

Exhibit No.:
Issue(s):
Witness/Type of Exhibit:
Sponsoring Party:
Case No.:

Bad Debt Expense
Trippensee/Direct
Public Counsel
GR-2009-0355

DIRECT TESTIMONY

OF

RUSSELL W. TRIPPENSEE

Submitted on Behalf of the Office of the Public Counsel

MISSOURI GAS ENERGY

Case No. GR-2009-0355

August 21, 2009

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MISSOURI GAS ENERGY
CASE NO. GR-2009-0355

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. Russell W. Trippensee. I reside at 1020 Satinwood Court, Jefferson City, Missouri 65109, and my
3 business address is P.O. Box 2230, Jefferson City, Missouri 65102.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am the Chief Utility Accountant for the Missouri Office of the Public Counsel (OPC or Public
6 Counsel).

7 **Q. ARE YOU A CERTIFIED PUBLIC ACCOUNTANT?**

8 A. Yes, I hold certificate/license number 2004012797 in the State of Missouri.

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

10 A. I attended the University of Missouri at Columbia, from which I received a BSBA degree, major in
11 Accounting, in December 1977. I also completed the requisite hours for a major in finance. I
12 attended the 1981 NARUC Annual Regulatory Studies Program at Michigan State University. I
13 have attended numerous seminars and conferences related to public utility regulation. Finally, I am
14 required to take a minimum of 40 hours per year of continuing professional education to maintain
15 my CPA license.

16 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

1 A. From May through August, 1977, I was employed as an Accounting Intern by the Missouri Public
2 Service Commission (MPSC or Commission). In January 1978 I was employed by the MPSC as a
3 Public Utility Accountant I. I left the MPSC staff in June 1984 as a Public Utility Accountant III
4 and assumed my present position.

5 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.**

6 A. I served as the chairman of the Accounting and Tax Committee for the National Association of
7 State Utility Consumer Advocates from 1990-1992. I am a member of the Missouri Society of
8 Certified Public Accountants.

9 **Q. PLEASE DESCRIBE YOUR WORK WHILE YOU WERE EMPLOYED BY THE MPSC**
10 **STAFF.**

11 A. Under the direction of the Chief Accountant, I supervised and assisted with audits and examinations
12 of the books and records of public utility companies operating within the State of Missouri with
13 regard to proposed rate increases.

14 **Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WITH THE OFFICE OF**
15 **THE PUBLIC COUNSEL?**

16 A. I am responsible for the Accounting section of the Office of the Public Counsel and coordinating
17 our activities with the rest of our office and other parties in rate proceedings. I am also responsible
18 for performing audits and examinations of public utilities and presenting the findings to the MPSC
19 on behalf of the public of the State of Missouri.

20 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MPSC?**

1 A. Yes. I filed testimony in the cases listed on Schedule RWT-1 of my testimony on behalf of the
2 Missouri Office of the Public Counsel or MPSC Staff.

3 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

4 A. To provide the Commission with Public Counsel's recommended level of Bad Debt Expense to be
5 included in the overall cost of service. I will also outline additional areas that Public Counsel is
6 investigating and for which Public Counsel anticipates filing rebuttal testimony to the Company's
7 direct testimony.

8 **BAD DEBT EXPENSE**

9 **Q. WHAT IS BAD DEBT EXPENSE?**

10 A. In general, energy based utility companies bill their customers in arrears, that is after the customer
11 has used the energy product supplied. Invariably, a few customers, for various reasons do not
12 ultimately pay for the energy that they used. In accordance with standard accounting practices and
13 per the Uniform System of Accounts approved by this Commission, an expense is recorded during
14 the period the energy is sold in order to reflect this future inability to collect revenue due the utility.

15
16 **Q. PLEASE EXPLAIN HOW THIS EXPENSE IS DETERMINED ON THE**
17 **COMPANY'S BOOKS AND RECORDS DURING THE TEST YEAR.**

18 A. Bad debt expense is recorded on the company's financial records using an accrual method of
19 accounting. The accrual method of accounting records an expense based on an estimate of the level
20 of revenues from the current period that will not be paid by the then current customers. The
21 expense is recorded in USOA Account 904, Uncollectible Accounts, as a debit entry and this

1 account is reflected on the income statement and is used in the determination of net income for
2 financial reporting purposes. The credit side of the accounting entry is a credit to USOA account
3 144, Accumulated Provision for Uncollectible Accounts. Account 144 is a component of the
4 balance sheet and as such does not directly effect the determination of net income for financial
5 reporting purposes.

6 **Q. WHEN IS THE DETERMINATION MADE AS TO WHETHER OR NOT A**
7 **CUSTOMER WILL ACTUALLY PAY THEIR BILL?**

8 A. This determination cannot be made until the bill is rendered to the customer and a specified period
9 of time passes. MPSC rules and regulations provide the customer with 21 days to pay a bill.
10 Notification procedures extend cutoff procedures well past the 21-day period. The final write-off of
11 a non-paying customer account occurs months after the actual sale of energy.

12 **Q. DOES THE WRITE-OFF OF A NON-PAYING CUSTOMER ACCOUNT EFFECT**
13 **THE EXPENSE PREVIOUSLY RECORDED IN USOA ACCOUNT 904 USING THE**
14 **ACCRUAL METHOD OF ACCOUNTING?**

15 A. No. The write-off of the accounts involves an entry to reduce customer accounts receivables (i.e. a
16 credit entry) and decrease to the Accumulated Provision for Uncollectible Accounts (i.e. a debit
17 entry). Both of these accounts are balance sheet accounts and as such do not effect the income
18 statement (recording of revenue and expenses)

19 **Q. IF A CUSTOMER WHOSE ACCOUNT HAS BEEN WRITTEN OFF,**
20 **SUBSEQUENTLY MAKES A PAYMENT TO THE COMPANY EITHER DIRECTLY**

1 **OR THROUGH COLLECTION EFFORTS, HOW ARE THOSE MONIES**
2 **RECOGNIZED ON THE COMPANY'S FINANCIAL RECORDS?**

3 A. There is no effect on the income statement or earnings for payments made on accounts that have
4 been written-off. The funds are deposited and recorded (i.e. debited) into the cash accounts of the
5 company and the Accumulated Provision for Uncollectible Accounts (Account 144) is credited by a
6 like amount.

7 **Q. HAS THE COMPANY MADE ANY ADJUSTMENT TO THE TEST YEAR LEVEL OF**
8 **BAD DEBT EXPENSE?**

9 A. Yes. An examination of the direct testimony of Company witness Michael R Noack, page 12 and
10 Schedule H-9 to that testimony shows an adjustment to bad debt expense of \$1,569,363. The
11 Company's overall cost of service study is premised on a review of Account 144 to determine the
12 appropriate bad debt expense to include in the determination of revenue requirement. The
13 Company has reviewed actual cash payment information to recommend a level of bad debt expense
14 instead of using the accrual method of determining bad debt expense.

15 **Q. DOES PUBLIC COUNSEL BELIEVE THAT THE ACCRUAL METHOD OF**
16 **ACCOUNTING IS THE APPROPRIATE METHOD TO USE TO DETERMINE WHAT**
17 **LEVEL OF BAD DEBT EXPENSE SHOULD BE INCLUDED IN THE**
18 **RATEMAKING CALCULATION OF THE UTILITY'S OVERALL COST OF**
19 **SERVICE, COMMONLY REFERRED TO AS GROSS REVENUE REQUIREMENT.**

20 A. No. Public Counsel does not believe that estimates should be used to set revenue requirements
21 when firm data is available for analysis. An analysis of the Accumulated Provision for

1 Uncollectible Accounts (Account 144) provides the actual Company specific experience as it
2 relates to specific customer accounts written-off and any subsequent collections associated with
3 write-offs. In addition, an analysis of the actual experience reveals that level of actual uncollectible
4 accounts varies significantly from year to year. Therefore, it is not appropriate to simply use test
5 year estimates (accruals) absent a test for reasonableness.

6 **Q. HAS PUBLIC COUNSEL PERFORMED SUCH AN ANALYSIS OF ACCOUNT 144?**

7 A. Yes. Public Counsel has reviewed the relevant data associated with the Reserve for Uncollectible
8 Accounts for the years 2003 - 2008. Public Counsel looked at the actual net write-offs for each
9 year for which data was available. The actual net write-offs is equal to the amount written-off less
10 funds subsequently collected related to previous write-offs.

11 **Q. WHAT WAS THE RESULTS OF THAT ANALYSIS?**

12 A. Public Counsel's analysis shows that net write-offs fluctuate significantly from year to year and
13 does not react or follow the changes in revenue levels experienced. Public Counsel believes that a
14 five-year average is the appropriate time frame to use in developing the appropriate level bad debt
15 expense to include in the determination of revenue requirement.

16 **Q. CAN YOU PROVIDE A TABLE SUMMARIZING PUBLIC COUNSEL'S**
17 **ANALYSIS?**

18 A. Yes. The following table summarizes the actual net write-offs on a total company basis by calendar
19 year for the last 6 years. The table also includes the total annual revenues by year and the
20 comparison of Net Write-Offs to Revenues expressed as a percentage.

21

Year	Net Write-Off	Revenues	Percentage
2003	\$ 5,426,929	\$ 470,975,243	1.152%
2004	9,054,004	571,766,824	1.584%
2005	8,701,910	601,359,048	1.447%
2006	10,369,423	569,495,198	1.821%
2007	9,207,792	586,545,572	1.570%
2008	8,729,371	680,168,706	1.283%

source: Response to OPC Data Request 1201

1
2 **Q. DOES PUBLIC COUNSEL'S ANALYSIS REVEAL A LINEAR RELATIONSHIP**
3 **BETWEEN ACTUAL NET WRITE-OFFS AND REVENUES?**

4 A. No. The table above and Schedule RWT-2 attached to my testimony shows that for the last three
5 years, actual net write-offs have steadily declined while revenues have increased approximately
6 \$111 million. In contrast from 2005 to 2006 revenues went down by \$40 million but Net Write-
7 offs rose to the highest level during the six years analyzed. I believe it is also relevant to realize that
8 actual net write-offs as a percentage of revenues has fluctuated significantly each year.

9 **Q. PLEASE EXPLAIN HOW PUBLIC COUNSEL BELIEVES FLUCTUATING LEVELS**
10 **OF EXPENSE SHOULD BE ADDRESSED IN THE REGULATORY PROCESS.**

11 A. An analysis should be performed that looks at the cause of the fluctuations and any measurements
12 thereof. The regulatory process should then utilize a level that allows the utility the opportunity to
13 collect a stream of equal annual revenues over a period of years so that over that time the stream of
14 revenues is adequate to recover the actual cost of service assuming prudent management actions.
15 This process is often referred to in regulation as the normalization process.

1 **Q. WHAT WOULD BE THE RESULT IF THE COMMISSION USED A NON-**
2 **NORMALIZED LEVEL OF COST FOR A COST OF SERVICE ITEM THAT**
3 **FLUCTUATES FROM YEAR TO YEAR?**

4 A. Either the ratepayers would be harmed and the stockholders unjustly enriched or the ratepayers
5 would be unjustly enriched and the stockholders would be harmed. For example, if the
6 Commission would have set the rates based on the year 2006 net write-off of \$10,369,423 those
7 rates would have result in the ratepayers paying revenues in any of the other years analyzed that are
8 significantly greater than the actual net write-offs experienced. Conversely, using the 2003 level of
9 net write-offs \$5,426,929 to set rates for the subsequent years would have resulted in the ratepayer
10 inadequately funding the actual experience for every year. Neither result is desirable if this
11 Commission is to set just and reasonable rates.

12 **Q. WHAT IS THE LEVEL OF EXPENSE PUBLIC COUNSEL PROPOSES SHOULD**
13 **BE INCLUDED IN THE DETERMINATION OF THE OVERALL COST OF**
14 **SERVICE FOR PURPOSES OF THIS CASE?**

15 A. Public Counsel believes that an average of the actual net write-offs for the years 2004 – 2008
16 should serve as the basis for the appropriate level of cost related to bad debt expense to be included
17 in the overall cost of service (gross revenue requirement). A five-year average of net write-offs for
18 the period 2004 – 2008 is \$9,212,500.

19 **Q. WHY DOES PUBLIC COUNSEL BELIEVE THE COMMISSION SHOULD USE THE**
20 **ACTIVITY OVER A FIVE-YEAR PERIOD TO DETERMINE THE APPROPRIATE**
21 **LEVEL OF BAD DEBT EXPENSE?**

1 A. Public Counsel believes that a five-year period is sufficiently long to capture both high and low
2 levels of an expense that fluctuates significantly. A review of the data clearly indicates that the
3 write-offs during the year 2006 exceed any of the other years by a significant amount. Use of a
4 shorter period over which to determine normalized levels as is recommended by MGE would
5 provide too much weight to the extreme experience of 2006. Public Counsel also reviewed
6 averages based on 2 & 4 years and 4 years but excluding 2006. The results of these calculations
7 highlighted the impact of 2006 if a shorter period is utilized.

8	2007 – 2008	\$8,968,581
9	2005 – 2008	9,252,124
10	2004 – 2008 w/o 2006	8,923,269

11 Clearly the use of a five-year average of \$9,212,500 produces a reasonable result and shows the
12 dramatic impact of 2006 in a three-year average.

13 **Q. SHOULD THERE BE ANY MODIFICATION OF THE FIVE-YEAR AVERAGE FOR**
14 **NET WRITE-OFFS IN ORDER TO GET THE APPROPRIATE COST OF**
15 **SERVICE IN THIS CASE?**

16 A. Yes. This amount should be reduced by \$232,354 to reflect the collection of Emergency Cold
17 Weather Rule (ECWR) costs the Commission deferred and amortized in rates in Case No. GR-
18 2006-0422. The costs that were to be deferred related to an assertion that the Company would not
19 collect monies that customers owed because the minimum payment requirements to be reconnected
20 to the system were being reduced as a result of the ECWR. This deferral was to be amortized over
21 a three-year period and the amortization began in April 2007. Therefore \$8,980,146 should be
22 included in the revenue requirement for bad debt expense.

1 **Q. WHY IS IT APPROPRIATE TO REDUCE THE FIVE-YEAR AVERAGE BY THE**
2 **ECWR DEFERRAL?**

3 A. The purpose of the ECWR deferral was to identify and quantify costs associated with actual
4 uncollectibles that would occur as a result of the ECWR. The purpose of the ECWR amortization
5 and its inclusion in the rates resulting from GR-2006-0422 was that these costs were to be paid by
6 the ratepayers, albeit the responsibility of all the ratepayers and not the specific ratepayer who
7 caused the uncollectible. However, based on responses to OPC data requests, it appears the
8 Company did not record this deferral in a manner that impacted the Accumulated Provision for
9 Uncollectible Accounts, (Account 144). Therefore any analysis of net write-offs recorded in
10 Account 144 would not reflect the collection of customer obligations that have been paid via the
11 ECWR amortization.

12 **Q. DOES PUBLIC COUNSEL HAVE ANY OTHER COMMENTS REGARDING BAD**
13 **DEBT EXPENSE?**

14 A. Yes. Bad Debt Expense is a normal ongoing cost of service item that fluctuates and thus requires
15 the level of cost to be normalized for ratemaking purposes. The normalization process is a
16 fundamental process in ratemaking and is used for multiple cost of service components such as
17 weather normalized sales, payroll overtime, injuries and damage expense, rate case expense, tank
18 painting, and major maintenance on electric generation stations. It is inconsistent with rate of return
19 regulatory practice to segregate certain expenses for collection in a manner that effectively
20 eliminates any potential impact on earnings and thus the incentives and risks that are integral to rate
21 of return regulatory principles.

1 || Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 || A. Yes.

Direct Testimony
Russell W. Trippensee
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Missouri Power & Light Company, Steam Dept., Case No. HR-82-179
Missouri Power & Light Company, Electric Dept., Case No. ER-82-180
Missouri Edison Company, Electric Dept., Case No. ER-79-120
Southwestern Bell Telephone Company, Case No. TR-79-213
Doniphan Telephone Company, Case No. TR-80-15
Empire District Electric Company, Case No. ER-83-43
Missouri Power & Light Company, Gas Dept., Case No. GR-82-181
Missouri Public Service Company, Electric Dept., Case No. ER-81-85
Missouri Water Company, Case No. WR-81-363
Osage Natural Gas Company, Case No. GR-82-127
Missouri Utilities Company, Electric Dept., Case No. ER-82-246
Missouri Utilities Company, Gas Dept., Case No. GR-82-247
Missouri Utilitites Company, Water Dept., Case No. WR-82-248
Laclede Gas Company, Case No. GR-83-233
Great River Gas Company, Case No. GR-85-136 (OPC)
Northeast Missouri Rural Telephone Company, Case No. TR-85-23 (OPC)
United Telephone Company, Case No. TR-85-179 (OPC)
Kansas City Power & Light Company, Case No. ER-85-128 (OPC)
Arkansas Power & Light Company, Case No. ER-85-265 (OPC)
KPL/Gas Service Company, GR-86-76 (OPC)
Missouri Cities Water Company, Case Nos. WR-86-111, SR-86-112 (OPC)
Union Electric Company, Case No. EC-87-115 (OPC)
Union Electric Company, Case No. GR-87-62 (OPC)
St. Joseph Light and Power Company, Case Nos. GR-88-115, HR-88-116 (OPC)
St. Louis County Water Company, Case No. WR-88-5 (OPC)
West Elm Place Corporation, Case No. SO-88-140 (OPC)
United Telephone Long Distance Company, Case No. TA-88-260 (OPC)
Southwestern Bell Telephone Company, Case No. TC-89-14, et al. (OPC)
Osage Utilities, Inc., Case No. WM-89-93 (OPC)
GTE North Incorporated, Case Nos. TR-89-182, TR-89-238, TC-90-75 (OPC)
Contel of Missouri, Inc., Case No. TR-89-196 (OPC)
The Kansas Power and Light Company, Case No. GR-90-50 (OPC)
Southwestern Bell Telephone Company, Case No. TO-89-56 (OPC)
Capital City Water Company, Case No. WR-90-118 (OPC)
Laclede Gas Company, Case No. GR-90-120 (OPC)

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Southwestern Bell Telephone Company, Case No. TR-90-98 (OPC)
Empire District Electric Company, Case No. ER-90-138 (OPC)
Associated Natural Gas Company, Case No. GR-90-152 (OPC)
Southwestern Bell Telephone Company, Case No. TO-91-163 (OPC)
Union Electric Company, Case No. ED-91-122 (OPC)
Missouri Public Service, Case Nos. EO-91-358 and EO-91-360 (OPC)
The Kansas Power and Light Company, Case No. GR-91-291 (OPC)
Southwestern Bell Telephone Co., Case No. TO-91-163 (OPC)
Union Electric Company, EM-92-225 and EM-92-253 (OPC)
Southwestern Bell Telephone Company, TO-93-116(OPC) (OPC)
Missouri Public Service Company, ER-93-37, (January, 1993) (OPC)
Southwestern Bell Telephone Company, TO-93-192, TC-93-224 (OPC)
Saint Louis County Water Company, WR-93-204 (OPC)
United Telephone Company of Missouri, TR-93-181 (OPC)
Raytown Water Company, WR-94-300 (OPC)
Empire District Electric Company, ER-94-174 (OPC)
Raytown Water Company, WR-94-211 (OPC)
Missouri Gas Energy, GR-94-343 (OPC)
Capital City Water Company, WR-94-297 (OPC)
Southwestern Bell Telephone Company, TR-94-364 (OPC)
Missouri Gas Energy, GR-95-33 (OPC)
St. Louis County Water Company, WR-95-145 (OPC)
Missouri Gas Energy, GO-94-318 (OPC)
Alltel Telephone Company of Missouri, TM-95-87 (OPC)
Southwestern Bell Telephone Company, TR-96-28 (OPC)
Steelville Telephone Exchange, Inc., TR-96-123 (OPC)
Union Electric Company, EM-96-149 (OPC)
Imperial Utilites Corporation, SC-96-247 (OPC)
Laclede Gas Company, GR-96-193 (OPC)
Missouri Gas Energy, GR-96-285 (OPC)
St. Louis County Water Company, WR-96-263 (OPC)
Village Water and Sewer Company, Inc. WM-96-454 (OPC)
Empire District Electric Company, ER-97-82 (OPC)
UtiliCorp d/b/a Missouri Public Service Company, GR-95-273 (OPC)
Associated Natural Gas, GR-97-272 (OPC)

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Missouri Public Service, ER-97-394, ET-98-103 (OPC)
Missouri Gas Energy, GR-98-140 (OPC)
St. Louis County Water, WO-98-223 (OPC)
United Water Missouri, WA-98-187 (OPC)
Kansas City Power & Light/Western Resources, Inc. EM-97-515 (OPC)
St. Joseph Light & Power Company, HR-99-245 (OPC)
St. Joseph Light & Power Company, GR-99-246 (OPC)
St. Joseph Light & Power Company, ER-99-247 (OPC)
AmerenUE, EO-96-14, (prepared statement) (OPC)
Missouri American Water Company, WR-2000-281 (OPC)
Missouri American Water Company, SR-2000-282 (OPC)
UtiliCorp United Inc./St. Joseph Light & Power Company, EM-2000-292 (OPC)
UtiliCorp United Inc./Empire District Electric Company, EM-2000-369 (OPC)
St. Joseph Light & Power Company, EO-2000-845 (OPC)
St. Louis County Water Company, WR-2000-844 (OPC)
Union Electric Company, EO-2001-245 (OPC)
Laclede Gas Company, GM-2001-342 (OPC)
Empire District Electric Company, ER-2001-299 (OPC)
Missouri-American Water Company, et. al., WM-2001-309 (OPC)
AmerenUE, EC-2002-152, GC-2002-153 (OPC)
UtiliCorp United Inc., ER-2001-672 (OPC)
Aquila, Inc., GO-2002-175 (OPC)
AmerenUE, ER-2002-001 (OPC)
Laclede Gas Company, GA-2002-429 (OPC)
AmerenUE, GR-2003-0517 (OPC)
Algonquin Water Resources of Missouri & Silverleaf Resort, Inc. WO-2005-0206 (OPC)
Kansas City Power & Light Company, Case No. EO-2005-0329 (OPC)
Empire District Electric Company, Case No. ER-2006-0315 (OPC)
Kansas City Power & Light Company, Case No. ER-2006-0314 (OPC)
Atmos Energy Corporation, Case No. GR-2006-0387 (OPC)
Missouri Gas Energy, Case No. GR-2006-0422 (OPC)
Aquila, Inc., ER-2007-0004 (OPC)
Missouri American Water Company, WR-2007-0216, (OPC)
Kansas City Power & Light Company, ER-2007-0291 (OPC)
Kansas City Power & Light Company/Aquila, Inc., EM-2007-0374 (OPC)

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Laclede Gas Company, GU-2007-0138 (OPC); AAO on Cold Weather Rule
Laclede Gas Company, GT-2009-0026: PGA inclusion of Uncollectible
Kansas City Power & Light Company, ER-2009-0089; Fleet Fuel Costs, Rate Case Expense
KCPL Greater Missouri Operations Company, ER-2009-0090, Rate Case Expense
Missouri Gas Energy, GR-2009-0355, Bad Debt Expense