

EXHIBIT

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Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Bad Debt Expense

Energy Efficiency Funding

Trippensee/Rebuttal

Public Counsel

GR-2009-0355

SURREBUTTAL TESTIMONY

OF

RUSSELL W. TRIPPENSEE

Submitted on Behalf of the Office of the Public Counsel

MISSOURI GAS ENERGY

Case No. GR-2009-0355

October 14, 2009

CPC Exhibit No. 80
Case No(s). GR-2009-0355
Date 10-26-09 Rptr KE

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

In the Matter of Missouri Gas Energy's)
Tariff Sheets Designed to Increase Rates)
for Gas Service in the Company's)
Missouri Service Area.)

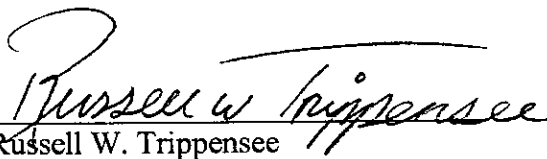
Case No. GR-2009-0355

AFFIDAVIT OF RUSSELL W. TRIPPENSEE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

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

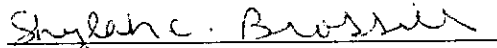
1. My name is Russell W. Trippensee. I am the Chief Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Russell W. Trippensee

Subscribed and sworn to me this 14th day of October 2009.



SHYLAH C. BROSSIER
My Commission Expires
June 8, 2013
Cole County
Commission #09812742


Shylah C. Brossier
Notary Public

My commission expires June 8, 2013.

SURREBUTTAL TESTIMONY

OF

RUSSELL W. TRIPPENSEE

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

1 Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

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

7 Q. ARE YOU THE SAME RUSSELL W. TRIPPENSEE WHO HAS FILED DIRECT
8 AND REBUTTAL TESTIMONY IN THIS CASE INVOLVING MISSOURI GAS
9 ENERGY (MGE OR COMPANY)?

10 A. Yes.

11 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

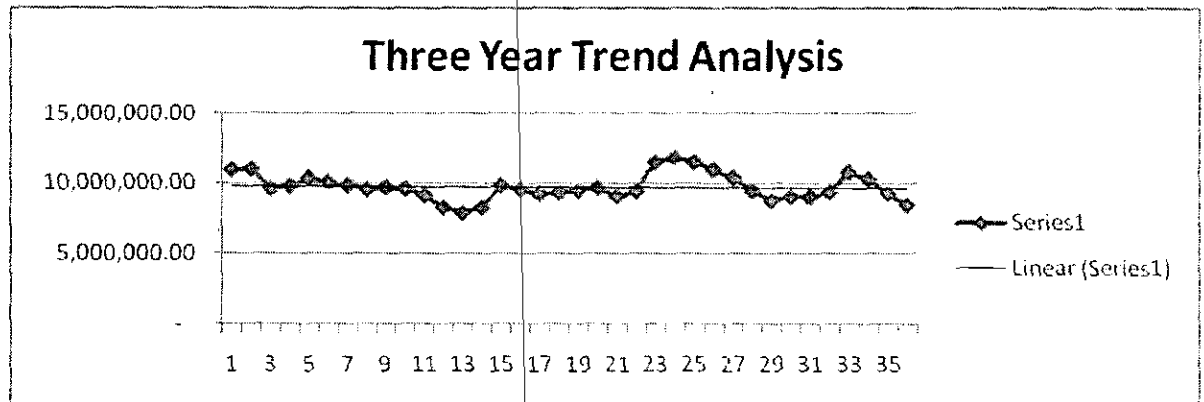
12 A. I will be responding to the rebuttal testimony of MGE witness Michael R. Noack on the issues of
13 Uncollectibles Expense and Energy Efficiency Funding. With respect to uncollectible expense
14 (which my direct and rebuttal testimony references as Bad Debt Expense) I will address several
15 erroneous assertions made by Mr. Noack, specifically Mr. Noack's assertion that an upwards trend
16 exists in actual net write-offs and that recognition of the Emergency Cold Weather Rule (EWRC)
17 amortization is somehow a "refund of past costs", a phrase that is non-sensible in a ratemaking
18 context. The other issue I will address is the interest rate Mr. Noack proposes to apply to funds

1 accumulated for the Energy Efficiency program. Public Counsel would propose that the
2 appropriate interest rate to pay customers for the monies that effectively replace capital (similar to
3 the treatment afforded customer supplied funds via Cash Working Capital as computed using Lead
4 Lag studies) would be the overall cost of capital. As an alternative, Public Counsel would assert
5 that the Allowance for Funds Used During Construction (AFUDC) rate would be the minimum rate
6 appropriate to reflect customer supplied funds.

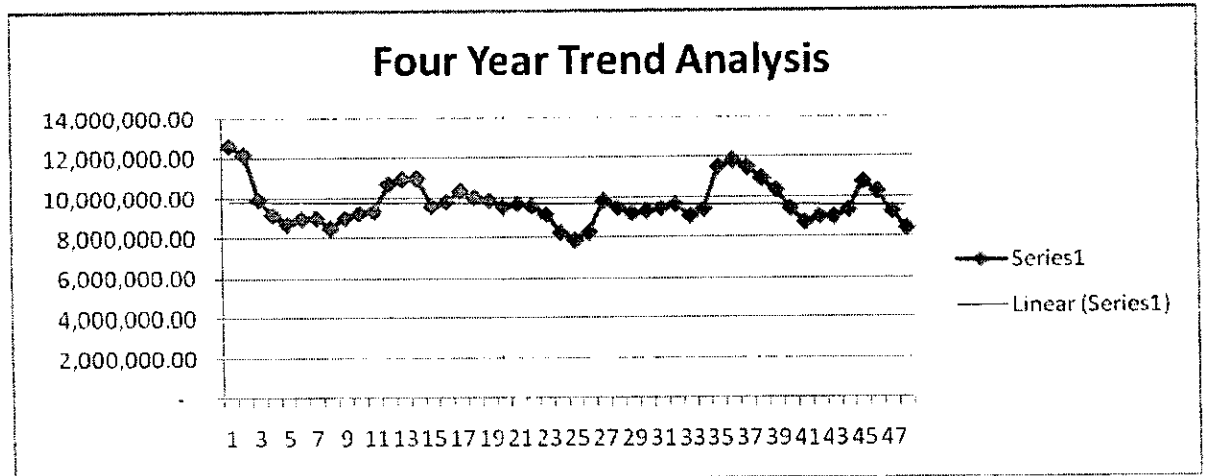
7 **BAD DEBT EXPENSE**

8 Q. ON PAGE 7, LINES 19 - 21, MR. NOACK ASSERTS THAT THERE IS AN
9 UPWARD TREND IN WRITE-OFFS WHEN COMPARED TO THE TEST YEAR
10 RESULTS? DO YOU AGREE WITH THIS STATEMENT?

11 A. No. Two points need to be made regarding this statement. The first point is that the trend in net
12 write-offs over the last three or four year period is declining as I addressed in my rebuttal testimony
13 on page 9, lines 1 - 9. Below is the trend lines derived from the analysis outlined in my rebuttal
14 testimony.
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As can be seen from these two trend analysis, for the three and four year periods ending July 2009, the trend of net write-offs is declining, not increasing as Mr. Noack asserts incorrectly.

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The second point that needs to be made regarding Mr. Noack's statement is his basic definition of a trend. A comparison to a single data point (test year result) does not represent a trend as Mr. Noack's statement asserts but instead results in a difference between where the data is either higher or lower than the single data point. Multiple data points must be analyzed before a trend can be determined. Mr. Noack's statement regarding his "trend" is contained in his response to questions in which he is attempting to buttress the MPSC Staff's direct testimony. As I addressed in my rebuttal testimony, the MPSC Staff's assertion of a trend was flawed (Trippensee Rebuttal, page 8, line 5 through page 9, line 16).

1 Q. MR. NOACK RECOMMENDS THIS COMMISSION IGNORE THE ECWR
2 ACCOUNTING AUTHORITY ORDER (AAO) WHEN ANALYZING NET WRITE--
3 OFFS. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE BASIS FOR HIS
4 RECOMMENDATION.

5 A. Mr. Noack has two primary reasons. First he asserts that the three year amortization is ending and
6 therefore should be excluded from recognition. His second basis is that the ECWR costs were for
7 "measuring the amount of recoveries of the previous uncollectibles that we would never receive
8 because of the lower payment requirements of the ECWR".

9 Q. PLEASE ADDRESS HIS ASSERTIONS.

10 A. As I addressed in my rebuttal testimony on page 6, lines 13 – 21, the recording of the ECWR AAC
11 did not impact Account 144, Accumulated Provision for Uncollectible Accounts, on the Company's
12 financial records. All parties to Case No. GR-2006-0422 and MPSC Staff and MGE in the current
13 case utilized Account 144 as the sole basis for their determination of the proper level of costs to
14 include as bad debt expense. Public Counsel is currently the only party that has also analyzed the
15 impact of the ECWR AAO as part of its recommendation for bad debt expense. Public Counsel
16 agrees with Mr. Noack that the Commission's approval of recovery related to the ECWR AAO was
17 to ensure that uncollectibles (see discussion of uncollectibles in Trippensee Rebuttal, page 4, lines
18 1- 14) were fully considered in the rate making process. MGE's failure to record the ECWR AAO
19 in the same account as uncollectibles would stifle the rate making recognition of the funds being
20 paid via ECWR AAO absent the adjustment Public Counsel proposes. Mr. Noack effectively
21 proposes that ratepayers pay the cost of uncollectible but the Company not be required to recognize
22 those payments in a manner consistent with any other payments of monies owed the Company.

1 Mr. Noack's statements regarding the amortization period ending is simply a red herring because as
2 has been discussed, this ECWR AAO amortization was recorded in a manner that did not impact
3 Account 144, Accumulated Provision for Uncollectible Accounts (see Trippensee Rebuttal
4 Testimony page 6, lines 13 – 21 and Schedule RWT-2 to that testimony). Failure to recognize the
5 ECWR AAO amortization when analyzing net write-offs, effectively results in those write-offs
6 being overstated.

7 Q. DO YOU HAVE ANY OTHER COMMENTS ON MR. NOACK'S REBUTTAL
8 TESTIMONY ON THIS ISSUE?

9 A. Yes. Mr. Noack states Public Counsel's proposed adjustment regarding the ECWR AAO would "in
10 essence be ordering a refund of costs which they previously found to be justified". He is misstating
11 Public Counsel's position. Public Counsel is recommending that this Commission require that
12 payments made to MGE by its customers be properly reflected so that the actual net write-offs
13 (derived from an analysis of Account 144) not be over stated in the rate making process. It must be
14 understood that the recording of the ECWR AAO was not linked to individual customer records. It
15 is these individual customer records (bills and payments) that ultimately are recorded in Account
16 144 when an individual customer fails to pay their bill. The ECWR AAO shifted the payment
17 responsibility to the general body of rate payers. That shift however should not eliminate the
18 recognition of the payment as Mr. Noack advocates.

19 **ENERGY EFFICIENCY FUNDING**

20 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY ON ENERGY EFFICIENCY
21 FUNDING?

1 A. I will address Mr. Noack's proposed interest rate to be applied against any ratepayer supplied
2 Energy Efficiency Funding (EEF) under this program that have not been spent as he sets out on
3 page 29, lines 2 – 13 of his rebuttal testimony. Mr. Ryan Kind is Public Counsel's witness who will
4 address the mechanics and funding of this program.

5 **Q. WHAT IS PUBLIC COUNSEL'S CONCERN WITH MR.NOACK'S PROPOSED**
6 **INTEREST RATE FOR THE ENERGY EFFICIENCY FUND?**

7 A. Public Counsel believes that ratepayers should be properly compensated when they supply monies
8 to the utility via the regulatory process. MGE has acknowledged that compensation is due the
9 ratepayers in Mr. Noack's testimony, unfortunately that compensation rate is not consistent with
10 regulatory practice. Mr. Noack has proposed ratepayers receive compensation equal to the short-
11 term debt rate which traditionally has lowest cost of any component of the capital structure.
12 Furthermore, short-term debt is also assumed to be used for construction work in progress (CWIP)
13 on which the utility is allowed to record an earnings rate referred to as the Allowance for Funds
14 Used During Construction (AFUDC). The AFUDC rate includes not only short-term costs but also
15 other higher cost capital to the extent short-term debt is less than the needed capital to support the
16 construction projects. Therefore, Mr. Noack's proposal would allow MGE to leverage this process
17 by using these EEF funds to replace short-term debt thus reducing balances of short-term debt in the
18 AFUDC calculation. The result would be that the monies invested in CWIP would earn an AFUDC
19 rate that was higher than the short-term debt rate, thus increasing the Company's earnings.

20 **Q. DOES PUBLIC COUNSEL BELIEVE THE AFUDC RATE IS THE APPROPRIATE**
21 **RATE TO APPLY TO THESE EEF MONIES?**

1 A. Public Counsel does not believe it is the most appropriate rate. It would be the minimum rate that
2 Public Counsel would recommend, and only as a second choice to Public Counsel's preferred
3 recommendation.

4 Q. **WHAT WOULD PUBLIC COUNSEL'S PREFERRED RECOMMENDATION BE?**

5 A. All other monies supplied by ratepayers in the regulatory process are recognized in the
6 determination of cash working capital and its related components and included in the rate base. To
7 the extent ratepayers provide this money before the utility uses the monies, an average balance is
8 used to reduce rate base. Thus the ratepayers effectively are compensated at the overall cost of
9 capital on the monies the ratepayer supplied. The inclusion of monies as a reduction to rate base
10 would have the same impact as not recognizing the EEF monies as a rate base offset and paying
11 interest on those monies equal to the overall cost of capital.

12 Public Counsel is not aware of any difference between EEF funds and other ratepayer supplied
13 funds and thus would recommend that the overall cost of capital is the appropriate rate to use when
14 calculating interest on the EEF funds so that all ratepayer supplied funds are treated consistently.

15 Q. **DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

16 A. Yes.