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Witness: *David M. Sommerer*
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MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GR-2010-0171

Jefferson City, Missouri
June, 2010

1
2
3
4
5
6

**TABLE OF CONTENTS OF
REBUTTAL TESTIMONY OF
DAVID M. SOMMERER**

EXECUTIVE SUMMARY..... 1

**LACLEDE’S PROPOSAL TO ALLOW RECOVERY OF BAD DEBT
EXPENSE IN THE PGA..... 1**

REBUTTAL TESTIMONY

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DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GR-2010-0171

Q. Please state your name and business address.

A. David M. Sommerer, P.O. Box 360, Jefferson City, MO. 65102.

Q. Are you the same David M. Sommerer who sponsored testimony as part of the Staff's May 10, 2010 Cost-of-Service Report?

A. Yes.

EXECUTIVE SUMMARY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address the direct testimony of Laclede Gas Company (Laclede, Company) witnesses Michael T. Cline and James Fallert. Specifically, I will be addressing Mr. Cline's and Mr. Fallert's testimonies as they relate to Laclede's proposal to recover bad debt expense through the Purchased Gas Adjustment (PGA).

**LACLEDE’S PROPOSAL TO ALLOW RECOVERY OF BAD DEBT EXPENSE
IN THE PGA**

Q. On page 12, lines 12 through 15, Mr. Cline states “In this proceeding, however, the Company proposes to recover such costs from its customers through the Company’s PGA clause since these costs are identical to other gas procurement costs already recovered through the PGA”. Similarly on page 7 of his Direct Testimony, Mr. Fallert argues

1 “uncollectible accounts expense is most appropriately recovered through the PGA because it
2 was, is and remains undistinguishable from other gas costs that are appropriately reflected in
3 rates through” the PGA. Do you agree that these costs (so called gas cost portion of bad debt)
4 are *identical* to other gas procurement costs already recovered through the PGA or that these
5 costs are *indistinguishable* from other gas costs?

6 A. No, gas costs are unique in several ways. Gas costs are generally supported by
7 invoices from gas suppliers. They are invoiced and documented purchases of natural gas
8 supply, pipeline transportation and storage costs and hedging. Even in the case of hedging,
9 the actual costs are shown in brokerage statements or invoices from third parties. These are
10 known, actual, direct, and auditable costs. In contrast, the “gas cost portion” of bad debt is an
11 arbitrary calculation separating bad debt expenses into gas and non-gas components.

12 Laclede’s proposal would estimate costs based on assumptions. In his
13 proposed tariffs, however, Mr. Cline has not even explained the assumptions or defined how
14 the “gas cost portion of bad debt is to be estimated.” In previous Company proposals and in
15 Mr. Fallert’s direct testimony, the Company has started with “write-offs” but then has gone on
16 to make assumptions about what portion of the write-off is related to “gas costs.”

17 Q. How does Mr. Fallert propose to estimate the “gas cost portion” of bad debts?

18 A. On page 8 and page 9 of his direct testimony, Mr. Fallert discusses how the
19 Company might breakout various percentages to apply to the write-off levels. This
20 generalized discussion suggests that the Company intends to use a similar approach to the
21 method proposed in Case No. GT-2009-0026. In that case, the tariffs were a little more
22 specific... “*The gas cost portion of the Company's actual net write-offs in each month shall*
23 *be determined by multiplying such net write-offs by the percentage of gas cost revenues to*

1 *total revenues for all sales customer for the period to which the write-offs apply. (Laclede's*
2 *tariff proposal in Case No. GT-2009-0026).*

3 Q. Is there some ambiguity with regard to the matching of a particular gas cost
4 percentage to actual write-offs for the period to which such wire-offs apply?

5 A. Yes. Assume that the Company has calculated the gas cost percentage as 75%
6 for a particular month. It proposes to apply that percentage to the actual write-offs in that
7 month. However, the write-offs in a particular month could be related to service 9 months
8 before they are written off, or perhaps 12 months before they are written off, or some
9 combination of historical time periods. The Company's language appears to allow the
10 Company to determine what the appropriate gas cost percentage is for write-offs that likely
11 vary in terms of when the underlying service was provided. It is an exercise in futility to track
12 such a vast array of time periods, which explains why the Company is repeatedly using gross
13 estimates, and then deeming those estimates to be actual amounts under the sole theory that
14 declaring it makes it so. The PGA process already reconciles actual gas costs to actual billed
15 PGA revenues. It has done so for many years. An adjustment away from this procedure
16 moves away from the long-standing goal of only passing through actual and prudently
17 incurred gas costs to something more expansive, less tangible.

18 Q. On page 7, line 14 and 15 Mr. Fallert says, "Simply because a customer
19 ultimately fails to pay for such gas costs does not in any way change the character or nature of
20 the costs." What is your comment with regard to his statement?

21 A. Just because someone fails to make a payment does not make an uncollectible
22 expense a gas cost. There are margin costs (depreciation, income taxes, pensions, payroll,
23 uncollectible expenses) and gas costs. That distinction has been in place for many years.

1 Q. What amount of gas costs does Laclede currently collect through the
2 ACA/PGA process?

3 A. The Company *already* includes all gas costs in its annual ACA filing. Bad
4 debts are not gas costs, but are instead margin costs. Margin costs include all the costs of
5 doing business except for the costs directly tied to the purchase of natural gas.

6 Q. On page 12, lines 18 through 20 Mr. Cline states “The inclusion of this cost in
7 the Company’s PGA clause would ensure that the amount of such costs recovered from
8 customers corresponds to the Company’s actual costs, no more and no less.” Do you agree?

9 A. No. It appears what Mr. Cline is arguing is that there is some line item in the
10 Company’s accounting records where “actual costs” of the so-called “gas cost portion” of bad
11 debt costs are listed. That is not the case. Laclede is only able to make estimates of what
12 percentage of partial recoveries are related to gas costs. Then it must estimate what
13 percentage to assign to a particular group of write-offs. The “actual” level of the gas costs
14 portion of bad debt can never be the true amount because it must always involve assumptions
15 and estimates.

16 Q. On page 12 lines 20 to 23 and continued on the first two lines of page 13,
17 Mr. Cline states, “...by only permitting the Company to recover the gas cost portion of
18 uncollectible expense through the PGA, the Company would still be at risk for any changes in
19 the non-gas portion of this expense – a factor that would ensure the Company still has
20 incentive to aggressively pursue collection and other activities aimed at keeping such
21 expenses down.” Do you agree?

22 A. No, I do not believe the Company’s proposal would “*ensure* (*emphasis added*)
23 the Company still has an incentive to aggressively pursue collection and other activities aimed

1 at keeping such expenses down”. If the Company is permitted to pass these costs directly
2 through to customers in the PGA, there is every incentive for Laclede to collect the maximum
3 possible this way and little or no incentive for Laclede to use resources for bad debt recovery.

4 Q. Do you have concerns about the potential for double recovery of these costs?

5 A. Yes. The ambiguity about how various gas costs percentages are applied to the
6 write-offs that they are presumably associated with leaves the possibility that monthly
7 percentage estimates could overstate the write-offs recovered by the Company. The ebb and
8 flow of reinstatements of accounts, partial payments, and movement of the relationship
9 between a particular group of write-offs and the underlying gas costs associated with those
10 write-offs, adds an element of complexity and uncertainty about just exactly what is being
11 recovered.

12 Q. On page 13, lines 9 through 11, Mr. Cline says “Any differences between such
13 projection and the Company’s actual accrual of this cost would be adjusted pursuant to the
14 Actual Cost Adjustment accounting described in the specimen tariff sheet set forth in
15 Schedule MTC”. Have you reviewed the referenced Schedule MTC as it pertains to this
16 proposal?

17 A. Yes. The tariff language is very general, and lacks clarity because critical
18 terms are undefined.

19 Q. On the bottom of page 13 and top of page 14 of his direct testimony, Mr. Cline
20 discusses the status of Case No. GT-2009-0026. saying “... consideration of the proposal in
21 this case also eliminates a number of the objections that were raised by the Staff and the
22 Office of the Public Counsel in the GT-2009-0026 case.” Do you agree that a number of
23 objections raised by Staff in Case No. GT-2009-0026 are “eliminated”?

1 A. No, only that this proposal is being made in a rate case. Otherwise, the
2 Company's proposal in this case is basically the same one that the Commission rejected in
3 Case No. GT-2009-0026.

4 Q. Please summarize your conclusions.

5 A. The Company's proposal adds additional complexity to an already
6 cumbersome ACA process. It moves some responsibility of the review of credit and
7 collection practices into the ACA mechanism that is designed to recover and review gas
8 procurement costs, not bad debt costs that pertain to credit and collection policies and
9 practices. The Company's proposal still involves the use of estimates of an as-yet-to-be-
10 defined "gas cost portion" of bad debts.

11 Q. Does this conclude your rebuttal testimony?

12 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 DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)


David M. Sommerer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



David M. Sommerer

Subscribed and sworn to before me this 23rd day of June, 2010.





Notary Public