said overall they'd be willing to spend an average of \$8.92 more. Commercial respondents would spend an average of \$8.33 more; Residential respondents would spend an average of \$9.25 more.

### ***Notable Unsolicited Comments***

A couple of respondents made comments that may have relevance for future communications;

*"If they are saving us money, they ought to tell us."*

*" 'Hedging' (the word) sounds bad, but it isn't."*

## **Conclusions**

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1. Nearly anyone can be made to understand the 'price hedging' concept given the right explanation and examples.
2. When understanding is achieved, acceptance of the 'price hedging' concept is very high among Commercial and Residential customers
3. The utility may be missing a communications opportunity to link its 'conservative hedging practices' with the emotional benefit of 'caring for its customers'.

**Data Tables**

	<b>Commercial</b>	<b>Residential</b>	<b>Total</b>
N=	9	16	25
<b>Q1: Which prefer?</b>			
Price Hedging	100%	100%	100%
Market Pricing	0%	0%	0%
<b>Q2: Should continue?</b>			
Yes	100%	100%	100%
No	0%	0%	0%
<b>Q4: What percentage?</b>			
100%	0%	37%	24%
90%	0%	6%	4%
80%	49%	12%	24%
70%	33%	6%	16%
60%	11%	6%	8%
50%	11%	19%	16%
40%	0%	12%	8%
30%	0%	0%	0%
20%	0%	0%	0%
10%	0%	0%	0%
0%	0%	0%	0%
Average:	71.1%	75.6%	74.0%
<b>Q5: How appropriate?</b>			
1-Very Appropriate	56%	63%	60%
2-Somewhat Appropriate	44%	37%	40%
3-Neither	0%	0%	0%
4-Somewhat Inappropriate	0%	0%	0%
5-Very Inappropriate	0%	0%	0%
Average:	4.6	4.6	4.6
<b>Q6: How much more?</b>			
\$0	0%	0%	0%
2	0%	0%	0%
4	33%	6%	16%
6	0%	25%	16%
8	11%	6%	8%
10	44%	44%	44%
12	0%	6%	4%
15	11%	12%	12%
\$15+	0%	0%	0%
Average:	\$8.33	\$9.25	\$8.92

## Gas Pricing Survey

October 14, 2002

### Respondent Data:

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Residential \_\_\_\_\_  
 Commercial \_\_\_\_\_

Individual Name	
Title	
Company Name	
City / State	
Actual Length	

### Evaluation

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1) Given the choice, would you prefer the utility use...(Rotate)

A price hedging approach to stabilize gas costs and protect customers against high gas prices, or...	1
A market pricing approach where the price paid for natural gas will move up or down depending on the market on the date of purchase, but might go very high.	2

2) Do you think your gas utility should continue the practice of price hedging?

Yes	1
No	2

3) Why do you say that?

4) In your opinion, what percentage of the annual gas supply should be price-hedged?

100%	10
90%	9
80%	8
70%	7
60%	6
50%	5
40%	4
30%	3
20%	2
10%	1
0%	0

5) On the following scale, please indicate how appropriate you, personally, think it is for the utility to stabilize gas bill prices at all?

Very Appropriate	5
Somewhat Appropriate	4
Neither Appropriate or Inappropriate	3
Somewhat Inappropriate	2
Very Inappropriate	1

6) Assume your typical January bill is \$160. How much more would you be willing to spend to keep your bill constant for January very close to the \$160 level, instead of allowing it to vary between \$120 and \$210 from year to year?

Amount of Bill	Amount paid to stabilize bill	Total
\$160	0	\$160
\$160	\$2	\$162
\$160	\$4	\$164
\$160	\$6	\$166
\$160	\$8	\$168
\$160	\$10	\$170
\$160	\$12	\$172
\$160	\$15	\$175
\$160	\$15+	More than \$175

*Example: How Price Hedging is Like Insurance*

	<b>Cost</b>	<b>Benefit</b>
<b>Auto Insurance</b>	monthly insurance premium	savings on cost of auto accident
<b>Health Insurance</b>	monthly insurance premium	savings on cost of medical treatment
<b>Price Hedging</b>	overpayment when gas prices unexpectedly fall.	savings when gas prices unexpectedly rise

**Example 1**

*The actual effect of price hedging on the typical January gas bill in 2001 and 2002.*

January 2001 was substantially colder than normal, and natural gas prices were at record high levels. This caused gas bills to be higher due to higher gas market prices, plus due to the fact that houses use more energy during colder periods. In this scenario, the typical residential customer's bill, WHICH WOULD HAVE BEEN \$160 in a normal winter, INCREASES TO \$194 due to the fact that more gas is consumed in a cold winter. HEDGING WOULD HAVE SAVED HER \$8 ON HER TOTAL BILL (the difference between \$194 and \$202).

January 2002 was substantially warmer than normal, and natural gas prices fell. The typical residential customer would have paid \$2 more on her bill with price hedging. In this case, the difference between the average bill for a normal winter of \$160 and \$139 is caused by the fact that less gas is consumed due to a warmer winter.

**Gas Price Differences Plus  
 Weather- Related Differences**

	<b>Without Hedging</b>	<b>With Hedging</b>	<b>Difference due to Hedging</b>
<b>A) January 2001 (<u>colder</u> than normal)</b>	\$202	\$194	-\$8
<b>B) January 2002 (<u>warmer</u> than normal)</b>	\$137	\$139	+\$2



**Example 2**

*The actual effect of price hedging in the colder than normal winter of 2000/2001 and the warmer than normal winter of 2001/2002:*

Winter 2000/2001 was substantially colder than normal, and natural gas prices were at record high levels. This caused gas bills to be higher due to higher gas market prices, plus due to the fact that houses use more energy during colder periods. In this scenario, the typical residential customer would have saved \$27 with price hedging.

Winter 2001/2002 was warmer than normal, and natural gas prices fell. This caused gas bills to be lower due to lower gas market prices, plus due to the fact that houses use less energy during warmer periods. The typical residential customer paid \$5 more with price hedging.

**Gas Price Differences Plus  
 Weather- Related Differences**

	<b>Without Hedging</b>	<b>With Hedging</b>	<b>Difference due to Hedging</b>
<b>A) Nov. '00-Mar. '01 (<u>colder</u> than normal)</b>	\$691	\$664	-\$27
<b>B) Nov. '01-Mar. '02 (<u>warmer</u> than normal)</b>	\$447	\$452	+\$5

**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-006**

**REQUEST:**

6. Refer to the response to the Staff's First Request, Item 6(c). ULH&P's response did not address the information requested in subparts (1) and (2) of Item 6(c). Provide the originally requested information.

**RESPONSE:**

Yes. For the first eleven months, we provide the customer their cumulative account balance. In the twelfth and final month of their budget billing program we provide them the settle-up amount. As to why customers would be surprised at the settle-up, we can only go back to the study that was performed in 1996. According to the study, "it is typically assumed budget billing means even billing of equal payments based on past usage. In this way, customers expect to be able to predict the amount of their bill each month without regard to variation in weather or other influences on usage." It is this "assumption" that may cause the customer to not review the bill thoroughly.

**WITNESS RESPONSIBLE:** Todd Arnold

**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-007**

**REQUEST:**

7. Refer to the response to the Staff's First Request, Item 7.
- a. If there were 50 employees participating in the internal pilot, explain why only 38 were interviewed concerning their experience with the pilot.
  - b. On page 8 of the Arnold Testimony is the statement, "A survey of these customer/employees demonstrated an overwhelmingly positive reaction." Define what Mr. Arnold means when he states there was "an overwhelmingly positive reaction" to the fixed bill program.
  - c. The fixed bill pilot program evaluation provided in the response to Item 7(b) includes the following results:
    - 22.3 percent were either neutral or dissatisfied with the fixed bill pilot program;
    - 58.3 percent indicated that the fixed bill pilot program had no affect on their satisfaction with Cinergy as their electric service provider;
    - When given a choice between budget billing and the fixed bill pilot program, 61.1 percent preferred the fixed bill pilot program;
    - 58.4 percent had less stress related to paying their utility bill under the fixed bill pilot program; and
    - 38.9 percent were more comfortable in their home due to their participation in the fixed bill pilot program.
- Given these results, explain how ULH&P concluded that there was an "overwhelmingly positive reaction" to the fixed bill program.

**RESPONSE:**

- a. Participation in the survey was voluntary and some employees declined to complete the survey.
- b. Please see response KyPSC-DR-02-007(c).
- c. Responses are by corresponding bullet points
  - Although, it is true that 22.3% of respondents were neutral or dissatisfied with the fixed bill pilot, only one-fourth of those were "dissatisfied." Additionally, 77% were satisfied to very satisfied with the program. It is safe to say that three-fourths of the participants are happy with the program and we believe that to be an "overwhelmingly positive reaction."
  - It is difficult to improve upon a 91.7 "very satisfied" rating of your electric provider, so it is not hard to understand that the majority of the

participants were not moved. There was simply nowhere to go. Moreover, for the remaining 41.6%, satisfaction with Cinergy improved because of the program.

- A preference of 61% over an existing billing plan indicates large customer acceptance of the Fixed Bill program. The ability to pay a set amount, every month with no settle-up obviously has strong pull with the pilot participants.
- Almost 60% of the participants said their stress was reduced because of fixed bill. It stands to reason that the standard billing option or budget bill plan they may have been on before did not address their needs to the extent fixed bill does. This response supports Cinergy's view that there is a real desire for the fixed bill option.
- The Fixed Bill program was not designed to encourage increased usage. It should be noted however, that this does reinforce Cinergy's belief that customers will "dial-up" to improve their comfort level.

Overall, these findings validate Cinergy's claims of increased customer satisfaction, broad acceptance of the program, and peace of mind for our customers.

**WITNESS RESPONSIBLE:** Michael Goldenberg

**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-008**

**REQUEST:**

8. Refer to the response to the Staff's First Request, Item 7, page 8 of the Arnold Testimony and page 2 of ULH&P's application.
  - a. ULH&P's first-hand knowledge of fixed bill programs consists of the test pilot involving 50 PSI employees. Mr. Arnold refers to the pilot proposal of East Kentucky Power Cooperative, Inc., currently pending before the Commission, which would be a pilot involving approximately 1,000 customers. ULH&P's proposed pilot, for the first year, would also be limited to 1,000 customers. Explain why ULH&P believes it is appropriate to expand its proposed pilot, after just one year, to 14,000 customers.
  - b. Assuming there is cause for concern regarding the size of the proposed pilot beyond the pilot's first year, would ULH&P be willing to consider a pilot which was limited to 1,000 customers for a term of 3 years. Explain the response.

**RESPONSE:**

- a. ULHP would like the flexibility to expand the program quickly, should customer interest grow quickly, as several other utilities have experienced.
- b. No. ULHP does not want to be in a position of denying customers the opportunity over that time frame, if there is customer interest and the risks can be gradually managed over the course of the three-year pilot period.

**WITNESS RESPONSIBLE:** Michael Goldenberg

**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-009**

**REQUEST:**

9. Refer to the response to the Staff's First Request, Item 8(b) and 8(c).
  - a. Describe the accounting treatment that has been applied to the consultants' costs to date. Indicate whether these costs have been recorded on the books of ULH&P, Public Service Indiana ("PSI"), or The Cincinnati Gas and Electric Company ("CG&E").
  - b. Has the estimated cost of the information technology and billing system improvements increased or decreased during the development of the fixed bill proposal? Explain the response and identify the reasons for any changes.
  - c. Provide the amount of costs associated with information technology and billing system improvement incurred as of the date of this data request. In addition, describe the accounting treatment applied to those costs and indicate whether the costs have been recorded on the books of ULH&P, PSI, or CG&E.
  - d. Describe the allocation methodology or approach that will be used for the consultants' costs and the information technology and billing system improvement costs to allocate these costs among the jurisdictions that approve the fixed bill program.

**RESPONSE:**

- a. To date, the consultant costs have been recorded on Cinergy One's books. Cinergy One is a non-regulated subsidiary of Cinergy Corp.
- b. The estimated costs for IT work has remained consistent with the estimate.
- c. The amount spent in association with information technology and billing system improvements, incurred as of this date, is \$469,265. The work is considered a capital expense and a work order has been issued. Currently, all charges are being allocated among ULH&P (11%); CG&E (52%); PSI (37%). The charges are posted to the work order. Once the work is completed, the amount will be placed on the books as an "intangible asset" for five years.
- d. See response KyPSC-DR-02-009(c). However, if it is not approved in multiple jurisdictions, the costs will be borne entirely by the company where approval has been granted.

**WITNESS RESPONSIBLE:** Michael Goldenberg

**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-010**

**REQUEST:**

10. Refer to the response to the Staff's First Request, Item 9.
  - a. Indicate whether the intervening parties in the PSI fixed bill proposal pending before the Utility Regulatory Commission ("IURC") support or oppose the proposal.
  - b. Provide the IURC's order reflecting its decision on the PSI fixed bill proposal as soon as practicable after its issuance.
  - c. Explain why CG&E has not filed its application for a fixed bill program in Ohio.

**RESPONSE:**

- a. The only intervening party in PSI's proposal was the Office of Utility Consumer Council. As Dr. Boerger stated, "The OUCC recognizes that some of PSI's customers will find this to be an attractive billing option and so supports approval of some such program." The OUCC's positions are provided in detail in the OUCC's proposed order provided in response to AG-SUPP-01-004.
- b. No order at this time.
- c. The attorney originally drafting the CG&E application was reassigned to other cases. The change caused a delay as the newly assigned attorney was apprised of the history and schedule of the program.

**WITNESS RESPONSIBLE:** Michael Goldenberg

**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-011**

**REQUEST:**

11. Refer to the response to the Staff's First Request, Item 12(c). Given the range of program fees, from 4.4 percent to 10.0 percent, among the utilities shown to have fixed bill programs, explain how and why ULH&P selected 10.0 percent, the highest level, as its proposed program fee.

**RESPONSE:**

As shown in response to KyPSC-DR-01-012(c), 50% of the companies listed have a program fee of 10%, conversely, only 20% have a program fee of 4.4%. Those companies with a lower program fee are often accounting for expenses and revenues above the line, thus, causing non-participating customers to be impacted by the program. In these cases, everyone pays for the risk of offering a fixed bill program. Moreover, the risk premium percentage proposed by ULHP includes the administrative and implementation costs, whereas many of these comparative utilities do not. Additionally, ULH&P's quantity adjustment is limited to 5%. Other programs with a lower program fee may have a higher quantity adjustment, so one cannot make an apples-to-apples comparison of program fees without also considering the amount of the quantity adjustment and administrative costs. Unfortunately, the amount of the quantity adjustment often is not discernible in the tariffs of companies offering a fixed bill program.

Cinergy has requested below-the-line treatment to eliminate the impact to non-participating customers. Because of this accounting treatment, there is no operating company to absorb the potential losses when weather is harsh or usage is greater than expected. The shareholders assume the entire risk.

It is our intent that as we gain experience with the program that we will be able to customize the program fee, by customer, based on each customer's risk assessment. This will be done in a non-discriminatory manner by applying the same risk valuation method to each customer's load. If a customer has a less risky usage profile, he or she will be assigned a commensurately lower risk premium percentage. ULHP has requested a cap on its program fee of 10%. Many other utilities with fixed bill programs use a fixed percentage program fee for all customers. ULH&P commits that the program fee will never be greater than 10%, but in many cases, it will be lowered over time as customer behaviors stabilize and present less risk to ULH&P.

**WITNESS RESPONSIBLE:** Michael Goldenberg



**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-012**

**REQUEST:**

12. Refer to the response to the Staff's First Request, Item 13. Would ULH&P agree that one of the recurring criticisms in the PSI fixed bill pilot program evaluation (footnote 1: See Response to Staff First Request, Item 7(b), Attachment pages 3 through 7 of 9.), was a lack of information to compare standard bills with fixed bills? Explain the response.

**RESPONSE:**

When Cinergy solicited customers for the pilot, there was no information provided for comparison purposes. We have since rectified the situation by including the previous high and low bill along with the fixed bill amount.

**WITNESS RESPONSIBLE:** Michael Goldenberg

**KyPSC Staff Second Set Data Requests**  
**ULH&P Case No. 2004-00503**  
**Date Received: February 22, 2005**  
**Response Due Date: March 4, 2005**

**KyPSC-DR-02-013**

**REQUEST:**

13. Refer to the response to the Staff's First Request, Item 16.
- a. Concerning the response to 16(c), since ULH&P appears not to know who the non-regulated providers of heat are or the billing options offered by those providers, explain in detail how ULH&P concluded it has direct competition with the non-regulated providers, as stated in page 17 of the Direct Testimony of Michael Goldenberg.
- b. Would ULH&P agree that a customer's provider selection would be influenced as much or more by the price of the service than by the billing options? Explain the response.
- c. Concerning the response to Item 16(e), explain how ULH&P has concluded that the fixed bill program is "an avenue to improve customer satisfaction" when the PSI fixed bill pilot program evaluation indicated that for 58.3 percent of the respondents, the fixed bill pilot program had no effect on participants' satisfaction with Cinergy as the electric service provider.

**RESPONSE:**

- a. Suppliers of propane as listed in the Yellow Page advertising which was attached to response to KyStaff-DR-01-016(c) are direct competitors of ULH&P for supplying heat to customers. As also noted in the response, a number of these suppliers do offer both "even billing" and budget billing options. Moreover, propane providers reduce customer bill volatility naturally, given their prepayment of propane. A customer is able to monitor propane levels, and potentially adjust heating levels to control overall payments, thereby insuring (at least in part) reduced bill volatility.
- b. ULH&P concurs that the selection of a provider could be influenced equally as well by their price as by the billing options they provide.
- c. As stated in response to KyPSC-DR-02-007, the satisfaction rating of 58.3 percent of the customer was not moved because 91% gave Cinergy a "very satisfied" rating. The remaining 41% of the respondents stated that the fixed bill option had a positive effect on their satisfaction with Cinergy as their electric supplier, ULH&P sees the voluntary fixed bill program as an excellent way to impact customer satisfaction.

**WITNESS RESPONSIBLE:** Michael Goldenberg