

REBUTTAL TESTIMONY  
OF  
UNCOLLECTIBLE ACCOUNTS PANEL  
CASES 09-E-0588 and 09-G-0589

1 Q. Are you the same individuals who previously submitted direct testimony as  
2 the Uncollectible Accounts Panel?

3 A. Yes we are.

4 Q. What is the purpose of your rebuttal testimony?

5 A. The purpose of our rebuttal testimony is to update the record concerning  
6 recent actual experience with bad debt write offs.

7 Q. Have the Company's bad debt write-offs continued to increase since the  
8 request for rate increases was filed?

9 A. Yes, our bad debts for July-November 2009 were \$4.7 million, which is  
10 \$1.6 million (52%) higher than the same period in 2008. These values  
11 mean that the latest-known 12 monthly bad debt write offs (for the period  
12 ending November 30, 2009) were \$10.4 million.

13 Q. Has the company monitored the bad write-off forecasting model that is  
14 described on pages 13-14 of the Uncollectible Accounts Panel's pre-filed  
15 testimony?

16 A. Yes, on a monthly basis the Company has incorporated its actual results  
17 and recomputed the linear regression analysis.

18 Q. Has the model changed significantly from the model filed as Exhibit UAP-4  
19 to the Uncollectible Accounts Panel's testimony?

20 A. No, the model filed in Exhibit UAP-4 was  $-352,879 + (9,199 \times \text{the number}$   
21  $\text{of collectors on a 6-month lag}) + (0.00592260 \times \text{the actual revenue on a}$   
22  $10\text{-month lag}) + (8,270,091 \times \text{the unemployment rate}) + (115,266 \times 0$   
23  $\text{during periods when winter rules were in effect; } \times 1 \text{ during months when}$

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1 winter rules are not in effect, on a 4-month lag). The model, as updated  
2 for actual results through November 2009, is  $-347,925 + (11,441 \times$  the  
3 number of collectors on a 6-month lag) +  $(0.0049068 \times$  the actual revenue  
4 on a 10-month lag) +  $(8,391,190 \times$  the unemployment rate) +  $(131,140 \times 0$   
5 during periods when winter rules were in effect;  $\times 1$  during months when  
6 winter rules are not in effect, on a 4-month lag).

7 Q. What is the impact of the revised model on the forecasted bad debt write-  
8 offs for the rate year ended June 30, 2011?

9 A. The model filed as Exhibit UAP-4 forecasted bad debt write-offs of \$10.1  
10 million. The model incorporating actual bad debt write-offs through  
11 November 2009 forecasts bad debt write-offs of \$10.2 million. This  
12 represents a \$0.1 million (1%) increase over the forecast provided in  
13 Exhibit UAP-4.

14 Q. How has the Company's actual bad debt write-offs for the period July-  
15 November 2009 compared to the amount forecasted by the model filed as  
16 Exhibit UAP-4?

17 A. The Company's actual bad debt write-offs totaled \$4.7 million during this  
18 period, \$0.6 million (14%) higher than the model forecasted.

19 Q. Have you prepared any exhibit showing the further work with the model  
20 and the results that were produced?

21 A. Yes. Please refer to Exhibit \_\_\_\_\_(UAP-1R). This exhibit is presented in  
22 the same format as UAP-4 and permits a comparison of the model results  
23 with those reported in UAP-4.

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1 Q. Does the \$4.7 million include all of the Company's bad debt write-offs?

2 A. No. In November 2009, the Company wrote off four large commercial  
3 accounts totaling \$0.9 million, which have been excluded from this  
4 number.

5 Q. Why have these amounts been excluded?

6 A. Through November 2009 we have written off 23 accounts totaling  
7 \$1,234,041. In comparing these accounts to prior years' write offs over  
8 \$10,000, we wrote off in 2008 26 accounts totaling \$521,257 and in 2007  
9 10 accounts totaling \$116,184. While the number of accounts in 2009 is  
10 not higher then 2008, the dollars are substantially greater. The largest  
11 account written off over \$10,000 in 2008 was \$45,564 and in 2007 the  
12 largest was \$18,228. The smallest of the November 2009 write-offs was  
13 \$141,597. These four accounts represent more then half the total write-  
14 offs over \$10,000 for 2009.

15 Q. Have these amounts also been excluded from the Company's updated  
16 model?

17 A. Yes. The Company does not believe that these write-offs are indicative of  
18 future bad debt write-offs.

19 Q. Does the Company agree with the Staff's Accounting Panel that the  
20 \$541,000 deferral approved in Case 09-M-0140, should be used to reduce  
21 the revenue requirement for the rate year ended June 30, 2011?

22 Q. No. This deferral represents the Company's actual bad debt write-offs for  
23 its gas business for the rate year ended June 30, 2009 that exceeded the

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1 amounts provided through rates. The fact that the deferral was found  
2 necessary is direct evidence of the higher level of bad debt write-offs the  
3 Company has been experiencing as compared to the rate allowance.  
4 Said differently, the grant of the deferral is correctly understood as curing  
5 an understatement of the rate allowance. Therefore, removing the  
6 deferral amount would revert the development of the future rate allowance  
7 to a level known to be incorrect. To remove these actual costs from the  
8 current rate request would artificially and incorrectly lower the expected  
9 level of bad debt write-offs. In its response to CH IR-32, the Staff's  
10 Accounting Panel offered no evidence that such a decrease should be  
11 expected.

12 Q. Does the Company continue to believe that the provision of deferral  
13 authority in the rate order resulting from this proceeding is the appropriate  
14 mechanism to address bad debt write-offs in excess of the amount  
15 recovered through rates?

16 A. Yes. The significant increase in bad debt write-offs that the Company has  
17 experienced since the middle of 2008 are the result of extraordinary  
18 economic conditions. The Company has taken numerous steps (as  
19 described in its pre-filed testimony on pages 9-10) to reduce the level of  
20 write-offs for which the Company has not requested or received recovery.  
21 Write-offs in excess of amounts recovered in rates represent the  
22 Company's actual costs and are largely driven by factors that are beyond  
23 the Company's ability to control.

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2 Q. Does this conclude your rebuttal testimony?

3 A. Yes.