

Exhibit No.:	
Issue:	Uncollectible Accounts, Cold Weather Rule Amendments, Other Issues not Rebutted
Witness:	James A. Fallert
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2010-0171
Date Testimony	
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LACLEDE GAS COMPANY

GR-2010-0171

SURREBUTTAL TESTIMONY

OF

JAMES A. FALLERT

Surrebuttal Testimony of James A. Fallert

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SURREBUTTAL TESTIMONY OF JAMES A. FALLERT

GENERAL INFORMATION

1
2 Q. Please state your name and business address.

3 A. My name is James A. Fallert, and my business address is 720 Olive Street, St.
4 Louis, Missouri 63101.

5 Q. Are you the same James A. Fallert who filed direct and rebuttal testimony on
6 behalf of Laclede Gas Company in this case on December 4, 2009 and June 24,
7 2010, respectively?

8 A. Yes.

PURPOSE OF TESTIMONY

9
10 Q. What is the purpose of your testimony?

11 A. The purpose of my testimony is to address the rebuttal testimony of Staff and
12 Office of the Public Counsel ("OPC") witnesses regarding the following
13 issues:

- 14 1. Level and treatment of uncollectible accounts expense;
15 2. Cold Weather Rule Amendments;
16 3. Other Issues not addressed in rebuttal.

UNCOLLECTIBLE ACCOUNTS EXPENSE

17
18 Q. What is the purpose of this section of your testimony?

19 A. I will respond to comments made by OPC witness Russell Trippensee in his
20 rebuttal testimony in regard to uncollectible accounts expense.

1 Q. What are the major differences between your calculation of uncollectible
2 expense and Mr. Trippensee's?

3 A. There are two main differences:

4 1. I proposed a bad debt level in my rebuttal based on a three-year average
5 of write-off experience, while Mr. Trippensee proposed a five-year average.
6 For reasons covered in my rebuttal testimony, I believe that the three-year
7 average produces a more appropriate result in this case.

8 2. I have proposed that any increase in revenue granted in this case should
9 be further increased by 1.3%, which is the average ratio of uncollectible
10 accounts to net revenue over the past three years. This adjustment will include
11 the impact of this revenue increase on uncollectible accounts. In his rebuttal,
12 Mr. Trippensee denies a relationship between revenues and uncollectible
13 accounts and therefore opposes this adjustment. I will further address this
14 issue in this testimony.

15 Q. How do you respond to Mr. Trippensee's suggestion on pages 4-5 of his
16 rebuttal testimony that bad debt is overstated because it includes the period
17 covered by the "Great Recession" of 2008 and 2009?

18 A. Mr. Trippensee treats the self-styled "Great Recession" as if it was an event
19 that came and went like an ice storm. In fact, this business downturn and
20 accompanying high unemployment levels continue to linger. On July 15,
21 2010, the *St. Louis Post-Dispatch* in an article entitled "Area foreclosure
22 activity ahead of 2009 record pace" cited the data service RealtyTrac in

1 reporting that foreclosure activity in the St. Louis region for the first six
2 months of 2010 is well ahead of last year's record pace. Foreclosure rates are
3 significant because a customer who cannot afford to pay the mortgage to keep
4 the home is less likely to be willing or able to pay the gas bills to heat that
5 home. Given the continuing nature of the recession, it is certainly fitting to
6 base uncollectible expense on a three year view.

7 Q. How did Mr. Trippensee support his contention that there is no relationship
8 between revenues and uncollectible accounts?

9 A. On page 3 of his rebuttal testimony, Mr. Trippensee describes his analysis, in
10 which he reviewed uncollectible accounts and revenues for a six year period
11 ended in March 2010 and noted that in some instances revenues and
12 uncollectibles have changed by differing amounts or in certain instances in
13 opposite directions for a short period.

14 Q. Does this analysis prove that no relationship exists between revenue and
15 uncollectible expense?

16 A. No, not at all. Mr. Trippensee's analysis simply confirms the intuitive notion
17 that other factors in addition to revenue can impact the level of uncollectible
18 accounts experienced. These include such factors as economic conditions,
19 cold weather rules, deposit policies, heating assistance availability, etc.
20 However, the fact that these factors influence uncollectibles, and may cause
21 fluctuations in the short term, does not prove that the level of revenue is not
22 also a factor. Mr. Trippensee's analysis of only six years of data provides

1 insufficient basis to conclude that revenues and uncollectible accounts are
2 unrelated.

3 Q. Have you performed your own comparison of revenue and uncollectible
4 expense to support your contention that a correlation between the two exists?

5 A. Yes. I have examined data from the past 25 years, which is included in
6 Schedule 1 to this testimony. This data indicates that revenue is indeed the key
7 factor influencing the level of uncollectible accounts expense. A review of the
8 data indicates that as revenues have increased over the years, uncollectible
9 accounts expense has generally increased commensurately. While other
10 factors can cause short term fluctuations, revenue levels are clearly a
11 significant factor influencing the amount of uncollectible expense. This
12 analysis confirms the intuitive notion that a customer who doesn't pay a \$200
13 bill will generate a higher write-off than a customer who doesn't pay a \$100
14 bill. Mr. Trippensee's conclusions would have us believe that the higher bill in
15 the first instance is not relevant to the amount written-off.

16 Q. Have you performed any additional analysis of this data?

17 A. Yes. I ran a regression analysis comparing these two factors for the past 25
18 years. The output is summarized in Schedule 2 attached to this testimony.
19 This analysis indicates a strong correlation between revenue and
20 uncollectibles, indicating that over the 25 years, about 86% of the change in
21 uncollectible expense can be explained by changes in revenue levels, thus

1 statistically confirming the conclusion that uncollectible accounts expense and
2 revenue levels are closely related.

3 Q. Please summarize your comments.

4 A. My analysis clearly demonstrates a strong relationship between revenues and
5 uncollectible accounts. Therefore, it is appropriate that any revenue increase
6 granted in this case be increased by a factor of 1.3% to recognize the impact on
7 uncollectible accounts.

8 **COLD WEATHER RULE AMENDMENTS**

9 Q. Please describe the Cold Weather Rule Amendments approved by the
10 Commission in Case Nos. GX-2006-0181 and GX-2006-0434.

11 A. In Case No. GX-2006-0181, the Commission significantly relaxed the terms
12 under which customers who had service discontinued as a result of
13 nonpayment or were in threat of disconnection for nonpayment could regain or
14 retain service from January 1, 2006 through March 31, 2006. In Case No. GX-
15 2006-0434, the Commission adopted certain of these terms on a permanent
16 basis effective November 1, 2006 and also prescribed a specific mechanism
17 designed to provide for the recovery of costs related to complying with these
18 amendments. Deferrals made pursuant to GX-2006-0181 are being amortized
19 pursuant to such mechanism as implemented by agreement of all of the parties
20 in the Company's 2007 Rate Case (GR-2007-0208). The amount of deferrals
21 pursuant to GX-2006-0434 was determined in Case No. GU-2007-0138 using
22 the same methodology as that agreed to in GR-2007-0208. This determination

1 was subsequently upheld in decisions by the Cole County Circuit Court and the
2 Western District Court of Appeals. I have included in this case an
3 amortization of the costs deferred as a result of this mechanism as updated
4 through March 31, 2010.

5 Q. What is the purpose of this portion of your testimony?

6 A. I will respond to the rebuttal testimony of OPC witness Russell Trippensee, in
7 which he proposes no recovery of these deferred amounts.

8 Q. Does Mr. Trippensee oppose the recovery of the compliance costs that were
9 determined by the Commission in the proceedings you just referenced?

10 A. Yes.

11 Q. Has OPC consistently opposed the recovery of such compliance costs?

12 A. No, in fact the methodology used to calculate the level of compliance costs that
13 should be recovered in connection with these rule changes was initially
14 developed in Laclede's 2007 Rate Case proceeding and reflected adjustments
15 to the calculation that were made at the time by the OPC witness in his
16 testimony in that case. Accordingly, Mr. Trippensee's challenge to that
17 methodology in this proceeding is at odds with OPC's own prior position on
18 this very issue.

19 Q. In Case No. GU-2007-0138, the Commission ordered Laclede to track
20 additional payments and arrearages of customer accounts that generated
21 deferrals under the aforementioned mechanism. At page 6, line 15 of his
22 rebuttal, Mr. Trippensee states that "Laclede initially objected to providing the

1 information along with other accounting entries to the financial system related
2 to Cold Weather Rule.” Please comment.

3 A. It should be noted that Laclede’s objections were made in relation to requests
4 for information that went well beyond what the Commission directed Laclede
5 to track. Laclede did not object to providing the information specified in the
6 Commission’s order and did so in a timely manner.

7 Q. On page 7 of his rebuttal, Mr. Trippensee notes that his analysis indicates that
8 the 8,440 customers identified in Case No. GU-2007-0138 owed Laclede
9 \$5,874,743 as of the September 30, 2007 measurement date in that case but
10 subsequently paid \$22,004,942, or about 3.75 times that amount. Do you have
11 any comment regarding this observation?

12 A. Yes. These numbers by themselves are not relevant, and are in fact
13 misleading. The following summary of the analysis provided in Mr.
14 Trippensee’s rebuttal testimony will provide some perspective:

15	Written-off since Sept 2007 (page 7, line 4)	\$3,212,092
16	Active balances at March 2010 (page 7, line 5)	5,049,831
17	Less: Balance as of 9/30/07 (page 7, line 12)	<u>(5,874,743)</u>
18	Increase in Balance	\$2,387,180
19		
20	Usage Sept 2007 to March 2010 (calculated)	\$24,391,672
21	Less: paid from Sept 2007 to March 2007 (page 7, line 8)	<u>(22,004,492)</u>
22	Increase in Balance	\$ 2,387,180

23
24 The important point to note in regard to these numbers is that Mr. Trippensee’s
25 analysis would indicate that these customers’ payments over the course of the
26 period reviewed have not covered their usage, and it would be reasonable to
27 believe that a significant portion of these payments resulted from heat grant

1 money provided to these customers. The fact that payments have exceeded the
2 initial balance by 3.75 times is not relevant to the calculation of costs imposed
3 by the Rule, but the increasing balances are very relevant.

4 Q. At page 8, line 8 of Mr. Trippensee's testimony, he alleges that "Laclede is
5 attempting to inflate the revenue requirement by increasing bad debt expense
6 to reflect the same dollars twice." Do you agree with this assertion?

7 A. Absolutely not. Mr. Trippensee provides the following explanation: "Laclede
8 has included in its base bad debt adjustment a significant portion of the
9 \$3,212,092 of write-offs of customers who were tracked in accordance with the
10 Cold Weather Rule. Additionally, Laclede is recommending that the
11 amortization of Cold Weather Rule costs associated with those customers be
12 added to its base bad debt adjustment." The flaw in this reasoning is the notion
13 that the allowance for bad debts included in this case, which is designed to
14 recover future bad debts after the effective date of rates in the case, also
15 specifically recovers past bad debts.

16 Q. Did the Company, in fact, under-recover its bad debts during the period these
17 Rule Amendments were in effect?

18 A. Yes, by millions of dollars. And there is nothing in any allowance for future
19 bad debts that may be established in this case that would permit the Company
20 to recover these losses. In fact, that is what the deferred compliance costs that
21 Mr. Trippensee seeks to disallow in this proceeding would do.

1 Q. In addition to causing bad debt levels to be higher in the past, do the Rule
2 Amendments also have an upward impact on future bad debt levels?

3 A. Yes. Mr. Trippensee's analysis ignores the fact that the changes to the Cold
4 Weather Rule were permanent. As such, these changes have had a permanent
5 impact on future bad debts, which will be higher each and every year as a
6 result of these changes. It is perfectly appropriate that the historical write-offs
7 used to develop a normalized expense include these additional write-offs
8 caused by the Rule changes, so that the normalized expense going forward will
9 include the continuing impact of these changes.

10 Q. Mr. Trippensee mentioned that 3,355 of the accounts identified in Case No.
11 GU-2007-0138 have been written-off. Can you put this number in perspective
12 compared with the entirety of the Cold Weather Rule program?

13 A. As of March 31, 2010, a total of 51,517 customers were being provided service
14 under the more relaxed provisions of the Permanent Cold Weather Rule. In
15 my opinion, it would be reasonable to conclude that the potential future
16 increase in bad debts related to the impact of the Cold Weather Rule changes
17 on these customers would be greater than any amount built into the normalized
18 expense level resulting from the 3,355 customers referenced above.

19 Q. Does the normalized uncollectible expense as calculated by Mr. Trippensee
20 fully reflect the impact of the changes made to the Cold Weather Rule?

21 A. No. He has used a five-year period to normalize expense, which period
22 partially predates the implementation of the Rule changes. As such, this period

1 does not fully reflect the impact that the Rule changes have had on bad debt
2 levels.

3 Q. On page 9, line 13 of his rebuttal testimony, Mr. Trippensee begins a
4 discussion of the methodology used to calculate the Cold Weather Rule
5 deferrals pursuant to the Cold Weather Rule. Please provide your
6 understanding of his arguments.

7 A. Mr. Trippensee criticizes the methodology because it partially relies on an
8 examination of receivable balances to determine the deferral amount. He
9 points out that whether a receivable balance ultimately will be written off isn't
10 known with certainty at the point in time of measurement for purposes of
11 determining recoveries under the AAO.

12 Q. What is your reaction to this criticism?

13 A. Mr. Trippensee has resurfaced an issue that has been addressed by the Rule
14 and resolved through the methodology previously developed and implemented
15 by agreement of all of the parties for the Emergency Cold Weather Rule
16 deferrals in Case No. GR-2007-0208, and used again by both Laclede and Staff
17 in this case.

18 Q. Leaving aside its basic inconsistency with previous rulings and positions taken
19 by OPC, is there any validity to Mr. Trippensee's criticism?

20 A. No. The Rule defined costs caused by the changes to the Rule as (1) upfront
21 payments foregone, plus (2) net additional balances incurred by customers who
22 reconnected or retained service under the Rule. Application of the Rule

1 necessitates that such amounts be measured at a point in time, at which point
2 some of the ultimate effect on bad debts may not be known with certainty. In
3 recognition of the possibility that some of these additional balances may not
4 result in additional incremental cost caused by changes to the Rule, Laclede
5 proposed that these balances be reduced by 61%, despite the fact that a strict
6 technical reading of the Rule would not require such an adjustment. However,
7 the adjustment was a good-faith effort on the part of all of the parties to
8 develop a fair and reasonable cost.

9 Q. Do you have any additional comments regarding the methodology established
10 to determine the cost of the changes made to the Cold Weather Rule?

11 A. Yes. At the time that the Rule was changed, Laclede suggested that the best
12 method to provide for precise recovery of the resulting costs would be to
13 establish an overall tracker covering all uncollectible expenses. In this way,
14 any costs resulting from changes in the Rule would be reflected in the tracker
15 mechanism, along with all of the other changes in uncollectible costs, most of
16 which result from factors beyond Laclede's control such as economic
17 conditions, natural gas prices, deposit policy, and heat grant availability. The
18 Office of the Public Counsel has consistently opposed such a mechanism, most
19 recently in this very case, yet now criticizes the methodology developed and
20 approved in lieu of such a mechanism. The Commission should strongly
21 consider implementation of the tracker mechanism recommended by Laclede
22 in this case in order to avoid such disputes in the future.

1 Q. In Case No. GU-2007-0138, the Commission ordered that Laclede “continue to
2 track payments and arrearages of the affected customers after the cut-off date
3 of September 30, 2007. Laclede shall present its findings to the Commission
4 for consideration at Laclede’s next rate case.” On page 13, line 1 of his
5 rebuttal testimony, Mr. Trippensee implies that Laclede did not comply with
6 this order. Please comment.

7 A. Laclede points out that at the time that it filed its direct case on December 4,
8 2009, the relevant information could not yet have been known through the
9 update period of March 31, 2010 in this case. Laclede supplied the ordered
10 information subsequent to the update period and the deferral amount proposed
11 for amortization by both Laclede and Staff in this case has been recalculated
12 based on this information.

13 Q. Please summarize your position.

14 A. When the Commission established the Permanent Amendments to the Cold
15 Weather Rule, it also specified a methodology for determining the compliance
16 costs under the amended Rules and deferral mechanism for both the
17 Emergency Amendment (covering January 1, 2006 through March 31, 2006)
18 and the Permanent Amendment (initially covering November 1, 2006 through
19 March 31, 2007). Laclede previously submitted its cost calculation under the
20 Emergency Amendment in Case No. GR-2007-0208. After some minor
21 modifications, such calculation was agreed to by all of the parties as a
22 reasonable determination of the costs under the Rule. Laclede proposed use of

1 the same methodology for determination of such costs under the Permanent
2 Amendment in Case No. GU-2007-0138. In that case, the Commission
3 determined that such methodology continued to be appropriate for
4 determination of costs under the Rule. This determination was subsequently
5 upheld by the Cole County Circuit Court and the Western District Court of
6 Appeals. The cost calculation included in this case by Laclede continues the
7 use of this methodology and updates it to the March 31, 2010 update period in
8 this case. Mr. Trippensee's proposal in this case rehashes the arguments that
9 have been proven unpersuasive in these previous proceedings, and should be
10 firmly rejected again by this Commission as well.

11 **OTHER ISSUES**

12 Q. Do you have any comments regarding other issues?

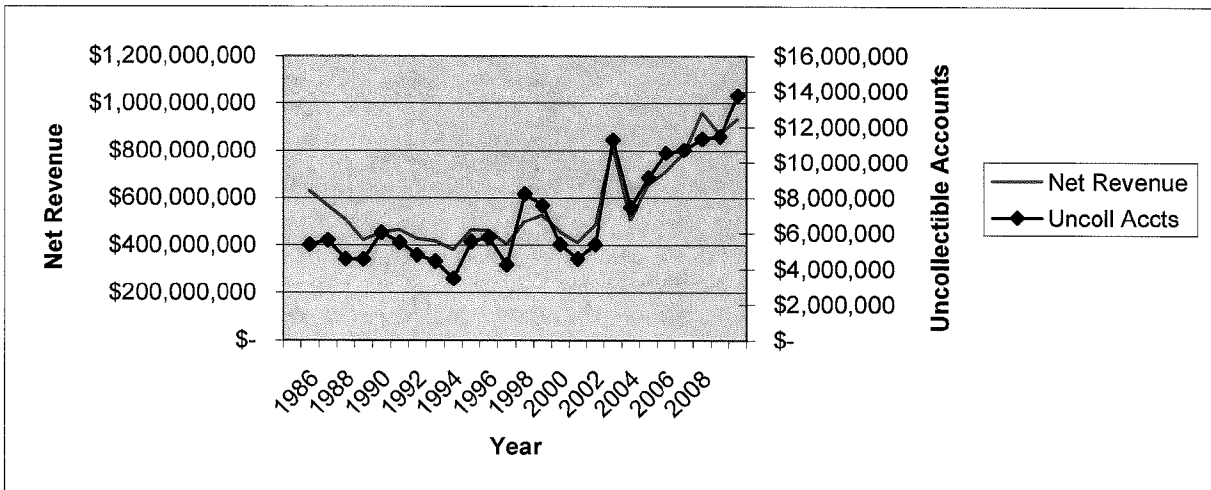
13 A. Yes. I filed direct and rebuttal testimony regarding a number of issues that
14 were not addressed by Staff in its rebuttal testimony. These included without
15 limitation Qualified Pension Expense and Non-Qualified Pension Expense. I
16 assume that Staff's silence on these issues in rebuttal testimony means that
17 they are in agreement with my proposals. If this is not the case, Staff would
18 and should have said so in rebuttal. The Staff should not be permitted to rebut
19 direct testimony in surrebuttal. However if Staff does rebut direct testimony in
20 surrebuttal, I would respectfully reserve the right to respond to any surrebuttal
21 that may be allowed regarding these issues.

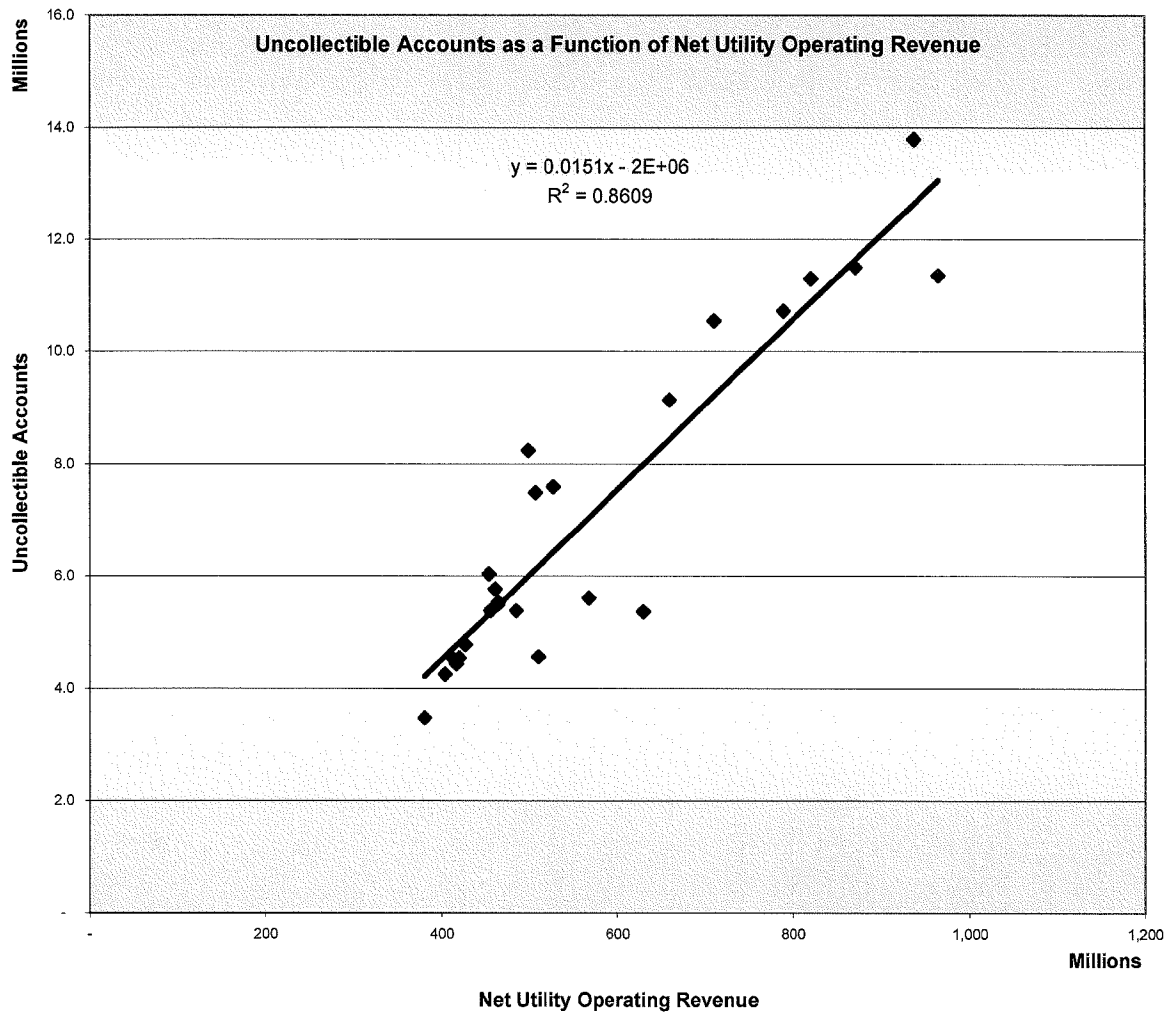
22 Q. Does this conclude your surrebuttal testimony?

1 A. Yes, it does.

Laclede Gas Company
Case No. GR-2010-0171
Uncollectible Accounts Analysis

<u>Year</u>	<u>Uncoll Accts</u>	<u>Net Revenue</u>	<u>Percent</u>
1985	5,362,773	629,586,361	0.85%
1986	5,604,282	566,954,767	0.99%
1987	4,559,374	509,477,072	0.89%
1988	4,541,314	419,765,849	1.08%
1989	6,035,389	453,074,598	1.33%
1990	5,482,182	462,443,701	1.19%
1991	4,782,839	426,682,466	1.12%
1992	4,432,091	416,803,639	1.06%
1993	3,476,782	380,292,552	0.91%
1994	5,527,489	463,378,998	1.19%
1995	5,766,154	460,004,818	1.25%
1996	4,246,547	403,727,994	1.05%
1997	8,236,708	498,018,161	1.65%
1998	7,584,520	526,574,460	1.44%
1999	5,377,844	454,768,921	1.18%
2000	4,583,253	409,686,192	1.12%
2001	5,379,375	484,195,971	1.11%
2002	11,294,193	820,588,025	1.38%
2003	7,481,475	506,039,865	1.48%
2004	9,139,788	659,285,670	1.39%
2005	10,547,021	710,662,936	1.48%
2006	10,724,707	788,939,811	1.36%
2007	11,352,394	964,457,347	1.18%
2008	11,496,279	870,738,168	1.32%
2009	13,791,919	937,109,143	1.47%





In the Matter of Laclede Gas Company's)
Tariff to Revise Natural Gas Rate Schedules) Case No. GR-2010-0171

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

1. My name is James A. Fallert. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Controller of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony, on behalf of Laclede Gas Company.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.


James A. Fallert

Subscribed and sworn to before me this 20th day of July, 2010.

Karen A. Justice
Notary Public

