

Exhibit No.:
Issue: PGA modifications to
address gas cost portion of
bad debt write-offs
Witness: Glenn W. Buck
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Laclede Gas Company
Case No.: GT-2009-0026
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LACLEDE GAS COMPANY

GT-2009-0026

SURREBUTTAL TESTIMONY

OF

GLENN W. BUCK

NOVEMBER 2008

Laclede Exhibit No. 4
Case No(s). GT 2009-0026
Date 1-05-09 Rptr KF

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SURREBUTTAL TESTIMONY OF GLENN W. BUCK

1 Q. Please state your name and business address.

2 A. My name is Glenn W. Buck, and my business address is 720 Olive St., St. Louis,
3 Missouri, 63101.

4 Q. Are you the same Glenn W. Buck who previously filed direct testimony in this
5 proceeding on behalf of Laclede Gas Company ("Laclede" or "Company")?

6 A. Yes.

Purpose of Testimony

8 Q. What is the purpose of your testimony?

9 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of the
10 Commission Staff ("Staff") and the Office of the Public Counsel ("OPC") related to the
11 Company's proposal to utilize the Purchased Gas Adjustment ("PGA")/Actual Cost
12 Adjustment ("ACA") mechanism to track and reconcile changes in the gas cost portion of
13 its bad debt write-offs. I will respond to the claims made in the rebuttal testimonies of
14 Staff witnesses Lisa Kremer, Thomas Solt, David Sommerer and OPC witness Russell
15 Trippensee related to the manner in which the Company proposes to recover the gas cost
16 portion of its debt bad write-offs. Specifically, I will:

17 1. Demonstrate how the Company would retain a very powerful incentive to pursue
18 collection activities aggressively by virtue of the fact that it would still have to
19 absorb (or have the opportunity to retain) from 1/3 to 1/4 of any increase or
20 decrease in its bad debt write-offs between rate cases (Kremer, Page 4 – 5, Fred
21 Page 6).

- 1 2. Discuss why gas cost related bad debts are an item over which Laclede has very
2 limited control (Solt Page 4 – 5, Sommerer Page 8 – 9, Trippensee Page 10);
3 3. Explain why the unprecedented volatility in natural gas prices requires a paradigm
4 shift in the way such costs are recovered, even outside the confines of a traditional
5 rate case (Solt Page 8 – 9); and
6 4. Show how the arguments made by Staff witness Solt (Page 6 – 7) and OPC
7 witness Trippensee (Page 4 – 5) concerning our proposal’s “fit” with the Uniform
8 System of Accounts are nothing but a red herring.

9 Q. Are other Company witnesses also responding to the claims made by Staff and OPC in
10 their rebuttal testimony?

11 A. Yes. Company witnesses Michael Cline and Russell Feingold are also providing
12 surrebuttal testimony.

13

14 **Retention of the Distribution Margin Portion of Bad Debts will Continue to Provide**
15 **an Adequate Incentive to Aggressively Pursue Bad Debts**
16

17 Q. Staff witness Kremer states that Laclede is no more aggressive than other utilities in its
18 collection practices. Is this a factual statement?

19 A. I do not have the information necessary to verify or dispute Ms. Kremer’s contention
20 regarding how Laclede compares with other utilities in terms of the aggressiveness of its
21 collection practices. However, I do not consider that to be an issue here. Certainly, it
22 was not my intent in my direct testimony to claim that Laclede is more aggressive than
23 other utilities when it comes to collecting past due amounts. Instead, my only purpose
24 was to give the Commission a sense of the initiatives Laclede has undertaken to reduce or
25 mitigate the level of bad debts it incurs and to establish that Laclede would continue to

1 have a significant financial incentive to pursue such initiatives in the future in the event
2 the Commission were to approve its proposal in this case.

3 Q. Is Ms. Kremer's testimony helpful in describing the regulatory and operational
4 parameters that affect the Company's collection activities?

5 A. Very much so. Ms. Kremer is correct in observing that each of the utilities in the state
6 are subject to the same Commission rules and, as such, likely have many similar
7 collection practices and procedures. She is also correct in noting that the presence of so
8 many inside meters does create a special challenge for Laclede. In fact, it is in response
9 to this and other challenges that Laclede has instituted a number of actions to enhance our
10 credit and collection practices. Among others, these include: (1) increasing the in-house
11 staff of collectors; (2) utilizing the resources of additional third party field collection
12 personnel during "Non-Cold Weather Rule" periods; (3) implementation of Par3, an
13 automated telephone calling system, that calls customers who are delinquent on their bills
14 and provides them the opportunity to pay immediately, over the phone; (4)
15 implementation of Behavioral Scoring, which utilizes past payment history as a predictor
16 of future payment performance, to better target where the Company can best utilize its
17 collection resources; (5) implementation of credit scoring to target deposit billing to
18 customers likely to default, while not requiring deposits from those who are likely to pay;
19 (6) revising the policy of when a "finaled" account is released to our external collection
20 vendors, reducing the release time by approximately 5 months; and, (7) implementation
21 of new procedures and collection vendors to provide better telephone contact information
22 and forwarding address information on customers who have "skipped" on their bills.

1 Q. Will the Company continue to pursue these and other initiatives in the future should its
2 proposed treatment of the gas cost portion of bad debt expense be approved by the
3 Commission?

4 A. Yes. As I indicated in my direct testimony, the Company's retention of the distribution
5 margin portion of our customer bad debt exposure, which can comprise between one
6 quarter to one third of the total bill, will continue to provide Laclede with a powerful
7 incentive to aggressively pursue collection activities within the confines of regulatory and
8 operational limitations. Moreover, as I discuss in greater detail below, the overview I
9 have provided in my testimony of the Company's current efforts in this regard should
10 provide the Commission with a good baseline of information in future proceedings to
11 evaluate whether the Company has indeed done that.

12 Q. Do you disagree then with Staff witness Solt's comment that the Company's exposure to
13 increases and decreases in the margin portion of its bad debt expense does not provide a
14 sufficient incentive?

15 A. I do disagree. Although Mr. Solt makes this statement, he bases it solely on the report of
16 a Staff person from another jurisdiction who cites several customers who were apparently
17 allowed to accumulate large balances. There is no discussion, however, of the specific
18 circumstances involving these customers, no indication of whether their experiences were
19 mere anomalies or more commonplace, and nothing to show whether the utility's ability
20 to absorb less than 100% of the bad debts created by these customers actually had any
21 impact on the efforts it made to pursue past due amounts from these customers. Given
22 these considerations, I find Mr. Solt's sweeping conclusions unpersuasive. This is
23 particularly true since Mr. Solt makes no effort whatsoever to explain why absorption or

1 retention of a quarter to a third of any increase or decrease in bad debts should be
2 considered an inadequate incentive when the Commission has routinely approved, with
3 Staff's endorsement, other incentive-related mechanisms that are less financially robust
4 than this one.

5 **The Gas Cost Portion of Bad Debts is an Area Over Which the Company has**
6 **Limited Control**
7

8 Q Staff Witness Solt appears to represent that the Company has numerous tools at hand to
9 "control bad debts" (Page 5, lines 1 – 12). Is this statement misleading?

10 A. Yes. As Ms. Kremer noted in her rebuttal testimony, the Commission's Chapter 13 rules
11 dictate the criteria for: 1) service applications and denials of service; 2) billing and meter
12 reading; 3) customer deposits; 4) notices of disconnection; 5) service termination for non-
13 payment; 6) service reconnection; and 7) service during the Cold Weather Rule period of
14 November 1 through March 31 each year. Laclede has limited flexibility to mitigate the
15 effects that volatile natural gas prices will have on its bad debts. A real world example
16 will demonstrate this. This last summer, when the price of gasoline approached \$4 per
17 gallon, American consumers chose to change their driving habits in response by
18 combining trips, carpooling, taking public transportation, switching to more fuel efficient
19 vehicles, or just driving less. However, when natural gas prices soared to \$14/MMBtu
20 with its anticipated resultant effect on bad debts, Laclede did not have the ability to
21 change its practices in such a dramatic fashion. To the contrary, it still had an obligation
22 to serve customers under the same Chapter 13 requirements that Ms. Kremer referenced.
23 If Laclede had had the ability to unilaterally change its credit and collection practices in
24 response to price spikes or other factors, the need for its proposed mechanism might have
25 been substantially reduced.

1 Q. Staff witness Sommerer notes that the Company can utilize hedging instruments to
2 control the volatility of natural gas prices (Page 8, line 22 – Page 9, line 7). Does the
3 Company utilize hedging instruments to control volatility?

4 A. As Mr. Sommerer well knows, the Company has a hedging program which utilizes both
5 time driven and price driven parameters to reduce volatility. However, the hedging
6 program only dampens volatility, it does not remove it. Additionally, the Company does
7 not hedge 100% of its expected volumes. Nor do I believe that Mr. Sommerer would
8 suggest that the Company do so. Further, in an escalating price environment, the cost to
9 actually purchase gas supplies that have been hedged is still higher than in a declining
10 environment, and will be different from the cost of those supplies the last time base rates
11 were adjusted.

12 Q. OPC witness Trippensee notes that other expenses like payroll could have a larger year-
13 over-year change than bad debts (Page 10, lines 1 – 11). Is the level of payroll an
14 expense item over which the company has control?

15 A. Payroll costs are certainly more manageable than bad debts. Increases in wages for
16 bargaining unit employees are collectively bargained, and merit increases for salaried
17 employees are completely at the discretion of Company Management. Additionally, the
18 Company has some latitude over the number of people it employs. Further, changes in
19 payroll levels can be forecast and planned for. Unlike operating under the prescriptive
20 requirements of Chapter 13, the Company has the ability to determine who and how
21 many employees to hire, what they are compensated, and who to retain.
22
23

**The Tariff Filing does not Abrogate the Stipulation and Agreement in Laclede's
Last Rate Case**

Q. On page 8 of his rebuttal testimony, Staff witness Solt submits that this tariff filing "abrogates the Unanimous Stipulation and Agreement in Laclede's last rate case"? What response do you have to this statement?

A. According to the Merriam Webster Online dictionary, to abrogate is to "abolish by authoritative action" or "to treat as nonexistent". Laclede is not proposing to "abolish" or "treat as nonexistent" the Stipulation from its general rate case proceeding. While Company witnesses Cline and Feingold are addressing the flaws in the single-issue and retroactive aspects of Mr. Solt's arguments, I would merely direct the Commission to Paragraph 25 of the Stipulation which states:

"None of the signatories to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any method of cost determination or cost allocation, depreciation or revenue related method or any service or payment standard, and none of the signatories shall be prejudiced or bound in any manner by the terms of this Stipulation and Agreement in this or any other Commission, judicial review or other proceeding, except as otherwise expressly specified herein. Nothing in this Stipulation and Agreement shall preclude the Staff in future proceedings from providing recommendations as requested by the Commission or limit Staff's access to information in any other proceedings. Nothing in this Stipulation and Agreement shall be deemed a waiver of any Commission statute or regulation."

Essentially, what this paragraph is stating is that, exclusive of those items expressly addressed within the agreement, such as with Pensions, OPEBs, Off-System Sales, and the ISRS filings, Parties are not bound by the agreement in **"any other Commission, judicial review or other proceeding"** (emphasis supplied). The Company is not proposing to alter the terms of the Stipulation or its responsibilities under the same.

1 Rather, this tariff filing reflects the paradigm shift in wholesale gas cost volatility that has
2 been witnessed over the last several months. Unlike the operation of the PGA, when
3 wholesale natural gas costs move from \$8/MMBtu to \$14/MMBtu and back to under
4 \$7/MMBtu in a matter of months, current ratemaking methodologies (with an 11 month
5 suspension period) can not timely capture and reflect how these shifts affect the gas cost
6 portion of bad debts.

7 **Conformance with the Uniform System of Accounts**
8

9 Q. Both Staff witness Solt (Page 6, line 19 – Page 7, Line 8) and OPC witness Trippensee
10 (Page 4, line 4 – Page 5, line 7) discuss the Commission's utilization of the Uniform
11 System of Accounts ("USOA") and conformance with Generally Accepted Accounting
12 Principles ("GAAP"). Does the Commission have the latitude to order accounting
13 methodologies that diverge from the USOA and GAAP?

14 A. Yes. There are numerous examples of when ordered rate treatment has differed from
15 GAAP or the USOA. Such examples include our pension accounting and cost recovery
16 of OPEB expense, and the adoption of regulatory accounting for FAS 109, 143, and 158.
17 While the Company follows GAAP in preparing its financial statements, if, at the
18 direction of our regulators, cost recovery in rates is based on a methodology that assigns
19 expense recognition differently than that provided by GAAP, another GAAP Accounting
20 Standard, FAS 71, provides latitude, under certain circumstances, in the recognition of
21 such cost by allowing the use of regulatory assets and liabilities.

22 Q. Does this flexibility apply to determining what constitutes a gas cost?

23 A. Of course it does. While the Staff and OPC would have the Commission believe that
24 there is some preordained definition or convention that precludes it from considering the

1 *gas cost* portion of bad debt expense to be a gas cost, the fact remains that the
2 Commission is free to determine that it is. Indeed, the Commission has previously
3 determined that other costs should be recovered through the PGA even though, in
4 contrast to the costs at issue in this case, they are comprised of something other than the
5 direct cost of gas supply or transportation services, including Gas Inventory Carrying
6 Costs, PGA carrying costs, and the cost of and carrying costs on financial hedging
7 transactions. Indeed, many years ago, even the costs of the Gas Research Institute were
8 passed through the PGA clause. In view of this consideration, it is simply ludicrous to
9 suggest that the Commission cannot consider the gas cost portion of bad debt write-offs
10 to be a gas cost.

11 Q. Have other jurisdictions allowed recovery of the gas cost portion of bad debts through the
12 PGA?

13 A. Yes. As addressed in the surrebuttal testimony of Company witness Feingold, 24 states
14 have approved alternative recovery mechanisms of these costs, many through the PGA.
15 In fact, his testimony includes an excerpt from an order in Utah that specifically
16 addresses these costs and adherence to the USOA.

17 Q. Does this Commission have the authority to approve the changes that the Company
18 requests?

19 A. Although I am not an attorney, it appears to me that even Staff witness Solt has
20 acknowledged that the Commission has such authority. As he states in his rebuttal
21 testimony on Page 7, lines 6 – 8:

22 “Q. Who determines how the costs should be collected from customers?

23 A. Ultimately, it is the Commission that determines how revenues should be
24 collected from customers to cover the Company’s costs.”
25

1

2 Q. Does this complete your surrebuttal testimony?

3 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

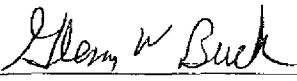
In the Matter of Laclede Gas Company's)	
tariffs designed to permit early)	
implementation of Cold Weather Rule)	Case No. GT-2009-0026
provisions and to permit Laclede to collect)	Tariff number JG-2009-0033
the gas cost portion of its write-off's)	
through the PGA)	

A F F I D A V I T

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

Glenn W. Buck, of lawful age, being first duly sworn, deposes and states:

1. My name is Glenn W. Buck. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager, Financial Services for Laclede Gas Company.
2. Attached hereto and made part hereof for all purposes is my surrebuttal testimony, consisting of pages 1 to 10.
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.



Glenn W. Buck

Subscribed and sworn to before me this 20th day of November, 2008.

