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Witness: *Lisa K. Hanneken*
Sponsoring Party: *MoPSC Staff*
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Case No: *GR-2010-0171*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

LISA K. HANNEKEN

LACLEDE GAS COMPANY

CASE NO. GR-2010-0171

Jefferson City, Missouri
July 2010

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1 three-year average. However, in his rebuttal testimony he states that he used a three-year
2 average. Staff reviewed Mr. Fallert's workpapers and discussed this matter with the
3 Company. Staff confirmed that, in its calculation of uncollectible expense, the Company
4 has used a two-year average of write-offs for the period ended March 31, 2010.

5 Q. How did the Company use the two-year average of write-offs to calculate
6 its uncollectible expense?

7 A. After calculating the two-year average of actual net write-offs, Mr. Fallert
8 compared the write-offs to the Company's revenues for the corresponding period, and
9 calculated a ratio to apply to the Company's normalized/annualized revenue level in
10 this case.

11 Q. Does Staff agree with this approach?

12 A. No. Staff does not agree with either the two-year-average ratio calculation
13 or its application to net revenues. For this method to be reasonable there would need to
14 be a linear relationship between revenues and uncollectibles. Staff does not believe that
15 this relationship is linear in nature and, therefore, the appropriate annualized level of
16 uncollectibles should not be derived from a methodology that relies on revenues as a
17 factor in its calculation. To state it another way, the level of uncollectibles is not
18 reasonably calculated as a percentage of revenues. Staff's review of the historical data
19 does not suggest that revenues and uncollectibles move in tandem.

20 In addition, Mr. Fallert's two-year average utilizes a year of data, which is
21 disproportionally higher than any other year in the last thirteen (13) years of data
22 reviewed by Staff. This has the effect of significantly increasing the amount of
23 uncollectibles Laclede argues should be included in rates. Mr. Fallert did not give any

1 consideration to the fact that the time frame he used in his average was abnormally high,
2 most likely due to the recent recession and the economic conditions that created hardship
3 for many ratepayers.

4 Q. Does Mr. Fallert propose any other method of calculating uncollectibles
5 with which Staff disagrees?

6 A. Yes, on page 2 in his rebuttal testimony, Mr. Fallert proposes to further
7 increase the level of uncollectibles based on the amount of the increase in rates in this
8 case. Staff disagrees with Mr. Fallert that this is an appropriate treatment. As previously
9 noted, there is not a linear relationship between revenues and uncollectibles; so
10 increasing uncollectible expense in this manner unreasonably inflates the revenue
11 requirement for uncollectibles.

12 Q. How do you support that conclusion?

13 A. The table below demonstrates the nonlinear relationship between revenues
14 and uncollectibles. The table contains the amount of write-offs for the 12 months ending
15 March 31, for the periods of 2004-2010 and the amount of corresponding revenues for
16 the 12-months ending May 31, for the periods of 2003-2009. The data demonstrate that
17 write-offs and revenues changed in the same direction in only three (3) of the six (6)
18 years, and in those years the percentage of change was significantly different and did not
19 exhibit a solid relationship.

12 Months End	Write-offs	% Change	Revenues 10 months prior	% Change
3/31/2004	\$ 8,173,385		\$ 634,449,282	
3/31/2005	\$ 10,526,960	28.80%	\$ 712,243,107	12.26%
3/31/2006	\$ 10,252,440	-2.61%	\$ 767,144,824	7.71%
3/31/2007	\$ 10,831,457	5.65%	\$ 918,737,101	19.76%
3/31/2008	\$ 11,827,897	9.20%	\$ 905,217,784	-1.47%
3/31/2009	\$ 13,175,906	11.40%	\$ 909,043,306	0.42%
3/31/2010	\$ 10,228,520	-22.37%	\$ 911,525,396	0.27%

1 Q. How do you respond to Mr. Fallert's criticisms of the level of
2 uncollectible expenses recommended by the Staff in this case?

3 A. Mr. Fallert criticizes the Staff's use of a single year of write-offs to
4 determine the appropriate level of uncollectibles. He also argues that the period selected
5 by the Staff is the lowest in the last six years. Finally, he cites the increased level of
6 Low-Income Home Energy Assistance Program (LIHEAP) grants available during
7 2009 and 2010 as basis for saying the Staff's uncollectible expense level is inappropriate.

8 Q. Why is the Staff's single year approach appropriate?

9 A. Because it produces a reasonable level of uncollectible expense for rates
10 going forward. Staff realized that to include the data for the previous twelve (12) months
11 and even the twelve prior months, which included the impact of the recession, would
12 skew the result of the average. Staff could have used an average of prior periods not
13 skewed by the recession but, the result would not have varied significantly from the most
14 current balances available.

15 Q. Does Staff include costs associated with the Cold Weather Rule?

16 A. Consistent with prior Commission rulings, the Staff has included two (2)
17 amortizations associated with the Cold Weather Rule. These amortizations were
18 designed to provide the Company with recovery of increased bad debts (uncollectible
19 expense) associated with changes in the Cold Weather Rule. Using the level of write-offs
20 for the twelve (12) months ending March 31, 2010, plus the amount related to the two (2)
21 Cold Weather Rule amortizations, results in an amount of uncollectible expense of
22 \$11.8 million. This level of uncollectible expense is one of the highest levels
23 experienced by Laclede in the last 13 years.

1 Q. Does Staff agree with Mr. Fallert's testimony at page 3 of his rebuttal
2 testimony, that there is a relationship between the increase in heat grant (LIHEAP)
3 monies, and decreases in the amount of uncollectibles for the period used by Staff?

4 A. Staff understands Mr. Fallert's concerns. However, while the heat grant
5 monies increased in the current period, these monies simply offset increased levels of
6 uncollectibles due to the economic downturn. Since the current heat grant funds have
7 offset the current effect of the economy on uncollectibles, the most current balance is
8 reasonable and appropriate.

9 In addition, a portion of the higher levels of heat grant (LIHEAP) funds that were
10 available in 2009 and 2010 are also included in the period used by Mr. Fallert. So while
11 he uses increased heat grant funding as a criticism of the Staff, Mr. Fallert makes no
12 adjustment to his calculations to eliminate the effect of the higher LIHEAP funding.

13 Q. Why does the Staff believe the current level is reasonable and appropriate?

14 A. Staff bases its assertion on the fact that, each of the twelve (12) month
15 periods ending March 31st 2005, 2006, and 2007, showed consistent levels of
16 uncollectibles of \$10,526,960, \$10,252,440, \$10,831,457, respectively. Importantly,
17 these levels are consistent with the level experienced during the twelve (12) months
18 ending March 31, 2010 of \$10,228,520, which the Staff used in this case. However,
19 during the twelve (12) months ending March 31, 2008 and 2009, a period that is largely
20 included in Mr. Fallert's average, uncollectibles were \$11,827,897 and \$13,175,906,
21 respectively. These are the two highest years in the thirteen (13) years examined by Staff.

22 Q. Has subsequent data been provided to Staff regarding this issue?

1 A. Yes, the Company provided the Staff two additional months of data
2 regarding the net write-offs.

3 Q. Does this additional data change the Staff's position regarding
4 uncollectibles?

5 A. No, it does not. The balance of net write-offs for the 12 months ending
6 May 31, 2010, is \$10,003,588. This amount is lower than the amount Staff included in
7 its cost of service for this case. Staff will continue to evaluate the level of write-offs as
8 additional data become available.

9 Q. In his rebuttal testimony, Mr. Fallert states that Staff removed \$99,793 of
10 bad debt expense related to the Cold Weather Rule, is this correct?

11 A. No. Staff did not remove any bad debt related to the Cold Weather rule.
12 Staff included the balance of net write-offs for the 12-months ending March 31, 2010,
13 after removal of accruals associated with the Company's Cold Weather Rule
14 amortizations. The amounts associated with these amortizations were addressed as part of
15 Staff's analysis of those costs and included as a separate adjustment to Staff's cost of
16 service in this case. Staff has discussed this issue with the Company and believes that the
17 matter has been resolved.

18 Q. As an alternative to its proposal to include uncollectibles in the Purchased
19 Gas Agreement (PGA), the Company has recommended that a tracker mechanism be put
20 in place for uncollectibles. Does Staff agree that a tracker is an appropriate treatment for
21 uncollectibles?

22 A. No. Staff's current methodology of using annualization and normalization
23 techniques to calculate uncollectibles, including an examination of trends, fluctuations

1 and other factors, is the appropriate method to determine a reasonable ongoing level of
2 uncollectible expense to include in the cost of service. Although trackers have been used
3 in special circumstances to address situations where cost volatility is outside a
4 Company's control, Staff does not believe that the level of Company's uncollectible
5 expenses is outside of Laclede's control.

6 Q. Can you give examples to support this conclusion?

7 A. Yes. For example, beginning in October 2009, the Company eliminated
8 approximately 14 field collection employees and hired Contract Callers, Inc. (CCI) in
9 order to improve their field cut-off activities for non-paying customers. Mr. Fallert has
10 indicated to Staff during meetings that he anticipates that going forward CCI will help to
11 reduce Laclede's ongoing level of uncollectibles. Laclede confirmed this in its response
12 to Staff Data Request No. 162, which explains why they hired CCI:

13 Specifically, four major initiatives were implemented
14 during or after the test year. One is that the Company
15 outsourced its field collection activities to a third party
16 vendor, displacing approximately 14 employees, many of
17 whom moved to other open positions in the company. The
18 amounts paid to the third party vendor are higher than the
19 payroll of the displaced employees, but we have found that
20 they are also more successful at collections. We anticipate
21 that this should have the impact of reducing net write-offs,
22 and reduce, in the longer-term, medical claims and pension
23 costs as there will be fewer employees in the Collection and
24 Credit department. This change happened in October 2009.

25 Q. Has the Staff reflected all costs associated the Company's decision to hire
26 CCI in its cost of service calculation?

27 A. Yes. The Staff has updated its case to include all costs associated
28 with CCI.

1 Q. Are there additional problems associated with Mr. Fallert's request for a
2 tracking mechanism to address uncollectibles expense?

3 A. Yes. By seeking a tracker for uncollectible expense Laclede is requesting
4 a guaranteed recovery for all uncollectible costs. As part of his proposal, Mr. Fallert is
5 essentially requesting that all future uncollectible costs be captured in between rate cases
6 through a tracking mechanism and then included in the cost of service for guaranteed
7 recovery in future rates. The Staff contends that providing the Company with a
8 guaranteed recovery of all uncollectible costs would provide a substantial disincentive for
9 the Company to aggressively manage its collection practices.

10 Q. Has the Commission recently provided some guidance regarding the
11 proliferation of trackers?

12 A. Yes. In its order in the recent AmerenUE d/b/a Union Electric rate case,
13 ER-2010-0036, the Commission denied the Company's request for a new tracker related
14 to storm cost. On page 68 of this Order, the Commission stated the following: "The
15 Commission is unwilling to implement another tracker. As the Commission has
16 previously indicated, trackers should be used sparingly because they tend to limit a
17 utility's incentive to prudently manage its costs."

18 Q. The other alternative proposed by the Company is to handle uncollectibles
19 through the PGA. Does Staff believe this represents appropriate treatment?

20 A. No, it does not. The Staff's position regarding the inclusion of
21 uncollectibles in the PGA is sponsored by Staff witness David M. Sommerer and is
22 addressed in his direct, rebuttal and surrebuttal testimonies.

23 Q. Does this conclude your testimony in this case?

24 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

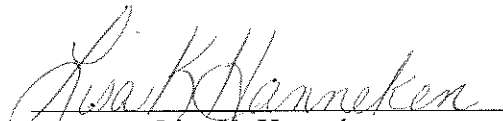
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff)
to Increase Its Annual Revenues for Natural) Case No. GR-2010-0171
Gas Service)


AFFIDAVIT OF LISA K. HANNEKEN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Lisa K. Hanneken, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Lisa K. Hanneken

Subscribed and sworn to before me this 19th day of July, 2010.


Notary Public

