

Exhibit No.:

Issue(s):

Witness:

Sponsoring Party:

Case No.:

Accounting Authority Order

Trippensee/Direct

Public Counsel

GU-2007-0138

DIRECT TESTIMONY

OF

RUSSELL W. TRIPPENSEE

Submitted on Behalf of
the Office of the Public Counsel

Laclede Gas Company

Case No. GU-2007-0138

March 24, 2008

DIRECT TESTIMONY
OF
RUSSELL W. TRIPPENSEE
LACLEDE GAS COMPANY
CASE NO. GU-2007-0138

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 A CERTIFIED PUBLIC ACCOUNTANT?**

8 A. Yes, I hold certificate/license number 2004012797 in the State of Missouri.

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

10 A. I attended the University of Missouri at Columbia, from which I received a BSBA degree, major in
11 Accounting, in December 1977. I also completed the requisite hours for a major in finance. I
12 attended the 1981 NARUC Annual Regulatory Studies Program at Michigan State University. I have
13 attended numerous seminars and conferences related to public utility regulation. Finally, I am
14 required to take a minimum of 40 hours per year of continuing professional education to maintain my
15 CPA license.

16 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

17 A. From May through August, 1977, I was employed as an Accounting Intern by the Missouri Public
18 Service Commission (MPSC or Commission). In January 1978 I was employed by the MPSC as a

1 Public Utility Accountant I. I left the MPSC staff in June 1984 as a Public Utility Accountant III and
2 assumed my present position.

3 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.**

4 A. I served as the chairman of the Accounting and Tax Committee for the National Association of State
5 Utility Consumer Advocates from 1990-1992 and am currently a member of the committee. I am a
6 member of the Missouri Society of Certified Public Accountants.

7 **Q. PLEASE DESCRIBE YOUR WORK WHILE YOU WERE EMPLOYED BY THE MPSC
8 STAFF.**

9 A. Under the direction of the Chief Accountant, I supervised and assisted with audits and examinations
10 of the books and records of public utility companies operating within the State of Missouri with
11 regard to proposed rate increases.

12 **Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WITH THE OFFICE OF
13 THE PUBLIC COUNSEL?**

14 A. I am responsible for the Accounting section of the Office of the Public Counsel and coordinating our
15 activities with the rest of our office and other parties in rate proceedings. I am also responsible for
16 performing audits and examinations of public utilities and presenting the findings to the MPSC on
17 behalf of the public of the State of Missouri.

18 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MPSC?**

19 A. Yes. I filed testimony in the cases listed on Schedule RWT-1 of my testimony on behalf of the
20 Missouri Office of the Public Counsel or MPSC Staff.

21

1 | **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 | A. To provide testimony in support of Public Counsel’s motion filed on March 5, 2008, “Public
3 | Counsel’s Objection to the Non-Unanimous Stipulation and Agreement” and “Public Counsel’s
4 | Position Regarding Laclede’s Request for Determination of Costs” filed on February 28, 2008.
5 | Specifically, I will address why the Commission rule as written contains two entirely different
6 | definitions of how the costs of compliance with the Cold Weather Rule (4 CSR 240-13.055) are to be
7 | determined and thus is ambiguous. I will also address which of these definitions is consistent with
8 | General Accepted Accounting Principles (GAAP) and the Commission’s Uniform System of
9 | Accounts (USOA). Finally, I will address why the Accounting Authority Order deferral as
10 | recommended by the non-unanimous stipulation and agreement will result in ratepayers paying twice
11 | for a portion of bills rendered to customers under the Cold Weather Rule.

12 | **Q. PLEASE INDICATE WHERE THE CONFLICTING DEFINITIONS OF THE COST**
13 | **OF COMPLIANCE ARE CONTAINED IN THE COMMISSION RULES.**

14 | A. The last sentence in 4 CSR 240-13.055 (F)(4) contains a definition of the cost of compliance with the
15 | cold weather rule that is based on cash accounting procedures. 4 CSR 240-13.055 (G)(1) contains a
16 | definition of the cost of compliance that is based on an accrual accounting process consistent with
17 | GAAP.

18 | **Q. PUBLIC COUNSEL INDICATED IN ITS FEBRUARY 28, 2008 FILING THAT**
19 | **THE PARAGRAPH 4 CSR 240-13.055 (F) (4) WAS MODIFIED IN THE**
20 | **COMMISSION’S FINAL ORDER OF RULEMAKING. DID THIS**
21 | **MODIFICATION CREATE A NEW DEFINITION OF COST THAT IS IN**
22 | **CONFLICT WITH THE DEFINITION OF COST CONTAINED IN 4 CSR 13-**
23 | **240.055 (G) (1) OF THE COLD WEATHER RULE?**

1 A. Yes. The definition of cost contained in paragraph (F)(4) in the final rule is based on a cash basis of
2 accounting. In contrast, the definition of eligible costs as contained in paragraph (G)(1) is based on
3 an accrual basis of accounting.

4 **Q. IS LACLEDE REQUIRED TO MAINTAIN AND REPORT IT'S FINANCIAL**
5 **RECORDS ON AN ACCRUAL ACCOUNTING BASIS?**

6 A. Yes it is. This is required under Generally Accepted Accounting Principles.

7 **Q. IS THE COMMISSION APPROVED USOA AN ACCRUAL BASIS ACCOUNTING**
8 **SYSTEM?**

9 A. Yes, the USOA is an accrual accounting system.

10 **Q. IS A CASH BASIS SYSTEM COMPATIBLE WITH AN ACCRUAL BASIS**
11 **SYSTEM?**

12 A. No. There would have to be a reconciliation process to detail the difference between the two systems.

13 **Q. WHY DO YOU ASSERT THAT PARAGRAPH (F) (4) IS A CASH BASIS**
14 **SYSTEM?**

15 A. A major component of the cost under this paragraph is the “unpaid portion of the difference between
16 the initial payment **paid** under this section and the initial **payments** that could have been required
17 from the customer under the previously enacted payment provisions of section (10) of this rule, as
18 measured at the time of a subsequent disconnection for nonpayment or expiration of the customer’s
19 payment plan” (emphasis added). Defining a cost based upon actual receipt of monies creates a cash
20 based system. Recognition of revenues and expenses based upon the occurrence of a right to receive
21 monies or an obligation to pay monies to some other entity is a basic definition of an accrual system.

1 | **Q. CAN YOU PROVIDE FURTHER EXPLANATION?**

2 | A. Yes. It is of critical importance to understand the accounting concepts and applications that result in
3 | the recognition of revenue and earnings and how an individual customer's bad debt cost is recorded
4 | on the financial records of a gas utility in accordance with Generally Accepted Accounting Principles
5 | (GAAP) on which all utilities' reported financial statements are based.

6 | Utility revenues result from the provision of a good or service. Regulated utilities such as Laclede are
7 | required to bill customers in accordance with the tariff sheets approved by the Commission. No cash
8 | has to transfer between the customer and the utility company in order for revenues to be recorded.

9 | The specific entry to record revenues on a utilities financial records is:

	<u>Debit</u>	<u>Credit</u>
10		
11	Account Receivable	XXX
12	(Balance Sheet Account)	
13	(FERC Acct. 142)	
14	Revenues	XXX
15	(Income Statement Account)	
16	(FERC Accts. 440-456)	

17 | The entry to record the payment of an individual customer's bill is:

	<u>Debit</u>	<u>Credit</u>
18		
19	Cash	XXX
20	(Balance Sheet Account)	
21	(FERC Acct. 131)	
22	Accounts Receivable	XXX
23	(Balance Sheet Account)	
24	(FERC Acct. 142)	

25 | As these two entries indicate, the customer's payment of a bill does not affect the reported revenue of
26 | the utility. Likewise, as will be explained later, the failure of the customer to pay a bill does not affect
27 | revenue either.

1 Net Income is the comparison of total expenses to total revenue. Revenue and Expenses are two
 2 general components of the Income Statement. If the difference is positive (Revenue > Expenses) then
 3 the utility had Net Income. If the difference is negative (Expenses > Revenue) then the utility had
 4 negative net income or a loss. The comparison of net income to the financial book value of the
 5 shareholders equity investment, expressed as a percentage or a value per share of equity is the normal
 6 way earnings are conveyed to the financial market.

7 It is reasonable to assume that any company, a utility or other industries, will not collect all of their
 8 revenue billed and thus recorded as discussed previously. Therefore GAAP requires that utilities
 9 record estimates of the bad debt expense in the same period as the revenue is recorded. This entry is
 10 recorded in the following manner:

	<u>Debit</u>	<u>Credit</u>
11		
12	Uncollectible Accounts	
13	(Income Statement Account)	
14	(FERC Acct. 904)	
15	Accumulated Provision for Uncollectible Accounts	XXX
16	(Balance Sheet Account)	
17	(FERC Acct. 144)	

18 When the utility determines that an individual customer account receivable balance will not be able to
 19 be collected in cash, the utility implements a process commonly referred to as a write-off or charge-
 20 off off that account. The following entry is used to accomplish this:

	<u>Debit</u>	<u>Credit</u>
21		
22	Accumulated Provision for Uncollectible Accounts	XXX
23	(Balance Sheet Account)	
24	(FERC Acct. 144)	
25	Accounts Receivable	XXX
26	(Balance Sheet Account)	
27	(FERC Acct. 142)	

1 The write-off of an individual customer's bill affects only balance sheet accounts and **in no way** is
 2 revenue, net income, or earnings affected.

3 **Q. PLEASE EXPLAIN HOW AN ACCRUAL SYSTEM WORKS WHEN A CUSTOMER**
 4 **WHOSE ACCOUNT HAS BEEN WRITTEN OFF, IS RECONNECTED UNDER THE**
 5 **COLD WEATHER RULE.**

6 A. In the event the utility is able to collect monies from the customer subsequent to the customers
 7 account being written off (as is the case under the CWR Rule) the utility will simply reverse previous
 8 entries to write-off that individual customers account and then make the entries necessary to record
 9 the receipt of cash and reduce the accounts receivable from the customer. The following entries
 10 would occur:

	<u>Debit</u>	<u>Credit</u>
11 Reversal of prior Write-off		
12 Accounts Receivable	XXX	
13 (Balance Sheet Account)		
14 (FERC Acct. 142)		
15 Accumulated Provision for Uncollectible Accounts		XXX
16 (Balance Sheet Account)		
17 (FERC Acct. 144)		
18		
19		
20 Collection of Cash under CWR		
21 Cash	XXX	
22 (Balance Sheet Account)		
23 (FERC Acct. 131)		
24 Accounts Receivable		XXX
25 (Balance Sheet Account)		
26 (FERC Acct. 142)		

27 The collection of a partial payment of a previous write-off of an individual customer's bill affects
 28 only balance sheet accounts and **in no way** is revenue, net income, or earnings affected. The
 29 collection of monies under the CWR is not revenue and neither is it an expense.

1 Q. CAN YOU CONTRAST THIS ACCURAL SYSTEM EXPLANATION WITH A CASH
2 BASIS SYSTEM?

3 A. A cash basis system would record revenue only when monies are received from the customer for
4 goods or services provided and expenses would only be recorded when monies are paid to suppliers,
5 employees or other third parties providing goods or service to the entity. There would be no
6 recording of receivables or obligations for goods and services provided or received and there would
7 be no bad debt expense or related bad debt reserve reflected on the financial records at all.

8 Q. THE NON-UNANIMOUS STIPULATION AND AGREEMENT DETERMINES THE
9 "COST" TO BE DEFERRED TO INCLUDE THE DIFFERENCE IN THE MONIES
10 RECEIVED FROM RATEPAYERS ON THE INITIAL PAYMENT (PAYMENT OF
11 ARREARAGES) BASED ON A COMPARISON OF THE PAYMENT PERCENTAGE
12 REQUIRED UNDER THE CURRENT COLD WEATHER RULE, 50%, VERSUS THE
13 PAYMENT PERCENTAGE REQUIRED UNDER A PRIOR COLD WEATHER RULE,
14 80%. DOES THIS DIFFERENCE IN CASH RECEIVED FROM THE
15 RATEPAYER REPRESENT AN EXPENSE OR COST TO LACLEDE UNDER GAAP?

16 A. No. As previously illustrated, this difference is simply a change in the receivable Laclede has with
17 regard to a specific customer. It does not effect the revenues or expenses of Laclede on Laclede's
18 financial statements.

19 Q. PREVIOUSLY YOU MENTIONED A RECONCILIATION PROCESS, DO YOU
20 HAVE ANY COMMENTS AS TO ISSUES THAT WOULD HAVE TO BE
21 ADDRESSED IN THAT PROCESS?

22 A. Yes. First let me state that the efforts and costs associated with a reconciliation process under a cash
23 basis definition would probably be significant. As example, the agreed upon number recommended

1 by Laclede and the Staff is based upon a point in time review of the status of over 8,000 customer
2 accounts. A critical factor not considered in that evaluation is whether or not a customer had
3 continued to make full or partial payments regardless of whether they have been disconnected or been
4 taken off a CWR payment plan. As example, a customer that is still connected to the system, making
5 payments that reduce their balance owed, but who had been removed from a CWR payment plan,
6 their balance owed at June 30 would be used to determine the AAO deferral to be included in a future
7 rate case and thus expected to be paid by other customers through rates. This would occur despite the
8 fact this customer, subsequent to June 30, would make payments to reduce their balance owed
9 Laclede. Similarly, a customer who had been disconnected as of June 30 would have their arrearage
10 included in the AAO deferral. If that customer reconnected with full restitution of arrearages prior to
11 the next heating season, Laclede would have been paid but the AAO deferral would still reflect a
12 “cash based cost”.

13 The non-unanimous stipulation and agreement’s use of a cash based definition of cost while ignoring
14 actual customer payments subsequent to June 30, creates the exact scenario set out in Public
15 Counsel’s February 28, 2008 motion entitled Public Counsel’s Position Regarding Laclede’s Request
16 for Determination of Costs, pages 6 – 7.

17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 A. Yes.

Direct Testimony
Russell W. Trippensee
Case No. GU-2007-0138

Missouri Power & Light Company, Steam Dept., Case No. HR-82-179
Missouri Power & Light Company, Electric Dept., Case No. ER-82-180
Missouri Edison Company, Electric Dept., Case No. ER-79-120
Southwestern Bell Telephone Company, Case No. TR-79-213
Doniphan Telephone Company, Case No. TR-80-15
Empire District Electric Company, Case No. ER-83-43
Missouri Power & Light Company, Gas Dept., Case No. GR-82-181
Missouri Public Service Company, Electric Dept., Case No. ER-81-85
Missouri Water Company, Case No. WR-81-363
Osage Natural Gas Company, Case No. GR-82-127
Missouri Utilities Company, Electric Dept., Case No. ER-82-246
Missouri Utilities Company, Gas Dept., Case No. GR-82-247
Missouri Utilities Company, Water Dept., Case No. WR-82-248
Laclede Gas Company, Case No. GR-83-233
Great River Gas Company, Case No. GR-85-136 (OPC)
Northeast Missouri Rural Telephone Company, Case No. TR-85-23 (OPC)
United Telephone Company, Case No. TR-85-179 (OPC)
Kansas City Power & Light Company, Case No. ER-85-128 (OPC)
Arkansas Power & Light Company, Case No. ER-85-265 (OPC)
KPL/Gas Service Company, GR-86-76 (OPC)
Missouri Cities Water Company, Case Nos. WR-86-111, SR-86-112 (OPC)
Union Electric Company, Case No. EC-87-115 (OPC)
Union Electric Company, Case No. GR-87-62 (OPC)
St. Joseph Light and Power Company, Case Nos. GR-88-115, HR-88-116 (OPC)
St. Louis County Water Company, Case No. WR-88-5 (OPC)
West Elm Place Corporation, Case No. SO-88-140 (OPC)
United Telephone Long Distance Company, Case No. TA-88-260 (OPC)
Southwestern Bell Telephone Company, Case No. TC-89-14, et al. (OPC)
Osage Utilities, Inc., Case No. WM-89-93 (OPC)
GTE North Incorporated, Case Nos. TR-89-182, TR-89-238, TC-90-75 (OPC)
Contel of Missouri, Inc., Case No. TR-89-196 (OPC)
The Kansas Power and Light Company, Case No. GR-90-50 (OPC)
Southwestern Bell Telephone Company, Case No. TO-89-56 (OPC)
Capital City Water Company, Case No. WR-90-118 (OPC)
Laclede Gas Company, Case No. GR-90-120 (OPC)
Southwestern Bell Telephone Company, Case No. TR-90-98 (OPC)

Direct Testimony
Russell W. Trippensee
Case No. GU-2007-0138

Empire District Electric Company, Case No. ER-90-138 (OPC)
Associated Natural Gas Company, Case No. GR-90-152 (OPC)
Southwestern Bell Telephone Company, Case No. TO-91-163 (OPC)
Union Electric Company, Case No. ED-91-122 (OPC)
Missouri Public Service, Case Nos. EO-91-358 and EO-91-360 (OPC)
The Kansas Power and Light Company, Case No. GR-91-291 (OPC)
Southwestern Bell Telephone Co., Case No. TO-91-163 (OPC)
Union Electric Company, EM-92-225 and EM-92-253 (OPC)
Southwestern Bell Telephone Company, TO-93-116(OPC) (OPC)
Missouri Public Service Company, ER-93-37, (January, 1993) (OPC)
Southwestern Bell Telephone Company, TO-93-192, TC-93-224 (OPC)
Saint Louis County Water Company, WR-93-204 (OPC)
United Telephone Company of Missouri, TR-93-181 (OPC)
Raytown Water Company, WR-94-300 (OPC)
Empire District Electric Company, ER-94-174 (OPC)
Raytown Water Company, WR-94-211 (OPC)
Missouri Gas Energy, GR-94-343 (OPC)
Capital City Water Company, WR-94-297 (OPC)
Southwestern Bell Telephone Company, TR-94-364 (OPC)
Missouri Gas Energy, GR-95-33 (OPC)
St. Louis County Water Company, WR-95-145 (OPC)
Missouri Gas Energy, GO-94-318 (OPC)
Alltel Telephone Company of Missouri, TM-95-87 (OPC)
Southwestern Bell Telephone Company, TR-96-28 (OPC)
Steelville Telephone Exchange, Inc., TR-96-123 (OPC)
Union Electric Company, EM-96-149 (OPC)
Imperial Utilites Corporation, SC-96-247 (OPC)
Laclede Gas Company, GR-96-193 (OPC)
Missouri Gas Energy, GR-96-285 (OPC)
St. Louis County Water Company, WR-96-263 (OPC)
Village Water and Sewer Company, Inc. WM-96-454 (OPC)
Empire District Electric Company, ER-97-82 (OPC)
UtiliCorp d/b/a Missouri Public Service Company, GR-95-273 (OPC)
Associated Natural Gas, GR-97-272 (OPC)
Missouri Public Service, ER-97-394, ET-98-103 (OPC)
Missouri Gas Energy, GR-98-140 (OPC)

Direct Testimony
Russell W. Trippensee
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St. Louis County Water, WO-98-223 (OPC)
United Water Missouri, WA-98-187 (OPC)
Kansas City Power & Light/Western Resources, Inc. EM-97-515 (OPC)
St. Joseph Light & Power Company, HR-99-245 (OPC)
St. Joseph Light & Power Company, GR-99-246 (OPC)
St. Joseph Light & Power Company, ER-99-247 (OPC)
AmerenUE, EO-96-14, (prepared statement) (OPC)
Missouri American Water Company, WR-2000-281 (OPC)
Missouri American Water Company, SR-2000-282 (OPC)
UtiliCorp United Inc./St. Joseph Light & Power Company, EM-2000-292 (OPC)
UtiliCorp United Inc./Empire District Electric Company, EM-2000-369 (OPC)
St. Joseph Light & Power Company, EO-2000-845 (OPC)
St. Louis County Water Company, WR-2000-844 (OPC)
Union Electric Company, EO-2001-245 (OPC)
Laclede Gas Company, GM-2001-342 (OPC)
Empire District Electric Company, ER-2001-299 (OPC)
Missouri-American Water Company, et. al., WM-2001-309 (OPC)
AmerenUE, EC-2002-152, GC-2002-153 (OPC)
UtiliCorp United Inc., ER-2001-672 (OPC)
Aquila, Inc., GO-2002-175 (OPC)
AmerenUE, ER-2002-001 (OPC)
Laclede Gas Company, GA-2002-429 (OPC)
AmerenUE, GR-2003-0517 (OPC)
Algonquin Water Resources of Missouri & Silverleaf Resort, Inc. WO-2005-0206 (OPC)
Kansas City Power & Light Company, Case No. EO-2005-0329 (OPC)
Empire District Electric Company, Case No. ER-2006-0315 (OPC)
Kansas City Power & Light Company, Case No. ER-2006-0314 (OPC)
Atmos Energy Corporation, Case No. GR-2006-0387 (OPC)
Missouri Gas Energy, Case No. GR-2006-0422 (OPC)
Aquila, Inc., ER-2007-0004 (OPC)
Missouri American Water Company, WR-2007-0216, (OPC)
Kansas City Power & Light Company, ER-2007-0291 (OPC)
Kansas City Power & Light Company/Aquila, Inc., EM-2007-0374 (OPC)
Laclede Gas Company, GU-2007-0138 (OPC); AAO on Cold Weather Rule