Exhibit No.: ______________
Issue(s): Rate Design Proposal – Risk Reduction/
Negative Amortization of Depreciation Reserve/
Uncollectible Expense Inclusion in PGA
Witness: Trippensee/Rebuttal
Sponsoring Party: Public Counsel
Case No.: GR-2006-0387

REBUTTAL TESTIMONY

OF

RUSSELL W. TRIPPENSEE

Submitted on Behalf of
the Office of the Public Counsel

ATMOS ENERGY CORPORATION

Case No. GR-2006-0387

October 31, 2006

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Atmos Energy Corporation's Tariff Revision Designed to Consolidate Rates and Implement a General Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	)))))	**Case No. GR-2006-0387**

AFFIDAVIT OF RUSSELL W. TRIPPENSEE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Russell W. Trippensee, of lawful age and being first duly sworn, deposes and states:

1. My name is Russell W. Trippensee. I am the Chief Public Utility Accountant for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 18 and Schedule RWT-1.

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

Russell W Trippensee
Russell W. Trippensee

Subscribed and sworn to me this 31st day of October 2006.

KATHLEEN HARRISON
Notary Public - Notary Seal
State of Missouri - County of Cole
My Commission Expires Jan. 31, 2010
Commission #06399239

Kathleen Harrison
Kathleen Harrison
Notary Public

My commission expires January 31, 2010.

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REBUTTAL TESTIMONY

OF

RUSSELL W. TRIPPENSEE

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I attended the University of Missouri at Columbia, from which I received a BSBA degree, major in Accounting, in December 1977. I also acquired the requisite hours for a major in Finance. I attended the 1981 NARUC Annual Regulatory Studies Program at Michigan State University.

Q. ARE YOU A CERTIFIED PUBLIC ACCOUNTANT?

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

Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.

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

Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.

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

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

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

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

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

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MPSC?

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

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. To address the revenue requirement implications of the proposed changes in rate design contained in the direct testimony of Staff witness Anne Ross and Atmos Energy Corporation (Atmos or Company) witness Gary L Smith. These witnesses have proposed rate design changes that will significantly reduce the risk associated with the Company's ability to earn its authorized rate of return. However neither the Staff nor the Company direct case make any allowance in their return on equity recommendation to recognize these proposed dramatic changes in the rate structure for the weather sensitive customer classes. Inherent in return on equity is a risk component and the change in this risk must be accounted for, if the proposed change in rate design is adopted.

I will also address the recommendation of Staff witness Guy C. Gilbert in which he proposes to utilize monies previously paid by ratepayers to the Company, as a "return of" the investment Atmos has in Missouri, to be used to reduce current rates. Such a process will require that future ratepayers repay these monies. Public Counsel does not believe it is appropriate to use monies paid by previous ratepayers in order to reduce current rates with the result being that future ratepayers will be required to repay these monies.

In the last section of my testimony, I will set out the basis for Public Counsel's opposition to the Company's proposal to include uncollectible expense in the Purchase Gas Adjustment clause which should only be used for direct expenditures by Atmos in order to secure natural gas for distribution.

Rate Design Proposal – Risk Reduction

Q. PLEASE EXPLAIN HOW PUBLIC COUNSEL'S WITNESSES WILL ADDRESS CONCERNS REGARDING THE RATE DESIGN PROPOSALS OF STAFF AND ATMOS.

A. I will address the revenue requirement impacts of the rate design proposals. Public Counsel witness Barb Meisenheimer will also address specific concerns with the rate design proposals as crafted by Staff and Atmos.

Q. PLEASE EXPLAIN THE RELATIONSHIP BETWEEN REVENUE REQUIREMENT AND THE RATE DESIGN PROPOSALS BY STAFF AND ATMOS.

A. Under traditional regulatory processes used in Missouri, the revenue requirement is only minimally affected by the rate design. In fact, even though mechanisms such as the Infrastructure Replacement Surcharge reduce a utility's risk, explicit adjustments to return on equity are not usually proposed. Rate structures are not used as a vehicle for virtually guaranteeing that a utility will earn it authorized return on equity. In this case, both the Staff and Company have proposed rate designs that significantly change the risks faced by Atmos with respect to variability of earnings. The return on equity is an integral part of the revenue requirement. Elimination of the earnings variability has a major impact on the appropriate rate of return this Commission should authorize for Atmos.

Q. COULD YOU DEFINE THE RISK AND THE EXPLAIN THE FUNDAMENTAL DIFFERENCES BETWEEN BUSINESS RISK AND FINANCIAL RISK?

A. Yes. Risk can be defined as the possibility that actual earnings from an asset or an investment may differ from expected earnings. The wider the range of possible earnings, the greater the risk associated with that asset or investment.

Business risk is the uncertainty (variability) associated with earnings due to fundamental business conditions faced by the company, such as cyclical markets, weather-sensitive sales, changing technology, unforeseen events, or competition. Business risk is the *inherent riskiness of a firm's assets* due to the operations of the company and the industry in which in operates. In other words, business risk is not connected to the way the firm finances its assets. The following summarizes business risk.

> Business risk is defined as the uncertainty inherent in the projections of future returns on assets (ROA), and it is the single most important determinant of capital structure.
> (Fundamentals of Financial Management, Eugene F Brigham & Joel F. Houston, Eighth edition, page 493)

Financial risk is the uncertainty associated with earnings available to common shareholders due to debt and/or preferred stock being used to finance the firm's assets. This additional risk stems from the fact that cash flows to common shareholders are subordinate to a firm's required debt service (i.e. a firm must pay its debt service and any preferred dividends before it can pay common dividends.) From a common shareholder's perspective, a firm with less debt and preferred stock in its capital structure has fewer bills to pay before it can allocate earnings to common dividends, and is therefore less risky. The following summarizes financial risk.

> financial risk is the additional risk placed on the common stockholders as a result of financial leverage.
> (Fundamentals of Financial Management, Eugene F Brigham & Joel F. Houston, Eight edition, page 498)

Q. DO THE RATE DESIGN PROPOSALS OF BOTH STAFF AND THE COMPANY SIGNIFICANTLY REDUCE THE VARIABILITY OF REVENUES?

A. Yes. Staff witness Anne Ross proposes that all non-gas costs be recovered from customers on a 100% fixed customer charge (Ms. Ross uses the term Delivery Charge) for the weather sensitive customer classes, specifically residential and small general service customers. That is, the total non-gas cost paid by the individual customer will not change, regardless of usage. Absent a decline in the number of customers connected to the system, the Commission determined non-gas revenue requirement (including ROE) intended to be collected will in fact be collected.

Q. WHAT IS THE IMPLICATION OF A FIXED DELIVERY CHARGE ON THE EARNINGS OF THE COMPANY?

A. For the customer classes in which customers are paying a fixed delivery charge as proposed by Ms Ross, the revenues (including the imbedded earnings in the class cost of service) anticipated to be collected from these customers will be collected with virtual certainty. Since the gas cost associated with serving the customer is collected in total through a process that includes the Purchase Gas Adjustment Clause and the Actual Cost Adjustment Clause (PGA), Atmos would effectively be guaranteed earn the authorized rate of return for serving these customer classes. Thus the risk of earnings variability will be virtually eliminated for these customer classes and greatly reduced for its Missouri jurisdictional operations.

Q. HAS THE COMPANY ALSO PROPOSED A RATE DESIGN THAT CREATES A REDUCTION IN THE VARIABILITY OF EARNINGS AND THUS THE RISK THE ATMOS FACES?

A. Yes. Atmos has proposed a Weather Normalization Adjustment (WNA) that levelizes revenues by adjusting the tariff rate charged to weather sensitive customers by a factor dependent on actual weather heating degree days compared to the normalized heating degree days used in the determination of the tariff rate. The request for a WNA is contained in the direct testimony of Company witness Gary L. Smith.

Q. DOES PUBLIC COUNSEL SUPPORT A WNA IN THIS CASE?

A. No. Public Counsel does not believe the Commission should authorize a WNA prior to the enactment of rules implementing Senate Bill 179 passed by the 93rd General Assembly and signed into law by Governor Matt Blunt that authorized the Commission to consider;

> rate adjustments outside of general rate proceedings to reflect the non-gas revenue effects of increases or decreases in residential and commercial customer usage due to variations in either weather, conservation, or both.
> (Section 386.266.3 RSMo 2005 Supp.)

The MPSC was also authorized to promulgate rules prior to the implementation of any such mechanism.

Q. TO DATE, HAS THE COMMISSION AUTHORIZED SUCH RULES?

A. No. A draft of the rules addressing a weather normalization clause can be found on the MPSC website but proposed rules have not been put out for public comment.

Q. IS THE COMMISSION OBLIGATED TO AUTHORIZE WEATHER NORMALIZATION CLAUSE AS A RESULT OF SB179?

A. No. The language in the statutes allows the Commission to "approve, modify, or reject adjustment mechanisms".

Q. SHOULD THE ELIMINATION OR SIGNIFICANT REDUCTION OF BUSINESS RISK RESULTING FROM A WNA HAVE AN IMPACT ON THE RATE OF RETURN ON EQUITY AUTHORIZED BY THE MPSC?

A. Yes. Failure to recognize the reduction in business risk resulting from a significant decline in the potential variability of earnings would result in rates being paid by customers that compensate stockholders for a risk they no longer have, therefore such rates would not be just and reasonable.

Q. HAVE OTHER AUTHORITIES AND UTILITIES RECOGNIZED THAT A PROCESS THAT MITIGATES THE IMPACT OF WEATHER ON EARNINGS SHOULD BE CONSIDERED IN THE AUTHORIZED RATE OF RETURN?

A. Yes. SB179 contained the following language

> The commission may take into account any change in business risk to the corporation resulting from implementation of the adjustment mechanism in setting the corporation's allowed return in any rate proceeding, in addition to any other changes in business risk experienced by the corporation.
> (Section 386.266.8 RSMo 2005 Supp.)

The following statement is attributable to Laclede Gas Company in the First Amended Partial Stipulation and Agreement filed in Case No. GR-2002-356:

> The Company agrees that the adoption of a weather mitigation rate design in an LDC's rate structure reduces its weather-related business risk and therefore the business risk of the utility.
> (Attachment B, Page 4 of 7)

The draft rule found on the Commission's web site also contains language mirroring the language found in SB179 regarding the reduction in risk.

Q. IF THE COMMISSION AUTHORIZES A RATE DESIGN THAT SIGNIFICANTLY REDUCES VARIABILITY IN EARNINGS, WHAT OTHER RISK OR COST CONSIDERATIONS SHOULD BE TAKEN INTO ACCOUNT WHEN AUTHORIZING A RETURN ON EQUITY?

A. The primary consideration should be the components of risk inherent in a rate of return beginning with the risk free rate of return. I agree with Staff witness Matt Barnes where he quantifies the risk free rate as being equal to the Thirty-Year U.S. Treasury Bond with an average yield of 5.13% (Barnes Direct, page 16, lines 17 -20). A second consideration should be the cost of long-term debt included in the capital structure supporting rate base. Mr. Barnes has quantified this cost as 6.03% (Barnes direct, Schedule 21).

Q. WHY IS THE COST OF LONG-TERM DEBT A CONSIDERATION?

A. As previously stated, financial risk recognizes that cash flows for stockholders are subordinate to the legal rights of debt holders. Therefore in order to compensate equity investors, the return opportunity provided should be in excess of the cost of debt.

Q. DOES THE STAFF'S RATE DESIGN PROPOSAL ELIMINATE FINANCIAL RISK?

A. No. Common stock's subordinate status to secured debt with respect to debt service is a legal principle that is not changed by rate design or other actions by this Commission.

Q. IS BUSINESS RISK THE FINAL CONSIDERATION THAT SHOULD BE TAKEN INTO ACCOUNT?

A. Yes. However as previously discussed, a rate design as proposed by Staff or Atmos will significantly reduce business risk. A rate design that dramatically alters the assurance of the level of revenue recovery and reduces the variability of earnings should be recognized if this Commission is going to fulfill its obligation to ensure that ratepayers pay just and reasonable rates.

Q. DOES PUBLIC COUNSEL BELIEVE THAT STAFF'S RETURN ON EQUITY RECOMMENDATION HAS TAKEN THIS RISK REDUCTION INTO CONSIDERATION?

A. No. A review of Mr. Barnes' testimony does not address the significant change in rate design proposed by the Staff. Likewise, a review of his analysis and calculations of a Discounted Cash Flow model (DCF) and a Capital Asset Pricing Model (CAPM) fail to indicate any consideration of the fixed delivery charge rate design change proposed by Staff.

Q. DOES PUBLIC COUNSEL BELIEVE THAT ATMOS'S RETURN ON EQUITY RECOMMENDATION HAS TAKEN THIS RISK REDUCTION INTO CONSIDERATION?

A. No. Atmos witness Smith claims that a Weather Normalization Adjustment does not reduce risk. He states:

> Q. Does a WNA reduce the Company's risk?
>
> A. No. WNA reduces a downside risk only if actual weather is warmer than normal. However, it also removes an upside opportunity when weather is colder than normal.
> (Smith Direct, page 10, lines 11 – 14)

Incredibly, Mr. Smith's rationale in support of his assertion that risk is not reduced is in the basic definition of risk. Mr. Smith fails to recognize that variability is risk and that the lack of variability results in a reduction in risk.

Q. DO YOU AGREE WITH STAFF WITNESS ROSS'S ASSERTION THAT "EVERYBODY LOSES" UNDER TRADITIONAL RATE DESIGN? (Ross direct, page 12, lines 5 – 21)

A. No. Ms. Ross's answer beginning on line 16 appears to be predicated on the assumption that only downside risk exists. If rates are based on the appropriate weather normal, there will be equal periods above and below the normal weather used to develop rates in the regulatory process. Using a fundamental concept that the investor market is comprised of informed investors, they would be well aware of regulatory practices and the variability of earnings that result from business risks such as weather. The one-way only trend of earnings envisioned by Ms. Ross does not equate to actual expectations of the market.

Q. DOES RISK ALSO PROVIDE AN IMPORTANT INCENTIVE TO STOCKHOLDERS AND MANAGEMENT OF THE COMPANY?

A. Yes. It is reasonable to believe that utility managers are risk adverse. Therefore, in order to mitigate the effects of risks such as weather, management has an incentive to take steps to operate the utility in an efficient manner. If a level of earnings is assured via a rate design such as that proposed by Ms. Ross, the incentive to operate the utility efficiently is also reduced because the risk to which management would be adverse has been reduced or eliminated. It could be argued that the reduction in risk as a result of a change in rate design would similarly reduce the incentive to find new efficiencies or at least reduce the level of priority placed on such activities. Public Counsel does not believe ratepayers are protected by removing financial incentives for management efficiency leaving only the possibility of after-the-fact regulatory oversight through prudency reviews as an incentive for management efficiency.

Q. DOES PUBLIC COUNSEL HAVE A RECOMMENDATION ON THE APPROPIRATE RETURN ON EQUITY IF THE COMMISSION STEPS OFF INTO UNCHARTED REGULATORY PRACTICES, ABANDONS PROVEN RATE DESIGN PRINCIPLES, AND ADOPTS THE STAFF'S PROPOSED RATE DESIGN FOR A DELIVERY CHARGE?

A. Yes. Public Counsel would recommend the Commission use a 7% return on equity. Public Counsel's recommendation utilizes the spread (.87%) between the risk free rate (5.13%, Barnes Direct, page 16, lines 17 -20) and cost of debt (6.03%, Barnes direct, Schedule 21) and incorporates that spread between the cost of debt and its equity recommendation with the result (6.03% + .87% = 6.90%) rounded up to 7%.

<u>Negative Depreciation Expense – Reversal of Accumulated Depreciation Reserve</u>

Q. PLEASE EXPLAIN THE STAFF'S PROPOSED ADJUSTMENT THAT CREATES NEGATIVE DEPRECIATION EXPENSE AND RESULTS IN A REVERSAL OF THE ACCUMULATED DEPRECIATION RESERVE.

A. Staff witness Gilbert proposes that the Commission authorize Atmos to continue using the current authorized depreciation rates for all districts except Greeley for which the Commission should authorize the use of the depreciation rates authorized for the Butler district. Staff uses these depreciation rates to determine its traditional depreciation expense. Mr. Gilbert then goes on to recommend (Gilbert direct, page 9, lines 9 – 13) that the Commission recognize the result of the Company's proposed depreciation expense calculation by reducing the annual depreciation expense accrual resulting from Staff's proposal by the amount of $591,000 as contained in the direct testimony of Company witness Donald S. Roff (Rolf direct, page 3, line 8).

Staff's calculated annual depreciation expense using the depreciation rates proposed is $3,037,871 (Staff accounting schedules 7, 9, & 10) after recognition of the capitalized portion of depreciation expense. This amount will accrue to (increase) the Accumulated Depreciation Reserve and is a "return of" the capital investment of the utility by the customers. Staff's proposal to accept the result of Atmos's proposed depreciation rates results in a reduction in the Accumulated Depreciation Reserve, thus a reversal of the "return of" the capital investment by the customers, in effect requiring the Company to reinvest monies they previously received from ratepayers in order to hold current rates lower.

Q. WHY DOES PUBLIC COUNSEL OPPOSE A REDUCTION IN THE ACCUMULATED DEPRECIATION RESERVE?

A. The Accumulated Depreciation Reserve represents the total dollars that ratepayers have provided from the inception of the utility to pay for the plant-in-service currently used to serve customers. Once paid, the customers are no longer required to pay a "return on" that portion of plant-in-service that has been paid for via depreciation expense. The regulatory accounting for this can be found on Schedule 2 of the Staff's Accounting Schedules, lines 2, 3, and 4. The Staff's proposal would utilize a portion of the Accumulated Depreciation Reserve dollars (line 2 of Schedule 2) to reduce current rates by reversing prior year entries to record depreciation expense by the amount of $591,000 via a negative amortization on an annual basis. The result is that monies paid to the Company by prior ratepayers will be taken back and used to reduce current depreciation expense (determined by multiplying authorized depreciation rates applied to plant-in-service) and thus current revenue requirement and the resulting tariff rates. However, future ratepayers will be required to repay these monies as the Company, under normal circumstances, has the right to a "return of" its investment while the property is in-service. Future ratepayers will also have to pay a "return on" these investments until such time as the "re-return of" these funds is completed.

Q. PLEASE EXPLAIN THE TERMS "RETURN OF" AND "RETURN ON."

A. If an expenditure is recorded on the income statement as an expense it is compared dollar for dollar to revenues. This comparison is referred to as a "return of" because a dollar of expense is matched by a dollar of revenue in the determination of revenue requirement.

"Return on" occurs when an expenditure is capitalized within the balance sheet because it increased the value of a balance sheet asset or investment. This capitalization is then included in the rate base calculation, which is a preliminary step in determining the earnings the company achieves on its total regulatory investment.

Q. IS THE $591,000 REDUCTION IN DEPRECIATION EXPENSE BASED ON A DEPRECIATION STUDY BY THE COMPANY AND ADDRESSED IN ITS DIRECT TESTIMONY?

A. Yes.

Q. IS THE COMPANY'S DEPRECIATION STUDY BASED ON COMPANY SPECIFIC INFORMATION REQUIRED TO DO A DEPRECIATION STUDY?

A. No. Company witness Roff stated:

> "Because the existing mortality characteristics are not known, only generalizations can be made regarding the effect of the current study parameters on the recommended depreciation rates."
> (Roff direct, page 3, lines 12 – 15)
>
> Mortality characteristics are the parameters necessary to calculate depreciation rates.
> (Roff direct, page 7, line 14)

Q. DOES STAFF WITNESS GILBERT ALSO ACKNOWLEDGE THAT THE BOOKS AND RECORDS OF THE COMPANY ARE INADEQUATE TO PERFORM A DEPRECIATION STUDY?

A. Yes. Mr. Gilbert states:

> "My testimony also addresses what the staff believes to be a Commission rule violation by Atmos regarding the Company's lack of property and property retirement data."
> (Gilbert direct, page 1, line 23 – page 2, line 2)
>
> "The mortality records of property and property retirement are incomplete."
> (Gilbert direct, page 3, line 1)

Mr. Gilbert makes several other references to the problems with the Company's continuing property records over the next several pages of his testimony.

Q. DOES MR. GILBERT ASSERT THAT ATMOS IS IN VIOLATION OF COMMISSION RULES REGARDING ITS PROPERTY RECORDS?

A. Yes. On page 2, lines 1 – 10, Mr. Gilbert discusses Staff belief that Atmos is in violation of 4 CSR 240-40.040 (3). Mr. Gilbert goes on to state that:

> "In violation of the Commission's rules, there does not appear to be any property retirements listed in the CPR. Specifically, 4 CSR 240-40.040 (3)(A) requires a company to:
>
> > Maintain plant records of the year of each unit's retirement as part of the "continuing plant inventory records," as the term is otherwise defined in Part 201 Definitions, 8. and paragraph 20,001.8:"
>
> (Gilbert direct, page 4, line 22 – page 5, line 5)

Q. ARE YOU FAMILIAR WITH THE TERM "THEORETICAL DEPRECIATION RESERVE"?

A. Yes. Simply stated, the Theoretical Depreciation Reserve is the level that the Accumulated Depreciation Reserve should equal given that the related plant-in-service has been depreciated at rates equal to the depreciation rates currently estimated to be appropriate. The result is that the actual Accumulated Depreciation Reserve will be alleged to have either excess funds or have a deficiency. The resulting difference is referred to as a theoretical excess or deficiency.

Based on my experience, utilities have sometimes asserted that any identified accumulated depreciation reserve deficiency should be recovered from ratepayers over a time period less than the estimated remaining life of the property. The utilities would propose a positive amortization to depreciation expense to accomplish the recovery from ratepayers of the alleged deficiency.

Q. WOULD A POSITIVE AMORTIZATION OF A THEORETICAL RESERVE DEFIENCY REPRESENT A "RETURN OF" THE INVESTMENT IN PLANT-IN-SERVICE?

A. Yes.

Q. DOES STAFF WITNESS GILBERT BELIEVE THAT SUFFICIENT DATA EXISTS TO MAKE A CALCULATION OF A THEORETICAL DEPRECIATION RESERVE?

A. No. Mr. Gilbert states:

> Because of the lack of data to perform an accurate depreciation analysis, it was not possible for Staff to accurately determine a theoretical reserve for each account. (Gilbert direct, page 8, lines 15 – 17)

Q. DOES PUBLIC COUNSEL BELIEVE THE $591,000 NEGATIVE DEPRECIATION ADJUSTMENT IS BASED ON KNOWN AND MEASUREABLE DATA?

A. No, based on our review of the direct testimony of Staff witness Gilbert and the direct testimony of Atmos witness Roff.

Q. DOES PUBLIC COUNSEL BELIEVE THE $591,000 WOULD RESULT IN THE UTILITY HAVING TO PROVIDE CAPITAL IN ORDER TO REDUCE CURRENT RATES?

A. Yes.

Q. SHOULD THE COMMISSION ADOPT STAFF'S PROPOSAL?

A. No.

<u>Uncollectible Expense in Purchase Gas Adjustment</u>

Q. WHAT IS THE COMPANY REQUESTING REGARDING THE REGULATORY TREATMENT OF UNCOLLECTIBLE EXPENSE?

A. Atmos is requesting to classify Uncollectible Expense (often referred to as bad debt expense) as a cost of natural gas and include the costs in the Purchase Gas Adjustment (PGA) charge to customers. Company's request is contained in the direct testimony of Atmos witness Patricia J. Childers (page 3, line 22 – page 8, line 22).

Q. PLEASE SET OUT HOW PUBLIC COUNSEL WILL ADDRESS THIS ISSUE.

A. Public Counsel witness Barb Meisenheimer and I will both address the Company's position regarding uncollectible expense.

Q. DOES PUBLIC COUNSEL SUPPORT THE INCLUSION OF UNCOLLECTIBLE EXPENSE IN THE PGA?

A. No. Uncollectible expense does not represent an expenditure of cash by the Atmos. It is a paper entry recorded on the Company's financial records in anticipation that some customers may not pay an obligation to Atmos. It is not a cost of gas that merits inclusion in the PGA. The Uniform System of Accounts (USOA) clearly defines Uncollectible Expense:

> 904 Uncollectible Accounts
> This account shall be charged with amounts sufficient to provide for losses from uncollectible utility revenues. Concurrent credits shall be made to account 144, Accumulated Provision for Uncollectible Accounts – Credit. Losses from uncollectible accounts shall be charged to account 144.

Account 904 is included under the general heading Customer Accounts Expense.

Q. DOES THE USOA SET OUT SPECIFIC ACCOUNTS FOR PURCHASED GAS EXPENSE?

A. Yes. Account 807, Purchase Gas Expense, is the account that applies to gas distribution companies such as Atmos's Missouri operations.

> 807 Purchase gas expense
> A. This account shall include expenses incurred *directly* in connection with the purchase of gas for resale.
> (emphasis added by OPC)

Q. DESPITE THE USOA, DOES ATMOS ASSERT THAT UNCOLLECTIBLE EXPENSE IS A GAS COST?

A. Yes. Ms. Childers asserts that:

> Q. Can a reasonable argument be made that gas costs somehow become something other than gas costs if customers do not reimburse the Company for such costs?
>
> A. Absolutely not. In fact, it defies logic to argue that such costs are gas costs at the time they are incurred but somehow become something different if the Company is not reimbursed for them by customers. There is no logical support for an argument that would define a cost on the basis of whether or not a customer pays their bill for such cost.
>
> (Childers direct, page 6, lines 1 – 8)

Q. IS MS. CHILDERS POSITION CONSISTENT WITH THE USOA AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES?

A. No. As set out in her testimony, she fails to differentiate between cash expenses of the Company and the inability for whatever reason to collect revenues from customers.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

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)
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
Union Electric Company, Case No. ED-91-122
Missouri Public Service, Case Nos. EO-91-358 and EO-91-360
The Kansas Power and Light Company, Case No. GR-91-291
Southwestern Bell Telephone Co., Case No. TO-91-163
Union Electric Company, EM-92-225 and EM-92-253
Southwestern Bell Telephone Company, TO-93-116
Missouri Public Service Company, ER-93-37, (January, 1993)
Southwestern Bell Telephone Company, TO-93-192, TC-93-224
Saint Louis County Water Company, WR-93-204
United Telephone Company of Missouri, TR-93-181
Raytown Water Company, WR-94-300
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