

Exhibit No.:
Issues: Bad Debts through PGA
Witness: Thomas A. Solt
Sponsoring Party: MO PSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GT-2009-0026
Date Testimony Prepared: October 24, 2008

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

THOMAS A. SOLT

LACLEDE GAS COMPANY

CASE NO. GT-2009-0026

**Jefferson City, Missouri
October 2008**

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

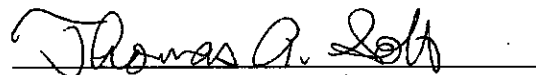
In the Matter of the Laclede Gas Company)
Tariff Filing to Recover Bad Debt)
Expenses Through the PGA and to Modify)
Cold Weather Rule Provisions.)

Case No. GT-2009-0026

AFFIDAVIT OF THOMAS A. SOLT

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

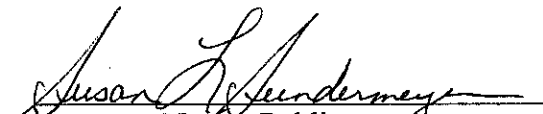
Thomas A. Solt, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 12 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.


Thomas A. Solt

Subscribed and sworn to before me this 23rd day of October, 2008.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086


Notary Public

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10
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12
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14

	<u>Table of Contents</u>	
	REBUTTAL TESTIMONY	
	OF	
	THOMAS A. SOLT	
	LACLEDE GAS COMPANY	
	CASE NO. GT-2009-0026	
	Executive Summary	2
	Testimony.....	3

REBUTTAL TESTIMONY
OF
THOMAS A. SOLT
LACLEDE GAS COMPANY
CASE NO. GT-2009-0026

Q. Please state your name and business address.

A. My name is Thomas A. Solt, and my business address is P.O. Box 360, Jefferson City, MO 65102.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission (MoPSC or Commission) as a Regulatory Auditor in the Energy Department of the Utility Operations Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission from May 1992 to present, with the exception of the period from September 20, 1997, through January 13, 1998.

Q. Please describe your education and professional background.

A. I was graduated from the University of Missouri—Columbia in August 1999, earning a Master of Public Administration degree, and from the University of Missouri—St. Louis in May 1987, after completing the requirements for a Bachelor of Science degree in Business Administration with an accounting emphasis. I am a licensed Certified Public Accountant in the state of Missouri, and hold other professional certifications.

Q. What has been the nature of your duties while in the employ of the Commission?

A. I have, under the direction of the Managers of Auditing, Energy, and Telecommunications Departments, assisted with audits and examinations of books and records of utility companies operating within the state of Missouri under the jurisdiction of the Commission, and the review of various tariff filings and applications. I have also been responsible for the tracking and analysis of issues that were pertinent to the ratepayers of Missouri that were before the Federal Communications Commission and the Federal Energy Regulatory Commission.

Q. Have you previously filed testimony before the Commission?

A. Yes, I have. The cases in which I previously have filed testimony are included as Schedule 1 of my rebuttal testimony.

Executive Summary

Q. What is the purpose of your Rebuttal Testimony in this case, Case No. GT-2009-0026?

A. I will explain what Laclede is asking the Commission to approve and discuss the testimony of Laclede Gas Company (Laclede or Company) witnesses Glenn W. Buck and Michael T. Cline.

Q. Do you have concerns with Laclede's Proposal?

A. Yes, and I recommend denial of the proposed tariff change for numerous reasons including: (1) the tariff addresses a single cost item outside a rate case so the Commission cannot consider all relevant factors; (2) bad debts are not gas costs; (3) only gas costs are permitted in the Purchased Gas Adjustment; (4) it is bad for customers as Laclede may over-recover this expense; (5) it eliminates most of the incentive for Laclede to pursue

1 debt collection; and (6) it abrogates the Unanimous Stipulation and Agreement in Laclede's
2 last rate case.

3 **Testimony**

4 Q. What is Laclede proposing with this tariff?

5 A. Laclede proposes to pull a single cost item out of base rates and treat it
6 differently from other costs of doing business.

7 Q. What is your concern?

8 A. Commission approval of this tariff would mean *any* expense agreed to in a rate
9 case could, at a later date, be plucked from the rate case, estimated, and then tracked against
10 actual amounts. Laclede could have brought this issue to the Commission for decision in its
11 last rate case.

12 Q. Did Laclede have the opportunity to propose a tariff to recover bad debt write-
13 offs through the PGA/ACA mechanism in its most recent rate proceeding?

14 A. Yes, it did. As a matter of fact, Laclede proposed this treatment in its original
15 filing in Case No. GR-2007-0208, but later withdrew its proposal. Now Laclede improperly
16 proposes to change the Unanimous Stipulation and Agreement, and change the method for
17 recovery of a single line-item cost.

18 Q. Mr. Buck states on page 3 of his direct testimony, that it is more appropriate to
19 recover the gas cost portion of bad debt write-offs through the PGA/ACA mechanism rather
20 than through base rates. Do you agree with this premise?

21 A. No, I do not. Bad debt is not a gas cost. It is not a discrete cost like
22 commodity or natural gas transportation expenses. Purchased gas costs that are allowed to be
23 recovered through the Purchased Gas Cost/**Actual** Gas Cost (PGA/ACA) [emphasis added]

1 mechanism in Missouri are direct, actual gas costs that are subject to audit in a true-up
2 process. Only the known, actual, direct and auditable gas costs may be allowed to be
3 collected through this process.

4 Q. What is the basis for this statement?

5 A. The legislature did not approve the PGA/ACA mechanism so there is not a
6 statute which provides for the costs which may be included. The courts have said that only
7 the cost of obtaining the gas itself may be recovered through the PGA. The Western District
8 said it was lawful to have a PGA clause for gas companies, while it was unlawful to have a
9 Fuel Adjustment Clause for electric companies, because “gas costs which the PGA
10 mechanism allows the companies to pass on are almost entirely the cost of obtaining the gas
11 itself; they do not include the type of labor and material costs used in making electricity.”

12 Q. Why did the Courts find that a fuel adjustment clause for electric providers was
13 not permissible?

14 A. The Court said electric utility companies had control over certain costs because
15 “unlike natural gas, [electricity] is not a natural resource. Its cost therefore is made up of the
16 cost of such things as labor, raw materials, and so forth, costs which can vary greatly and
17 which the utilities can control.” Midwest Gas Users' Ass'n 976 S.W.2d 470, (Mo.App. 1998).

18 Q. As an accountant, what does this mean to you?

19 A. It means that bad debt is not a gas cost. It is a cost similar to labor and raw
20 materials and may not be included in the PGA. From an accounting perspective, this
21 language indicates the cost of such things as labor, salaries, raw materials, and insurance costs
22 “**which the utilities can control**” are not to be included in the PGA. [emphasis added].

Rebuttal Testimony of
Thomas A. Solt

1 Utilities have some level of control over bad debt write-offs, similar to its labor and raw
2 materials costs.

3 Q. How can Laclede control bad debts?

4 A. First, they may require payment of a certain amount of a customers arrearage
5 before providing that customer with service. They also have the ability under Commission
6 rule to deny service to customers who have arrearages. Even during the Cold Weather Rule
7 period, under Chapter 13, the Company has the right to require the customer to pay 50% of
8 his/her arrearages before receiving service. During other months, the Company may require
9 100% of arrearages before reconnecting a customer.

10 Q. What else can Laclede do?

11 A. They can aggressively pursue disconnects of non-paying customers, assure the
12 identity of customers before connecting them and pursue other collection activities.

13 Q. Do you have any additional concerns with including bad debt in the PGA?

14 A. Yes. The PGA/ACA process is set up to recover only known, actual, direct,
15 and auditable gas costs. Since these costs are passed directly through to customers, these
16 costs must be subject to audit in a true-up process.

17 The bad debt write-offs Laclede proposes to recover through the PGA/ACA
18 mechanism cannot be directly related to gas procurement activities, are not direct gas costs at
19 all, but uncollected revenues, and there are no related expenditures that can be audited.

20 Q. What is the basis for your statement that bad debts are not direct gas costs?

21 A. Bad debts are a cost of doing business—something that all businesses that do
22 business by credit experience. These costs are not directly related to Laclede's actual costs of
23 purchasing and delivering gas to customers.

1 Additionally these costs are based upon an assumption that a certain percentage is
2 “related” to gas cost, thus making these costs less subject to verification compared to all of the
3 other gas costs currently reflected in the PGA/ACA process. Costs based on assumptions are
4 not subject to accurate quantification and audit for prudence. Costs which are not readily
5 auditable, have no place in the PGA/ACA mechanism.

6 Q. What do you mean by your statement that bad debt expenses included in a
7 PGA/ACA mechanism are not auditable?

8 A. There is no way for the Staff to determine the amount of bad debt write-offs
9 related to margin versus those related to gas. It is merely an estimate, and an estimate is not
10 technically capable of measurement or audit to the degree that presently exists relative to the
11 gas costs currently reflected in the PGA/ACA clause.

12 Q. Why is it important for regulators to be able to audit costs included in the
13 PGA?

14 A. These costs are passed directly through to customers, then audited later. Due
15 to this direct pass-through, it is, therefore, important that Staff be able to determine that only
16 those prudently incurred costs are passed directly on to customers. The quality of the audit is
17 impacted by Staff’s ability to accurately measure the costs being passed through the
18 PGA/ACA process.

19 Q. Is the cost portion of bad debt write-offs recognized as a gas cost on Laclede’s
20 books and records?

21 A. No. The Commission specifies that utility costs be classified in accordance
22 with the Federal Energy Regulatory Commission’s (FERC’s) Uniform System of Accounts
23 (USOA) [4 CSR 240-40.040]. USOA account 191, Unrecovered Purchased Gas Costs, is for

1 unrecovered purchased gas costs, while uncollectible accounts are booked under account 904,
2 Uncollectible Accounts, which is the account to be charged with amounts sufficient to provide
3 for losses from uncollectible utility revenues. These costs are classified as customer account
4 expenses and not as gas costs. The USOA contains no requirement to segregate uncollectible
5 utility revenues between gas costs and margin costs.

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

7 A. Ultimately, it is the Commission that determines how revenues should be
8 collected from customers to cover the Company's costs.

9 Q. How is Laclede currently recovering its bad debt expense?

10 A. Laclede currently recovers its bad debt expense through its base rates, which
11 were set in Laclede's last rate case, GR-2007-0208. During a rate case, the Commission may
12 take into account all relevant factors, including the Company's rate of return, to set just and
13 reasonable rates.

14 Q. Does Laclede currently operate under a rate design which permits it to collect
15 100% of its non-gas costs?

16 A. Laclede has a rate design that permits it to collect 100% of its non-gas costs, as
17 well as the opportunity to earn a reasonable rate of return.

18 Q. Is Laclede proposing to remove bad debt from base rates through this
19 application?

20 A. No. Laclede is not proposing to remove bad debts from its base rates through
21 this application. Instead, it is proposing to recover 75% of any differential between the level
22 of bad debts it is actually incurring and the amount of bad debts that Laclede alleges was
23 included in its base rates in its last general rate proceeding in its PGA/ACA mechanism.

1 Q. Would you recommend a tracker mechanism be used for recovery of these
2 costs?

3 A. No. On page 4, lines 8 through 11 of his rebuttal testimony, Mr. Buck states,
4 “. . . over the years various kinds of trackers have also been used by the Commission to
5 address increases and decreases in a number of other cost-of-service items, including pension
6 expenses, post-retirement medical benefit expenses, environmental costs and the cost impact
7 of prior Cold Weather Rule changes.”

8 I disagree with Mr. Buck that bad debt expense shares the characteristics of these
9 items. No tracker of which I am aware rises to the level of being a tariffed item, and no
10 tracker directly sets a single rate. Additionally, Mr. Buck speaks of the volatility of bad debt
11 write-offs as a justification for special treatment of this item in the rate process, when, for the
12 last three years, as shown in his direct testimony on page 5, Laclede’s bad debt write-offs
13 have been relatively stable. If there is some future material change in Laclede’s level of
14 incurred bad debt expense, Laclede has the option of seeking a rate change to address that
15 situation, in conjunction, of course, with all the other changes in the Company’s revenues,
16 expense, and rate base levels.

17 Q. You noted above that this proposal abrogates the Unanimous Stipulation and
18 Agreement in Laclede’s last rate case. Please explain that statement.

19 A. Bad debt expense was included in base rates in Laclede’s last rate case, GR-
20 2007-0208. Since no specific cost level was agreed to for the various items that made up the
21 total, stipulated amount, no party to the settlement can assert that any particular item has any
22 particular value associated with it, and bad debts are no exception. Additionally, Laclede

Rebuttal Testimony of
Thomas A. Solt

1 | agreed to the Stipulation and Agreement. The Commission should not now permit Laclede to
2 | go back on its word.

3 | Q. On page 8, lines 7 and 8 of Mr. Cline's rebuttal testimony, he states, "In
4 | Tennessee, the gas cost portion of bad debts has been removed from base rates and recovered
5 | through a tracker. . . . In addition, I am aware that at least Kansas, Utah, Wyoming, Maine,
6 | New Hampshire, Rhode Island and Massachusetts have all provided for some type of
7 | recovery of the gas cost portion of bad debts in the PGA." Do you agree with these
8 | statements?

9 | A. No, I do not. Mr. Cline's work papers supporting his testimony did not include
10 | any documents to support his testimony on this matter. Thus Mr. Cline either had no formal
11 | support for his testimony or chose not to provide the support. Tennessee has had a
12 | rulemaking that would allow recovery of bad debt write-offs, however, that rule is not
13 | currently effective. It appears to be held up in Tennessee's Secretary of State's office, and
14 | has been for some time, although LDCs there are, for some reason, currently operating under
15 | that rule.

16 | Q. What about Wyoming?

17 | A. I spoke with personnel at the Wyoming Public Service Commission, and was
18 | told that it does not allow recovery of bad debt write-offs, other than in base rates. To double
19 | check, I looked at all of the Wyoming gas tariffs listed on the Public Service Commission site,
20 | and found no reference to bad debt recovery through Wyoming's version of the PGA/ACA
21 | process.

22 | Q. How does Kansas deal with bad debt recovery?

1 A. Kansas allowed Kansas Gas Service, Aquila, and Atmos to institute recovery
2 of bad debts through its purchased gas adjustment mechanism through general rate case
3 proceedings.

4 Q. What about Utah, Maine, Rhode Island, Massachusetts, and Ohio?

5 A. Utah, Maine, Rhode Island, and Massachusetts do allow recovery of bad debts
6 through trackers or their versions of a PGA/ACA mechanism. The Utah legislature has
7 passed statutes that allow bad debts through its version of a PGA/ACA mechanism. Maine
8 used revenue neutral alternative rate plans to institute pass-through recovery of bad debts.
9 Rhode Island's recovery of bad debt through its version of the PGA resulted from general rate
10 proceedings. Companies in Massachusetts instituted their recovery of bad debts in PGA
11 clauses in general rate cases in every instance but one. Ohio used stand-alone cases to
12 implement recovery.

13 Q. What about New Hampshire?

14 A. New Hampshire opened a revenue neutral docket to implement bad debt
15 recovery with gas costs. New Hampshire permits a percentage of bad debt recovery through
16 its version of the PGA. Attached as Schedule 2 of my rebuttal testimony is testimony from
17 Amanda O. Noonan, which addresses problems associated with New Hampshire's current
18 treatment of bad debts through the PGA mechanism.

19 Q. You mention one way for Laclede to control these costs is aggressive pursuit
20 of collections. On pages 8 to 10 of his direct testimony, Mr. Buck argues that the Company
21 will have "powerful incentives to aggressively pursue" collection activities. Do you agree?

22 A. No, I do not. The attached testimony of Amanda Noonan, Director of the New
23 Hampshire Public Utilities Commission's (NHPUC) Consumer Affairs Division, relates to

1 establishment of an appropriate bad debt percentage for KeySpan, to collect an appropriate
2 bad debt percentage,

3 Ms. Noonan recounts some of the problems the NHPUC has experienced with
4 KeySpan's collection process. She speaks of an "apparent lack of collection activity on
5 customers' accounts" and noted several customers who had thousands of dollars in arrearages.

6 Q. What level of arrearages did Ms. Noonan consider excessive?

7 A. One customer Ms Noonan discussed had an outstanding balance of \$13,709,
8 and had made no payments on the account for approximately four years. Another had made
9 no payments since initiating service some 18 months earlier, and was disconnected with a
10 \$4,135 balance. Another accumulated a bill of nearly \$13,000 before being contacted by the
11 utility requesting a \$6,000 payment to avoid disconnection.

12 Q. What conclusions have you drawn from New Hampshire's experience?

13 A. It would appear that the 25% of bad debt write-offs to be collected through
14 base rates in New Hampshire does not serve as a powerful incentive to aggressively pursue
15 disconnections of non-paying customers there. It's important to note that the system in effect
16 in New Hampshire, like Laclede's proposed scheme, both seek to recover approximately 75%
17 of bad debt write-offs through the gas adjustment mechanism. It is also important to note that
18 New Hampshire does not have a "Cold Weather Rule," and that the utility can disconnect
19 most customers without regard to the weather.

20 Q. Are there other problems with Laclede's proposal?

21 A. Yes. It is harmful to Laclede's customers. Approval of this tariff could result
22 in over-recovery of bad debt expenses, since the amount Laclede proposes may, in fact, be
23 more than actual bad debts. It may also be possible for the Company to write-off bad debts

1 | sooner or later to manipulate the outcome, possibly resulting in over-recovery. Additionally,
2 | Laclede is not proposing any reduction to its authorized return on equity as part of this
3 | application. Mr. Buck, on page 9, lines 3-6 of his rebuttal testimony, states that the variation
4 | in write-offs could equal a change in return on equity of “approximately 40 basis points.”
5 | However, this proposed tariff does not provide an opportunity for Laclede to have its base
6 | rates reduced to reflect any reduction in the required rate of return brought about by Laclede’s
7 | proposal.

8 | I believe it would make it much more likely that Laclede would collect a majority of
9 | its non-paying customers’ bad debt write-offs from its paying customers through the
10 | PGA/ACA mechanism, through no collections activity on its part. Acceptance of this
11 | application will affect Laclede’s overall risk and, accordingly, its authorized return, even
12 | though the Commission will not have had the opportunity to address all relevant factors,
13 | including what the Company’s authorized rate of return should be, in the context of a general
14 | rate case.

15 | Q. Does this conclude your rebuttal testimony?

16 | A. Yes, it does.

Schedule 1
Thomas A. Solt

Education

Master's Degree in Public Administration
University of Missouri—Columbia, 1999

Bachelor of Science Degree in Business Administration
University of Missouri—St. Louis, 1987

Professional Certifications

Certified Government Financial Manager, November 1996

Certified Internal Auditor, August 1995

Certified Public Accountant, August 1988

Professional Experience

Missouri Public Service Commission, Jefferson City, MO
1992-1996, Auditor, Accounting Department, Energy Department
1996-1997, Policy Analyst, Federal Telecom Department
1998-Present, Auditor, Energy Department, Telecom Department

Schedule 1 (cont.)
Thomas A. Solt

Company	Case Number	Issue
St. Joseph Light & Power Co. management incentive plan,	ER-93-41 & GR-93-42	Payroll, payroll taxes, 401(k) plan, advertising
Western Resources, Inc. reserve, depreciation supplies, prepayments, customer property taxes, and	GR-93-240	Plant-in-service, depreciation expense, materials & advances, customer deposits, property insurance
The Empire District Electric Co.	ER-94-174	Tariff issues
Missouri Gas Energy costs	GR-95-33	Recovery of FERC transition
Missouri Gas Energy	GR-98-140	Tariff issues
Missouri Universal Service Fund	TO-98-329	USF surcharge
Southwestern Bell Telephone Co. and tariff approval	TT-2000-258	Local Plus availability, ordering,
Southwestern Bell Telephone Co.	TT-2000-667	Local Plus
Ozark Telephone Co.	TT-2001-117 & TC-2001-402	Rate design
Relay Missouri Proceeding	TO-2003-0171	Relay surcharge
Fidelity Telephone Company	IR-2004-0272	Rate design
Missouri Gas Energy	GR-2006-0422	Class cost of service
Union Electric Co. d/b/a AmerenUE	GR-2007-0003	Class cost of service
Missouri Gas Utility	GR-2008-0060	Class cost of service

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 07-050

In the Matter of:
KeySpan Energy Delivery New England
Indirect Gas Costs

Direct Testimony

of

Amanda O. Noonan
Director, Consumer Affairs Division

June 22, 2007

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Amanda Noonan. I am employed by the New Hampshire
3 Public Utilities Commission, 21 South Fruit Street, Suite 10, Concord NH
4 03301.

5 WHAT IS YOUR POSITION WITH THE NEW HAMPSHIRE PUBLIC
6 UTILITIES COMMISSION?

7 I am Director of the Consumer Affairs Division.

8 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

9 A. Yes, I have.

10 Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND AND
11 PROFESSIONAL EXPERIENCE.

12 A. I have been employed with the Commission since January 1992. During that
13 time, I worked in the Engineering Division, the Electric Utility Restructuring
14 Division and the Consumer Affairs Division. I have been Director of the
15 Consumer Affairs Division for 10 years. I am a member of the NARUC Staff
16 Subcommittee on Consumer Affairs and chairperson of the New England
17 Conference of Public Utility Commissioners Staff Committee on Consumer
18 Affairs. Prior to joining the Commission, I was employed by BankEast
19 Corporation for 6 years where I was responsible for the design and development
20 of corporate training programs relating to management and customer service as
21 well as bank operations. I have a B.S. in business administration from the
22 University of New Hampshire's Whittemore School of Business and Economics.

23

WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PRECEEDING?

2 A. My testimony addresses the justness and reasonableness of KeySpan's bad debt
3 allowance.

4 Q. WHAT IS KEYSpan's CURRENT BAD DEBT ALLOWANCE?

5 A. The Commission approved a bad debt allowance of 2.57 percent in the winter cost
6 of gas proceeding, DG 06-121. The Commission noted, however, that cost of gas
7 proceedings are expedited proceedings which do not provide adequate
8 opportunity to examine changes in indirect gas costs. (See Order No. 24,688.)

9 The Commission approved the cost of gas, including a revised bad debt
10 percentage but reserved "any decision concerning KeySpan's efforts to collect
11 unpaid amounts, or an appropriate bad debt percentage, until the Staff, OCA and
12 KeySpan have explored this issue further." (See Order No. 24,688.) The
13 Commission instructed Staff and the parties to file a recommendation following
14 additional discovery and discussion on this issue.

15 Q. WHAT WAS THE OUTCOME OF STAFF'S DISCUSSION WITH THE
16 PARTIES RELATIVE TO THE BAD DEBT ALLOWANCE?

17 A. On March 29, 2007, Staff submitted its report on KeySpan's indirect gas costs to
18 the Commission. The report concluded that, despite close to 6 months of
19 discussions, Staff and the parties had not reached agreement on the issues and
20 recommended that Commission open a proceeding. On April 10, 2007, the
21 Commission issued an order of notice opening this proceeding, DG 07-050, to
22 address issues related to KeySpan's direct and indirect gas costs filed as part of
23 the 2006-2007 winter cost of gas docket; whether those rates are just and

1 reasonable, pursuant to RSA 378:7; and, whether interest recovery on
2 reconciliation, the interest rate applied to cash working capital, the lead-lag study
3 used to calculate cash working capital and the bad debt allowance are just and
4 reasonable.

5 Q. DO YOU HAVE ANY CONCERNS WITH THE BAD DEBT ALLOWANCE
6 APPROVED IN DG 06-121?

7 A. Yes, I do. KeySpan customer calls to the Commission's Consumer
8 Affairs Division indicate problems with the company's collection process. The
9 Consumer Affairs Staff receives a few hundred calls from KeySpan customers
10 each year. During the past two years, Staff has been troubled by not only the
11 dollar amount of the balances due but the apparent lack of collection activity on
12 customers' accounts which became apparent during the course of those calls and
13 subsequent investigations with the company. For example, on October 20, 2005,
14 the Consumer Affairs Staff received a telephone call from a KeySpan customer
15 who had recently been disconnected and who had an outstanding balance of
16 \$4,135. The customer began gas service with KeySpan on April 12, 2004;
17 however, no payments had been received by KeySpan in the 18 months since the
18 customer initiated service. Staff spoke with another KeySpan customer on
19 October 21, 2005 who had been recently disconnected and who had an
20 outstanding balance of \$13,709. KeySpan's records showed that the last payment
21 on the account had been received 4 years earlier in November 2001. In both these
22 cases, the company stated that the gas meters were located outside and that there
23 were no access issues which prevented the service from being disconnected

sooner. More recently on May 30, 2007, Consumer Affairs Staff received the

following e-mail from a KeySpan customer:

my bill has been allowed to get way past due. i had been struggling with a back problem for about 4 years and was out of work for about 2 weeks every 3 months....i finally had surgery last year and recovered well....but with 7 1/2 months out of work needless to say i am just beginning to see the way out of this financial tunnel. with that said...i have had a hard time paying all of my bills for the past 4 years....i did what i could and whoever yelled the loudest or showed up at my house got the first money! keyspan never in the past 4 years even complained that i owed them money and haven't been paying. suddenly last week there was a knock at my door and they want over \$6,000.00 to keep my gas on. i asked how i could owe so much they said because i haven't paid. well that is true..i couldn't imagine how it got up over \$12,000.00 until they start to demand payment. i called keyspan and talked to a man named charles about this. i told him i didn't understand how this was able to get so far out of control and now they are going to shut off my gas. had they been like the other utilities and sent a shut-off notice--and meant it (all the others will shut you off on the date of the notice..i know this for fact!!) i would have come up with the money somehow since it would have been more manageable than almost \$13,000.00 before they start to demand payment. i asked charles if i could send 100.00/week until i can come up with a way to come up with more money to send them (being a single mom i need time to come up so much extra money). he said he would never tell me that i couldn't send money but that won't stop the disconnection. i sent them 100.00 and will send them 100.00 more on thursday of this week and continue each week. when i contacted keyspan last year...my bill was about \$6,500.00 and it has since doubled in a years time?? i am frustrated and don't know what to do about this. i do owe money but i don't think i owe the amount they say i do and i can't get any specific answers. in a letter i got from them last week----they say my past due balance is \$10,973.31 in a letter i got from them today they say my balance is \$12,831.19....i just don't get it. maybe you can help me figure this out.

While there is a balance that any utility must strike between keeping utility service on and collecting balances due, in the three examples provided above KeySpan has failed to find that balance. These three examples clearly illustrate the poor collections performance of KeySpan.

1 In addition to the anecdotal evidence provided by customer phone calls,
2 KeySpan's bad debt experience is significantly different from that of other
3 utilities in the state. As shown in the testimony of Staff witness George
4 McCluskey, KeySpan has a higher percentage of write-offs to revenue than Unitil,
5 National Grid and Public Service Company of NH. Differences in the use and
6 necessity of the two products, electricity and natural gas, may account for much
7 of the difference in write off percentages. What is more significant is the
8 difference in the bad debt experience of KeySpan and Northern Utilities. In
9 response to a request in DG 06-121, KeySpan provided Staff with the bad debt
10 ratios of other gas companies as shown in Exhibit AON-1. For consistency,
11 KeySpan divided the uncollectible expense as reported in the Annual Report to
12 the Commission by the annual operating revenue. Based on the data in Exhibit
13 AON-1, KeySpan's three year average is twice that of Northern Utilities.

14 Q. IS IT REASONABLE TO COMPARE KEYSpan's PERFORMANCE IN THIS
15 AREA TO NORTHERN UTILITIES?

16 A. Yes. Bad debt experience can be affected by differences in service area and, as I
17 addressed earlier, by the use and necessity of the service. Northern Utilities and
18 KeySpan are both providers of natural gas service, so there should be no
19 difference in their bad debt experiences attributable to the use and necessity of the
20 service sold. That leaves the question of service area. An analysis of the 2000
21 Census data indicates that Northern Utilities and KeySpan serve populations with
22 very similar demographics. Exhibit AON-2 compares the number of families
23 living in poverty in each of the towns in KeySpan's service area to each of the

towns in Northern's service area. Overall, the percentage of families living in poverty in KeySpan's service area is 4.6% versus 4.3% of the families in Northern's service area.

Q. IF THERE ARE NO SIGNIFICANT DEMOGRAPHIC DIFFERENCES BETWEEN KEYSpan'S AND NORTHERN'S SERVICE AREAS, WHAT IS THE EXPLANATION FOR KEYSpan'S HIGHER BAD DEBT PERCENTAGES?

A. Based on the anecdotal information from customers, one area would be failing to act on disconnect notices. I compared the number of monthly disconnect notices sent and subsequent disconnections performed by KeySpan and Northern in Exhibit AON-3. In accordance with Puc 1203.20, gas utilities with more than 10,000 customers began submitting utility disconnection activity reports to the Commission on November 1, 2005. Exhibit AON-3 summarizes that data for KeySpan and Northern Utilities. As can be seen, Northern Utilities sends out more notices, as a percentage of active residential customers, during the months of December, January and February. In May 2006, Northern sent out twice as many notices as KeySpan. While Northern sent out fewer notices than KeySpan between August 2006 and November 2006, the difference was not particularly significant.

More important perhaps than the number of notices sent is the number of notices acted on – the disconnections performed. Exhibit AON-3, page 3 of 5, shows that, for both Northern and KeySpan, few customers are disconnected in the

1 winter months. During the spring and summer months, however, Northern
2 disconnects a significantly higher percentage of its customers than does KeySpan.
3 Exhibit AON-3, page 2 of 5, further shows that KeySpan acts on a far smaller
4 percentage of the disconnection notices it issues during the spring and summer
5 months than does Northern. As I stated previously, there is a balance between
6 keeping utility service on and collecting balances owed, and I appreciate
7 KeySpan's efforts to work with its customers in designing payment arrangements
8 that meet the customers' circumstances and the need of the company to collect.
9 However, the anecdotal information from customers leads me to believe that in
10 many cases this dialogue between the company and the customer is not occurring,
11 and the company is not acting on the disconnection notices it sends. Exhibit
12 AON-3 provides support for that conclusion.

13
14 There may be other areas of KeySpan's collections process that contribute to
15 higher bad debt percentages. For example, KeySpan's field collection work force
16 may not be sufficient to accomplish the field collection work that should be done.

17 Q. HAS KEYSpan PROVIDED ANY ANALYSIS REGARDING ITS LEVEL OF
18 BAD DEBT EXPENSE?

19 A. No, it has not. KeySpan has indicated that higher gas prices and larger bills have
20 been a contributing factor, but the company has provided no analysis to support
21 that assumption. Absent any analysis, I am not inclined to believe that KeySpan's
22 higher levels of bad debt are attributable to higher gas prices. While higher gas
23 prices in 2004 and 2005 have translated to higher customers bills, Northern

1 Utilities also experienced higher gas prices and continued to experience lower bad
2 debt percentages than KeySpan.

3 Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?

4 A. Yes. In 2005, KeySpan's bad debt percentage was 2.98. In 2006, the company
5 improved its bad debt percentage to 2.24. While still higher than the 2004 level
6 of 2.12 percent, the company seems to be addressing its poor collections
7 performance. KeySpan has more work to do though to bring its collections
8 performance in step with that of other New Hampshire utilities, particularly of
9 Northern Utilities.

10 Q. WHAT FIGURE DO YOU RECOMMEND FOR THE BAD DEBT
11 ALLOWANCE IN THE COST OF GAS?

12 A. Normally a company's bad debt allowance in the cost of gas would be based on
13 actual net write-offs. However, given the problems I have outlined with
14 KeySpan's collections performance and the associated impact of that on write-
15 offs and bad debt percentages, I support the figure of 1.54 percent recommended
16 by Staff witness George McCluskey.

17 Q. DOES THIS COMPLETE YOUR TESTIMONY?

18 A. Yes it does.

Ratio of Uncollectibles to total Gas Revenues for other Gas Companies

New Hampshire Gas Companies - Source NHPUC Annual Return

Energy North (Includes credits for gas cost collections)	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 166,215,324	\$ 146,051,030	\$ 132,891,515	\$ 148,385,958
Uncollectibles - Acct 904	5,227,026	1,664,418	1,604,118	2,831,854
% of Uncollectibles to Revenue	3.14%	1.14%	1.21%	1.91%

Northern Utilities, Inc	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 66,804,218	\$ 64,391,238	\$ 58,805,879	\$ 63,333,812
Uncollectibles - Acct 904	564,874	598,102	651,944	604,873
% of Uncollectibles to Revenue	0.85%	0.93%	1.11%	0.96%

Massachusetts Gas Companies - Source DTE Annual Returns

Fall River Gas	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 72,689,680	\$ 67,913,375	\$ 65,625,202	\$ 68,742,752
Uncollectibles - Acct 904	1,583,722	1,871,505	(416,376)	1,012,950
% of Uncollectibles to Revenue	2.18%	2.76%	-0.63%	1.47%

Fitchburg Gas and Electric Light Company	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 32,767,477	\$ 28,685,339	\$ 28,611,863	\$ 30,021,560
Uncollectibles - Acct 904	726,875	526,356	613,885	622,372
% of Uncollectibles to Revenue	2.22%	1.83%	2.15%	2.07%

NSTAR Gas Company	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 565,986,988	\$ 485,665,096	\$ 458,613,393	\$ 503,428,492
Uncollectibles - Acct 904	10,988,546	9,060,322	8,829,493	9,626,120
% of Uncollectibles to Revenue	1.94%	1.87%	1.93%	1.91%

Berkshire Gas Company	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 76,018,628	\$ 66,454,437	\$ 61,831,841	\$ 68,101,635
Uncollectibles - Acct 904	790,000	777,366	512,420	693,262
% of Uncollectibles to Revenue	1.04%	1.17%	0.83%	1.02%

Bay State Gas Company	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 612,128,312	\$ 510,457,335	\$ 455,064,378	\$ 525,883,342
Uncollectibles - Acct 904	12,364,610	8,902,595	11,045,658	10,770,954
% of Uncollectibles to Revenue	2.02%	1.74%	2.43%	2.05%

Boston Gas Company d/b/a KeySpan	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 1,126,441,597	\$ 1,016,373,020	\$ 920,099,598	\$ 1,020,971,405
Uncollectibles - Acct 904	22,609,649	12,202,360	8,640,362	14,484,124
% of Uncollectibles to Revenue	2.01%	1.20%	0.94%	1.42%

Essex Gas Company d/b/a KeySpan	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 92,012,333	\$ 78,494,230	\$ 76,420,645	\$ 82,309,069
Uncollectibles - Acct 904	3,037,832	855,247	1,501,280	1,798,120
% of Uncollectibles to Revenue	3.30%	1.09%	1.96%	2.18%

Colonial Gas Company d/b/a KeySpan	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 329,838,600	\$ 283,657,928	\$ 278,825,869	\$ 297,440,799
Uncollectibles - Acct 904	5,966,574	(398,477)	2,013,552	2,527,216
% of Uncollectibles to Revenue	1.81%	-0.14%	0.72%	0.85%

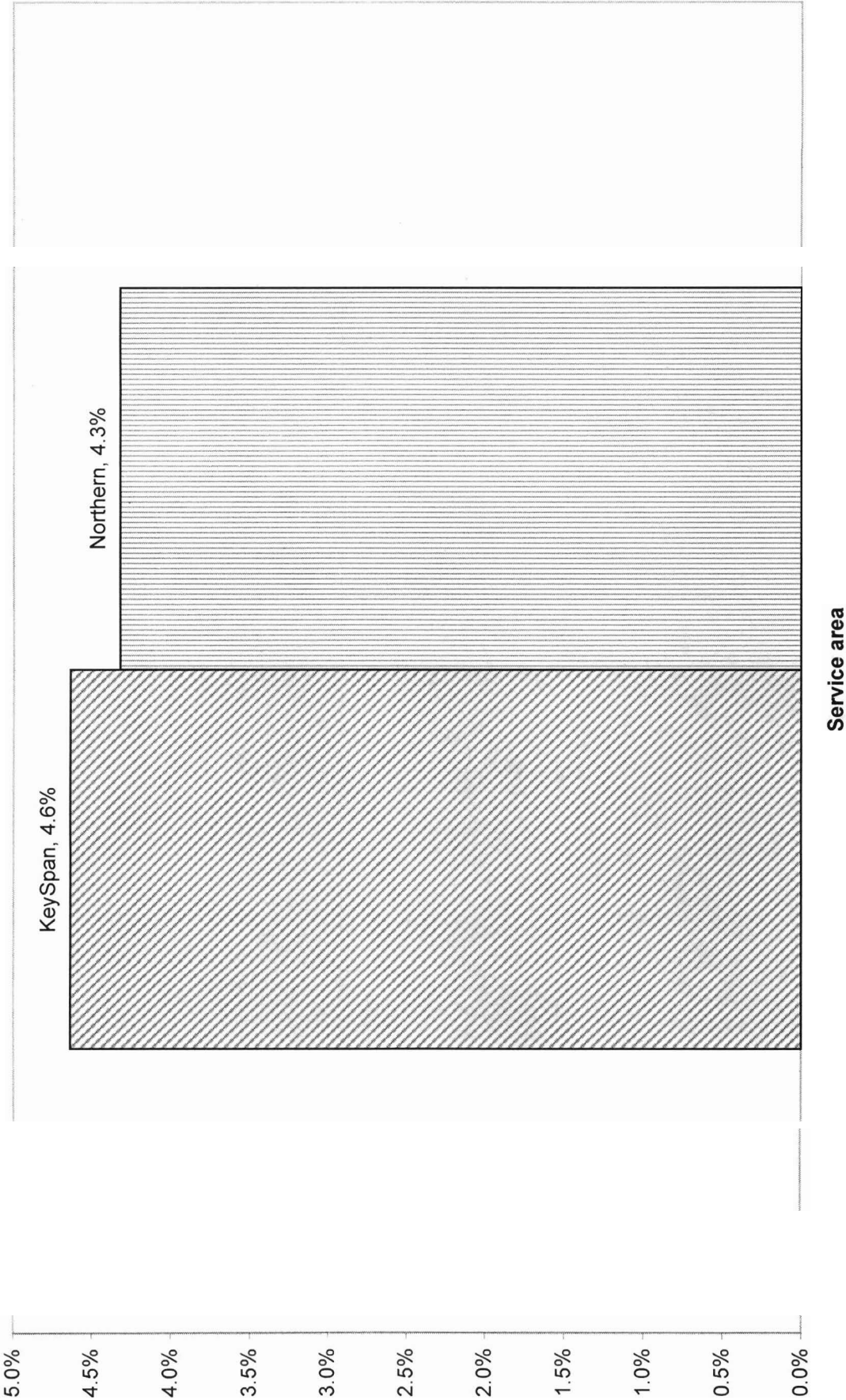
Connecticut Gas Companies - Source DPU Annual Returns

Yankee Gas Services Company	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 503,502,771	\$ 407,811,925	\$ 361,449,974	\$ 424,254,890
Uncollectibles - Acct 904	13,235,807	8,444,446	10,007,437	10,562,563
% of Uncollectibles to Revenue	2.63%	2.07%	2.77%	2.49%

Connecticut Natural Gas Corporation	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 418,112,713	\$ 352,275,330	\$ 331,806,735	\$ 367,398,259
Uncollectibles - Acct 904	14,127,593	10,435,112	9,496,663	11,353,123
% of Uncollectibles to Revenue	3.38%	2.96%	2.86%	3.09%

Southern Connecticut Gas Company	12 ME 12/31/05	12 ME 12/31/04	12 ME 12/31/03	3 Year Average
Total Gas Operating Revenue	\$ 397,996,218	\$ 340,008,430	\$ 308,376,914	\$ 348,793,854
Uncollectibles - Acct 904	20,800,220	11,985,742	11,978,126	14,921,363
% of Uncollectibles to Revenue	5.23%	3.53%	3.88%	4.28%

Percentage of Families Living in Poverty by Service Area



KeySpan demographic information

Source: Economic and Labor Market Information Bureau, NH Employment Security and Office of Energy and Planning, NH Data Center

Town	2000 census Population		2000 census # of Households	2000 census Families in Poverty	Derived Number of families in poverty
	2000	2005			
Northfield	4,569	4,972	1,706	0.9%	15
Amherst	10,834	11,614	3,590	1.0%	36
Hudson	22,985	24,568	8,034	1.2%	96
Merrimack	25,267	26,652	8,832	1.2%	106
Auburn	4,706	5,122	1,580	1.6%	25
Bedford	18,492	20,732	6,251	1.6%	100
Londonderry	23,373	24,837	7,623	1.6%	122
Bow	7,168	8,020	2,304	2.0%	46
Canterbury	1,991	2,267	749	2.0%	15
Allenstown	4,854	4,969	1,902	2.2%	42
Gilford	6,836	7,510	2,766	2.2%	61
Litchfield	7,423	8,277	2,357	2.2%	52
Sanbornton	2,605	2,889	969	2.2%	21
Goffstown	16,980	17,687	5,641	2.6%	147
Hollis	7,064	7,740	2,440	2.8%	68
Tilton	3,478	3,636	1,360	2.9%	39
Pembroke	6,917	7,366	2,661	3.0%	80
Milford	13,606	14,862	5,201	3.1%	161
Hooksett	11,784	13,279	4,147	3.2%	133
Derry	34,112	34,290	12,327	3.3%	407
Belmont	6,747	7,322	2,641	3.8%	100
Loudon	4,510	5,062	1,611	4.2%	68
Nashua	86,782	87,321	34,614	5.0%	1,731
Boscawen	3,684	3,860	1,260	5.4%	68
Concord	40,765	42,336	16,281	6.2%	1,009
Laconia	16,451	17,060	6,724	7.5%	504
Manchester	107,219	109,691	44,247	7.7%	3,407
Franklin	8,414	8,763	3,319	8.9%	295

Overall % of families living in poverty: 4.6%

Not included in chart:

Berlin (6 meters)	10,331	10,097	9.1%
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Northern demographic information

Source: Economic and Labor Market Information Bureau, NH Employment Security and Office of Energy and Planning, NH Data Center

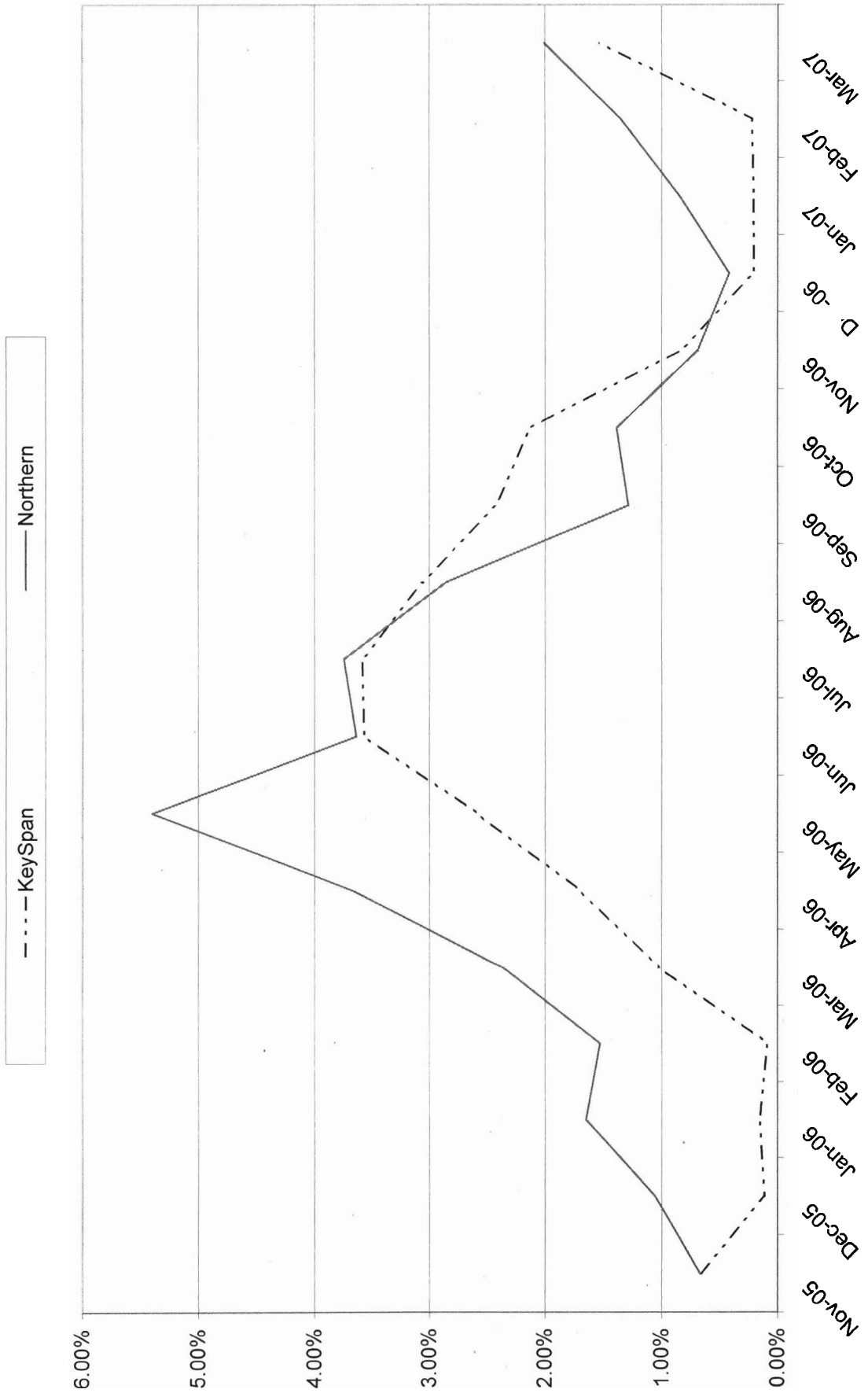
Town	2000 census Population		2000 census # of Households	2000 census Families in Poverty	Derived Number of Families in Poverty
	2000	2005			
Stratham	6,395	7,098	2,306	0.5%	12
North Hampton	4,300	4,581	1,671	1.6%	27
Pelham	11,006	12,474	3,606	1.6%	58
Plaistow	7,763	7,769	2,871	2.1%	60
Hampton Falls	1,890	2,033	704	2.2%	15
Atkinson	6,230	6,613	2,317	2.3%	53
Rollinsford	2,650	2,625	1,033	2.6%	27
Durham	12,684	13,040	2,882	2.8%	81
Exeter	14,098	14,704	5,898	2.9%	171
Salem	28,219	29,558	10,402	3.1%	322
East Kingston	1,804	2,231	629	3.2%	20
Kensington	1,902	2,049	657	3.4%	22
Greenland	3,227	3,382	1,204	3.6%	43
Madbury	1,511	1,660	534	3.9%	21
Hampton (1)	14,973	15,450	6,465	4.5%	291
Dover	26,993	28,486	11,573	4.8%	556
Newington	777	812	294	5.0%	15
Seabrook	7,979	8,434	3,425	6.1%	209
Rochester (2)	28,563	30,004	11,434	6.3%	720
Somersworth	11,505	11,720	4,687	6.3%	295
Portsmouth	20,822	20,674	9,875	6.4%	632

Overall % of families living in poverty: 4.3%

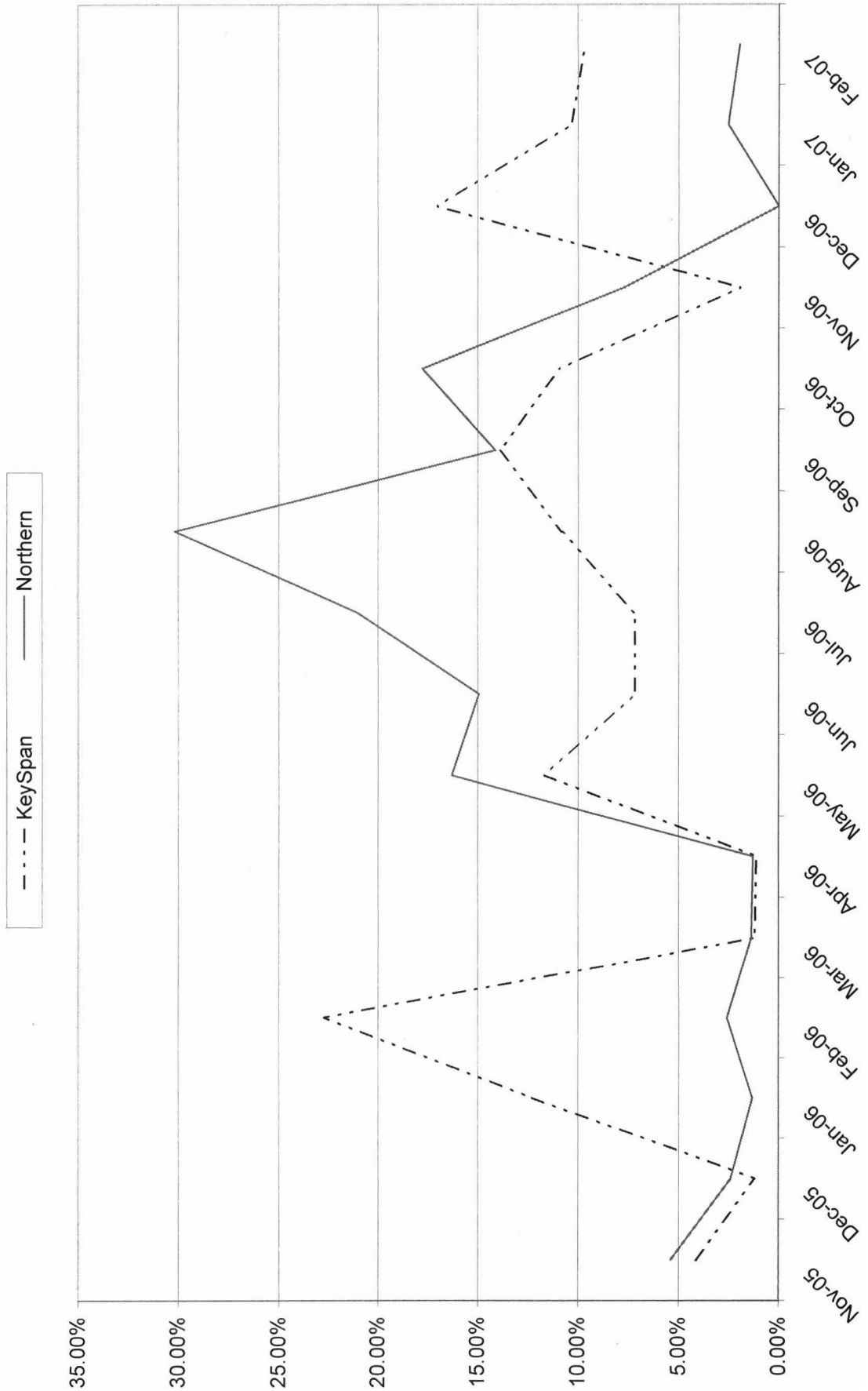
(1) Includes Hampton Beach

(2) Includes East Rochester and Gonic

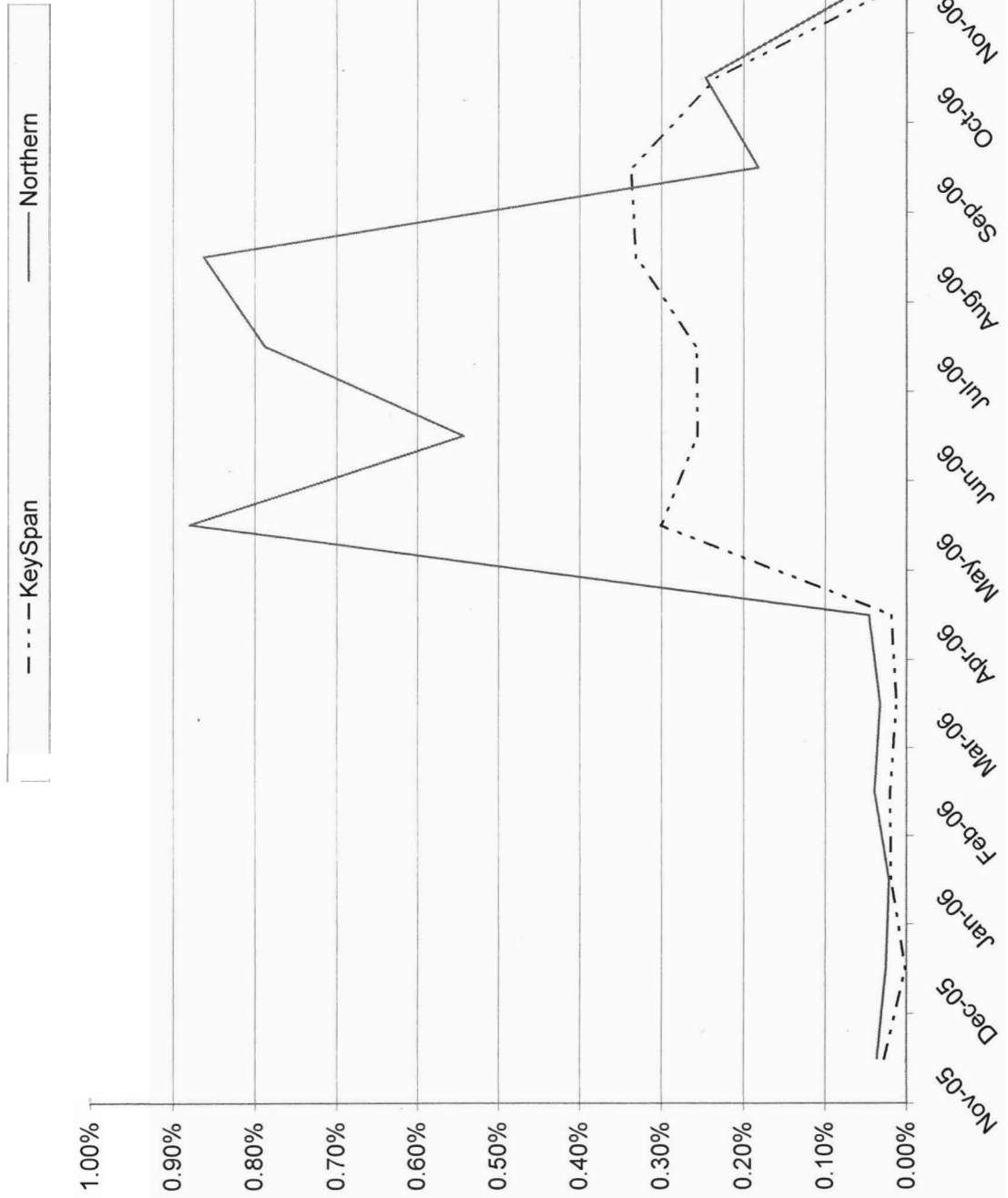
Disconnection Notices as a Percentage of Active Residential Customers



Disconnections as a % of Notices



Disconnections a % of Active Residential Customers



Northern Utilities Disconnection Activity
November 2005 - March 2007

	Number of bills issued (1)	Disconnections notices sent	Number of disconnections	Notices as a percent of bills	Disconnections as percent of notices	Disconnections as a percent of bills
Nov-05	27,504	185	10	0.67%	5.41%	0.04%
Dec-05	27,533	291	7	1.06%	2.41%	0.03%
Jan-06	27,562	455	6	1.65%	1.32%	0.02%
Feb-06	27,776	425	11	1.53%	2.59%	0.04%
Mar-06	27,829	657	9	2.36%	1.37%	0.03%
Apr-06	27,892	1021	13	3.66%	1.27%	0.05%
May-06	27,949	1509	246	5.40%	16.30%	0.88%
Jun-06	27,790	1011	151	3.64%	14.94%	0.54%
Jul-06	21,956	822	173	3.74%	21.05%	0.79%
Aug-06	28,065	802	242	2.86%	30.17%	0.86%
Sep-06	28,031	361	51	1.29%	14.13%	0.18%
Oct-06	27,951	388	69	1.39%	17.78%	0.25%
Nov-06	28,066	194	15	0.69%	7.73%	0.05%
Dec-06	27,876	117	0	0.42%	0.00%	0.00%
Jan-07	28,020	237	6	0.85%	2.53%	0.02%
Feb-07	26,289	355	7	1.35%	1.97%	0.03%
Mar-07	28,271	567	4	2.01%	0.71%	0.01%
	466,360	9,397	1,020	2.01%	10.85%	0.22%

Assumptions:

- 1 The number of bills issued is equal to the number of active accounts.

KeySpan Disconnection Report
November 2005 - March 2007

	Number of bills issued (1)	Disconnections notices sent	Number of disconnections	Notices as a percent of bills	Disconnections as percent of notices	Disconnections as a percent of bills
Nov-05	79,317	528	22	0.67%	4.17%	0.03%
Dec-05	73,483	84	1	0.11%	1.19%	0.00%
Jan-06	73,707	114	14	0.15%	12.28%	0.02%
Feb-06	73,366	66	15	0.09%	22.73%	0.02%
Mar-06	73,199	751	9	1.03%	1.20%	0.01%
Apr-06	73,972	1254	14	1.70%	1.12%	0.02%
May-06	73,136	1890	220	2.58%	11.64%	0.30%
Jun-06	72,629	2591	186	3.57%	7.18%	0.26%
Jul-06	72,288	2591	186	3.58%	7.18%	0.26%
Aug-06	72,180	2211	239	3.06%	10.81%	0.33%
Sep-06	72,085	1747	243	2.42%	13.91%	0.34%
Oct-06	72,341	1540	168	2.13%	10.91%	0.23%
Nov-06	73,864	620	12	0.84%	1.94%	0.02%
Dec-06	73,610	153	26	0.21%	16.99%	0.04%
Jan-07	73,793	155	16	0.21%	10.32%	0.02%
Feb-07	73,910	166	16	0.22%	9.64%	0.02%
Mar-07	74,720	1141	24	1.53%	2.10%	0.03%
	1,251,600	17,602	1,411	1.41%	8.02%	0.11%

Assumptions:

- 1 The number of bills issued is equal to the number of active accounts.