# Notice of *Ex Parte* Contact

TO: Data Center
All Parties in Case No. GT-2009-0026

FROM: Chairman Robert M. Clayton III
Commissioner Jeff Davis

DATE: January 22, 2009

On January 21, 2009, we received the attached documents from Theo Dorman-Kade via electronic mail. The Commission is currently considering the issues discussed in this document in Case No. GT-2009-0026, which is a contested case. The Commission is bound by its *ex parte* rule, and, I am therefore giving notice to the parties this communication has been received.

Although communications from members of the public and members of the legislature are always welcome, those communications must be made known to all parties to a contested case so that those parties have the opportunity to respond. According to the Commission's rules (4 CSR 240-4.020(8)), when a communication from any person interested in a case (either oral or written) occurs outside the hearing process, any member of the Commission or Regulatory Law Judge who received the communication shall prepare a written report concerning the communication and submit it to each member of the Commission and the parties to the case. The report shall identify the person(s) who participated in the *ex parte* communication, the circumstances which resulted in the communication, the substance of the communication, and the relationship of the communication to a particular matter at issue before the Commission.

Therefore, we submit this report pursuant to the rules cited above. This will ensure that any party to this case will have notice of the attached information and a full and fair opportunity to respond to the comments contained therein.

cc: Commissioners
Executive Director
Secretary/Chief Regulatory Law Judge
General Counsel

**Parish, Dana**

**Subject:** FW: Robert & Jeff - Reducing Bad Debt

**Attachments:** Gtelemetry RDS-6000 Wireless Disconnect up to 87PSI.pdf; 0809BADDEBTCOSTRECOVERY.pdf

**From:** Theo Dorman - Kade [mailto:theo@gtelemetry.com]
**Sent:** Wednesday, January 21, 2009 12:47 PM
**To:** consumer@ago.mo.gov; Clayton, Robert; Davis, Jeff
**Subject:** Robert & Jeff - Reducing Bad Debt

Dear Mr. Clayton and Mr. Davis,

My name is Theo Dorman-Kade and I represent a company called Gtelemetry ( www.gtelemetry.com).

Bad debt is becoming more and more important and a recent American Gas Association survey revealed that 40 natural gas utilities operating in 41 states had $ 3.9 Billion in arrears 30 days or more, affecting 10.2 million households.

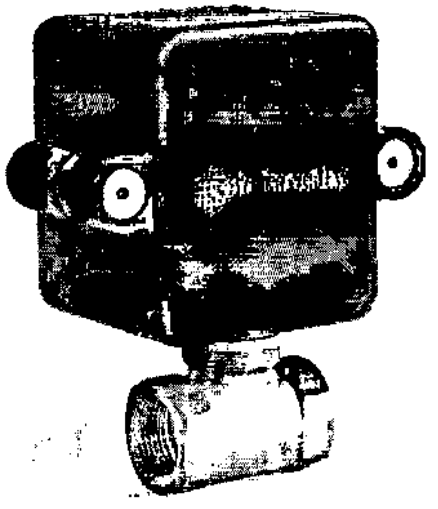
To deal with increasing bad debt, many sophisticated techniques (in addition to base rates) have been developed to pass on the costs of bad debt to all customers by increasing their gas bills. For example Bad Debt Trackers, Expense Trackers, Accounting Deferrals, Gas Cost Accounting Adjustments and Expense Adjustment Factors are all effective techniques for transferring bad debt onto customers through increasing gas bills.

Of course increasing gas rates affects everyone, including vulnerable and LIHEAP customers who although they are rightfully protected from disconnection, unfortunately must pay higher energy prices as a consequence.

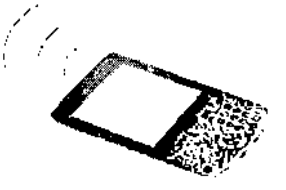
When deliberating utility rate cases, may I ask if your office has ever considered wireless gas disconnect technologies, such as the RDS-6000, to minimize the overall cost of bad debt, for the benefit of both utilities and their customers ?

Regards,
Theo Dorman Kade.

Gtelemetry
INTEGRATED GAS TECHNOLOGIES



# RDS-6000™
# Wireless Gas Disconnect and Shutoff



## Disconnecting a Gas Service Line Can Be a Real Headache.

## Indoor meter sets, winter weather rules, personal threats and wasted trips - there has got to be an easier way!

Gtelemetry offers the RDS-6000™ remote disconnect tool - a revolutionary wireless remote shutoff system, designed to cure the headache and make the whole process so much easier to install, simpler to operate and a lot more cost effective.

Using patented technology, simply select an installation for disconnect and at the press of a button, the gas supply is wirelessly shutoff. Walk or drive by, it's up to you.

**Installation** - Compact, self contained and as easy as dropping in a meter set

**Easy to Manage** - Using Field Star™, quickly determine the account history and location of every RDS-6000™

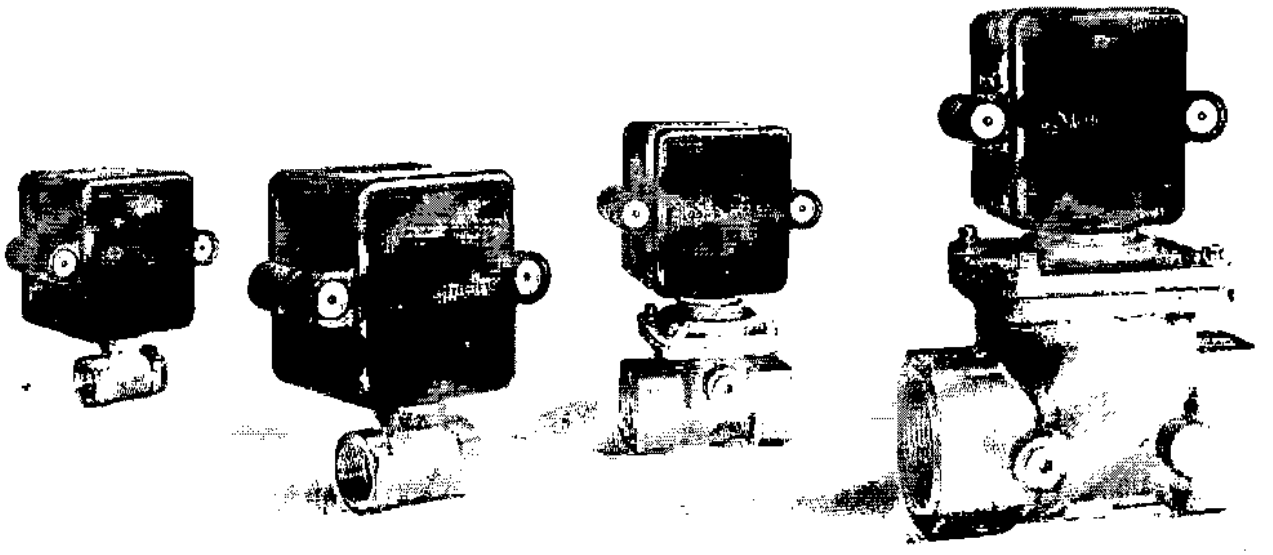
**Health & Safety** - Protect your employees and wirelessly disconnect

**Work Force Planning** - Improve manpower effectiveness and complete multiple disconnects using the RDS-6000™

**Multi-occupancy buildings** - Target specific accounts and retain loyal customers

**Gas Leak Surveys** - Remotely disconnect and ensure PUC compliance when you can't get in

gtelemetry
INTEGRATED GAS TECHNOLOGIES



RDS-6000™ Brass

| Size ( Inches ) | Code | Flow Factor Kvs ( m3/hr) | Overall Dimensions (mm) Height | Width | Depth | Weight (Kg) |
|---|---|---|---|---|---|---|
| 3/8 | B - 38 | 0.7 | 135 | 82 | 79 | 0.4 |
| 1/2 | B - 12 | 1 | 135 | 82 | 79 | 0.4 |
| 3/4 | B - 34 | 2 | 135 | 82 | 79 | 0.6 |
| 1 | B - 1 | 4.5 | 142 | 82 | 79 | 0.7 |

RDS-6000™ Aluminium

| Size ( Inches) | Code | Flow Factor Kvs ( m3/hr) | Overall Dimensions (mm) Height | Width | Depth | Weight (Kg) |
|---|---|---|---|---|---|---|
| 3/8 | A -38 | 2.9 | 153 | 82 | 79 | 0.6 |
| 1/2 | A -12 | 4 | 153 | 82 | 79 | 0.6 |
| 3/4 | A -34 | 9.5 | 170 | 96 | 85 | 0.8 |
| 1 | A -1 | 12 | 170 | 96 | 85 | 0.8 |
| 1 1/4 | A -114 | 20 | 208 | 153 | 120 | 1.6 |
| 1 1/2 | A -112 | 26 | 208 | 153 | 120 | 1.6 |
| 2 | A -2 | 40 | 218 | 156 | 106 | 1.9 |

**Technical Specifications**

- Wireless Range - up to 500 feet with sub-basement installations.
- Connections - 3/8" up to 2"
- Pressure - up to 87 PSI
- Manual Reset
- Bubble Tight Closure
- Closure Confirmation
- Tamper Proof
- 10 Year Battery Life
- Replaceable Battery Pack
- Compatible with Windows Mobile 5.0

**For more information, please contact:**
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# NATURAL GAS Rate Round-Up

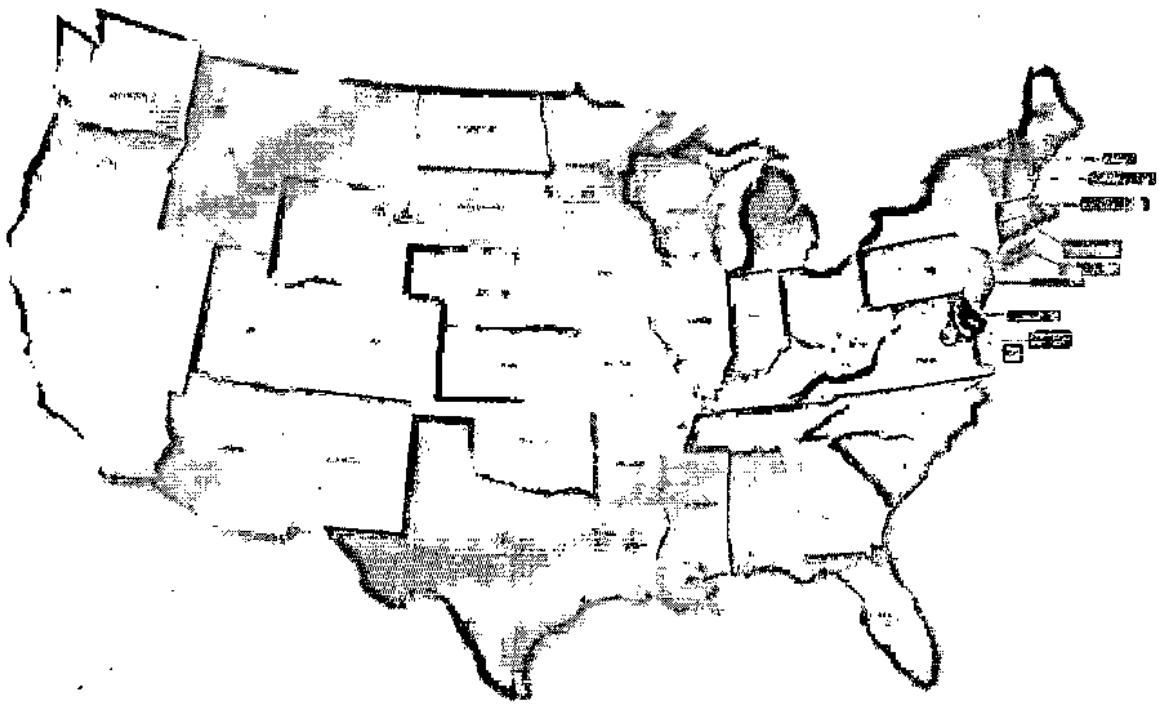
A Periodic Update on Innovative Rate Designs

September 2008

## BAD DEBT COST RECOVERY 2008 UPDATE

Natural gas utilities provide service to their customers on a credit basis. After customers receive service and consume natural gas, they pay their bills to the utility. However, each month, some customers do not pay all or part of their natural gas bills, and these outstanding amounts due become utility bad debt. Higher-than-forecast bad debts usually arise from significant increases in wholesale gas costs, which are outside of the utility's control. Unless mitigated by a regulatory authority, these increased expenses reduce the utility's ability to operate in a financially stable way. This AGA Rate Round-Up describes tariff cost adjustment mechanisms that help utilities recover these volatile and uncontrollable costs. Currently, 47 natural gas utilities in 22 states, the District of Columbia, and Canada have implemented innovative bad debt cost recovery mechanisms and are recovering all or part of related costs in adjustment clauses known as rate trackers or deferral accounts.

### STATES WITH INNOVATIVE BAD DEBT COST RECOVERY MECHANISMS



## PROBLEMS WITH TRADITIONAL METHODS OF BAD DEBT COST RECOVERY

Bad debt is a cost for any business that extends credit to customers. Utilities are allowed to recover bad debt expenses in regulated rates. Natural gas utility bad debt has two components: the commodity portion, which is the largest, and the distribution service portion. Even though the commodity cost is a large portion of bad debt, in traditional rate design bad debt cost is recovered as a fixed expense in base rates (that part of rates that excludes most gas commodity costs and rate trackers). The problem with this method is that in recent years, as natural gas commodity costs have become volatile, bad debts have become a fluctuating rather than a fixed expense. This volatility has made it extremely difficult for utilities to forecast and to recover their costs. Under traditional cost-of-service-based ratemaking, costs that are known and controllable by the utility are recovered in base rates, while costs that are unpredictable and uncontrollable, such as natural gas commodity costs, are recovered in trackers and adjustment clauses. As natural gas costs have increased unpredictably, more customers have defaulted on their debts to utilities. And as natural gas prices have increased, the size of the bad debts has increased. The end result, more customers in default on debts of greater size, has led utilities and regulators to take a fresh approach to bad debt cost recovery.

Timely and certain cost recovery of prudently incurred costs is of utmost importance to the financial stability of natural gas utilities. Because traditional ratemaking allows recovery of a fixed amount of bad debt expense only following approval in a rate case, there is uncertainty in the amount of recovery that will occur due to fluctuating and volatile expense levels. Credit agencies frown on companies – including utilities - with higher levels of uncertainly in the recovery of their costs and therefore assign a lower credit rating to such utilities. That ultimately translates into higher rates for customers. The only alternative within traditional ratemaking is to file a rate case to adjust costs each year, which is costly and also leads to higher rates for customers.

The negative impact that widely varying bad debt costs has on the ability of utilities to recover their prudently incurred costs is now widely understood, and regulatory methods that allow utilities to recover their bad debt costs outside of base rates are becoming more routine. Innovative bad debt cost recovery mechanisms that track and pass through to customers the actual bad debt costs experienced by the utility help utilities to recover their prudently incurred costs and to maintain their financial stability. **Regulators in 22 states, DC and Canada now allow a gas utility to use expense trackers or accounting deferrals to recover bad debt costs in a timely manner.** These rate mechanisms reduce the costs associated with filing rate cases, while reducing the regulatory lag associated with recovery of bad debt expenses.

## UTILITIES WITH INNOVATIVE BAD DEBT COST RECOVERY MECHANISMS

1. CT – Connecticut Natural Gas
2. CT - Southern Connecticut Gas
3. CT – Yankee Gas Services
4. DC – Washington Gas
5. DE – PECO - Delmarva Power
6. IN – Vectren So. Indiana Gas & Elec.
7. KS – Black Hills
8. KS - Atmos Energy
9. MA – Bay State Gas
10. MA – NSTAR Gas
11. MA – KeySpan Boston Gas
12. MA – KeySpan Colonial Gas
13. MD – Baltimore Gas and Electric
14. MD – Washington Gas
15. ME – Northern Utilities
16. MI – Michigan Consolidated Gas
17. NC – Piedmont Natural Gas
18. NE – Black Hills
19. NH – Northern Utilities
20. NH – KeySpan EnergyNorth
21. NY – Central Hudson Gas and Electric
22. NY - Consolidated Edison
23. NY - KeySpan – New York City
24. NY - KeySpan - Long Island
25. NY - National Fuel Gas Distribution
26. NY – National Grid
27. NY – New York State Elec. and Gas
28. NY - Orange & Rockland Utilities
29. OH – Columbia Gas Ohio
30. OH – Dominion East Ohio Gas
31. OH – Eastern Natural Gas
32. OH – Pike Natural Gas
33. OH – Vectren Energy Ohio
34. ON – Union Gas
35. PA - Philadelphia Gas Works
36. RI - National Grid
37. SC - Piedmont Natural Gas
38. TN – Atmos Energy
39. TN - Chattanooga Gas
40. TN - Piedmont Natural Gas
41. TX - Atmos Energy
42. TX - Texas Gas Service
43. UT – Questar Gas
44. VA - Atmos Energy
45. VA – Washington Gas
46. WI - Wisconsin Electric – Gas
47. WY – Questar Gas

## INNOVATIVE BAD DEBT RATE DESIGN SOLUTIONS

The most frequently used innovative method of recovering bad debt costs outside of the traditional ratemaking framework is to pull the commodity portion of bad debt expense out of the base rate mechanism and allow this component to be recovered in the purchased gas adjustment (PGA) component of the customer bill. Several rate design options accomplish this task and there are few substantive differences among the approaches, other than timing of the cost recovery. Trackers and surcharges recover costs in the time period in which they are incurred, while deferral accounts delay the recovery of bad debts, and usually, carrying costs, until a future period. All of these mechanisms are widely used and accepted throughout the utility and the regulatory communities.

**Tracker –** A rate tracker is an example of an adjustment clause, a regulatory mechanism that allows a utility's rates to fluctuate in response to changes in operating costs or conditions, as they occur. Adjustment clauses have been in use since World War I, when the electric industry introduced them due to significant increases in the price of coal. Trackers may be automatic, actuated without the need for a formal rate hearing, or they may require additional regulatory review before they go into effect. Trackers allow the utility to adjust its tariff to facilitate the timely recovery of the bad debt expense.

This mechanism authorizes utilities to recover all or a portion of their bad debts not already included in base rates, and to pass along these expenses without filing for a new rate case. A bad debt tracker is a type of rate adjustment mechanism that recovers costs that are usually outside of the control of the utility, such as taxes and the cost of gas. Similar to gas cost adjustment mechanisms and gross receipts recovery charges, bad debt trackers are tariff provisions that are implemented without the need for a rate case. Both higher-than-forecast and lower-than-forecast bad debt expenses are tracked in a special account and subsequently recovered in the rates of all customers. In Tennessee, for example, the gas commodity portion of the bad debt is removed from base rates, while the gas distribution portion of bad debt cost remains in the base rate charge. The tracking mechanism recovers the commodity portion of bad debt from all customers.

**Surcharge to Rates** – Very similar to the tracker is the surcharge to rates. A rate surcharge is a temporary adjustment to the customer bill that raises rates for a limited time by a fixed amount. Unlike the tracker, which allows the utility to recover ALL of the bad debt expenses, a surcharge limits the total amount of cost recovery. Usually this limit is expressed as a percentage of the gas commodity price. For example, Baltimore Gas and Electric Co. and Washington Gas in Maryland recover the commodity portion of the bad debt as an adder to the gas commodity price. The bad debt adder is based on the test year revenues in the most recent base rate case and ends up being a percentage of the gas commodity price.

**Deferral Account** - Another option is the deferred accounting alternative. Using this approach, the utility treats bad debt expenses that are not included in the utility's existing rates in a segregated manner, thereby establishing a special deferred account. Generally, state authorities require a determination that the costs have been incurred prudently and have been accounted for properly. Often these costs are deferred until the next rate case, at which time the costs are then amortized, recovered in rates, and the account balances are reduced or eliminated. In many cases, the assets in the deferral accounts accrue interest, and the interest is also amortized and recovered later in rates. The regulator may place limits on the amount of bad debt expense that may be accrued, and on the time period over which the amortization may occur, and may require a showing of prudence in the incurring of specific costs. Also, the deferral rate may be trued-up annually to balance the collected bad debt costs with the costs that were actually deferred.

**Hardship Only** – In some states only bad debts from low-income and financially depressed customers are allowed recovery outside of the traditional method. In Connecticut, natural gas utilities are allowed to flow through the PGA account only bad debt costs that are associated with customers who have a demonstrated hardship situation. All other bad debt expenses are still recovered in base rates.

**Collection Costs** – Ohio and New York utilities purchase the accounts receivable of suppliers participating in choice programs. Because of this, some bad debt costs associated with choice program services and with energy service companies (ESCOS), including carrying charges, are added to the bad debt tracker. These bad debt costs are then recovered from all customers.

**Distribution Bad Debt Costs Also Included** – While all innovative bad debt cost recovery mechanisms recover the commodity portion of the bad debt cost outside of base rates, in Ohio the mechanisms allow both the gas commodity and the gas distribution bad debt costs to be removed from base rates and tracked with the bad debt automatic adjustment mechanism.

## CONCLUSIONS

A growing number of states allow utilities to recover the costs incurred between rate cases of variable bad debt expenses. In times of high commodity prices, cost trackers, rate surcharges, and deferral accounts all stabilize cost recovery by closely matching actual expenses to recovered expenses. The utility foregoes over-recovery of this expense in years when bad debts are lower than the amount in base rates and ratepayers avoid overpaying for the bad debt portion of their service. As with most other innovative rate designs, there is no connection between the use of these mechanisms and changes to the utilities' return on equity because recovery of costs in the time period in which they are incurred does not change the utility's cost of capital or the utility's level of risk. This innovative method of cost recovery is becoming more main stream because it is fair to both natural gas utilities and their customers.

## RESOURCES: COMPANIES, RATE ORDERS, WEBSITES, CONTACTS, ETC.

- **Atmos Energy** - Tennessee – Bad Debt Tracker - Gas commodity portion of bad debt is recovered through the tracker mechanism; Tennessee Filing For Declaratory Ruling - Website: http://www2.state.tn.us/tra/dockets/0300209.htm. Contact: Pat Childers @ 615-771-8332
- **Bay State (NiSource)** – Massachusetts – DPU #97-97; Contact: Joe Ferro @ 508-836-7273
- **Chattanooga Gas (AGL Resources)** – Tennessee – Gas commodity portion of bad debt is recovered through the tracker mechanism; Tennessee Filing For Declaratory Ruling - Website: http://www2.state.tn.us/tra/dockets/0300209.htm
- **Columbia of Ohio (NiSource)** - Ohio - All bad debt expenses recovered through the adjustment mechanism; Ohio PUC Case No. 03-1127-GA-UNC. Contact: Suzanne Surface @ 614-460-5966
- **Dominion East Ohio** – Ohio - All bad debt expenses recovered through the adjustment mechanism, including the accounts receivables of suppliers participating in choice programs; Ohio PUC Case No. 03-1127-GA-UNC. Contact: Jeff Murphy @ 216-736-6376
- **KeySpan New England** – Massachusetts and New Hampshire – Contact: Leo Silvestrini @ 781-466-5411
- **Nashville Gas (Piedmont)** - Tennessee – Gas commodity portion of bad debt is recovered through the tracker mechanism; Tennessee Filing For Declaratory Ruling - Website: http://www2.state.tn.us/tra/dockets/0300209.htm. Contact: Bill Morris @ 704-364-3120
- **New England Gas (Southern Union)** – Rhode Island – Website:http://www.negasco.com/stuff/contentmgr/files/70e595624404c5e4ec1f534a7e93178b/images/ritariff_11_1_03rev.pdf. Contact: Peter Czekanski @ 401-574-2309
- **Questar** – Utah and Wyoming – Utah Case No. UT 01-057-14; Wyoming Case No. WY 30010-GP-02-65. Contact Barrie McKay @ 801-324-5491
- **Vectren – Ohio** - All bad debt expenses recovered through the adjustment mechanism, including the accounts receivables of suppliers participating in choice programs; Ohio PUC Case No. 03-1127-GA-UNC

- **Washington Gas Light** – DC, Maryland, and Virginia – Contact: Jim Wagner @ 703-750-5261

## ADDITIONAL INFORMATION

If you would like more information about a particular tariff or would like to speak to another AGA member regarding the details of the program, please contact: Cynthia Marple, AGA director of rates and regulatory affairs, cmarple@aga.org or 202-824-7228.

The 2004 AGA report, *Successful Strategies for Bad Debt Cost Recovery*, can be found on the AGA website at:
http://www.aga.org/Legislative/RatesRegulatoryIssues/ratesreqpolicy/rateroundup/RateRoundUpStrategiesforSuccessfulRecovery.htm