

MESSER CAPARELLO & SELF, P.A.

Attorneys At Law
www.lawfla.com

January 28, 2011

RECEIVED-FPSC
11 JAN 28 PM 4:28
COMMISSION
CLERK

VIA HAND DELIVERY

Ms. Ann Cole, Commission Clerk
Office of Commission Clerk
Room 110, Easley Building
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Docket No. 090539-GU

Dear Ms. Cole:

Enclosed for filing on behalf of Florida City Gas in the above referenced docket is an original and fifteen copies of the following documents:

- 1. Rebuttal Testimony of Carolyn Bermudez; 00709-11
2. Rebuttal Testimony of David A. Heintz; and 00710-11
3. Rebuttal Testimony of Melvin Williams. 00711-11

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the same to me.

Thank you for your assistance with this filing.

Sincerely yours,

[Handwritten signature of Floyd R. Self]

Floyd R. Self

COM
APA
ECR
GCL
RAD
SSC
ADM
DPC
CLK

FRS/amb
Enclosure
cc: Shannon O. Pierce, Esq.
Parties of Record

DOCUMENT CONTROL
00709 JAN 28 =
FPSC-COMMISSION CLERK

CERTIFICATE OF SERVICE

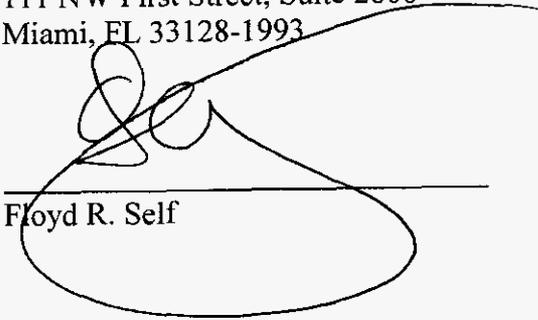
I HEREBY CERTIFY that a true and correct copy of the foregoing has been served on the following parties by Electronic Mail and/or U.S. Mail this 28th day of January, 2011.

Anna Williams, Esq.
Martha Brown, Esq.
Office of the General Counsel
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Mr. Melvin Williams
Florida City Gas
933 East 25th Street
Hialeah, FL 33013

Shannon O. Pierce
AGL Resources, Inc.
Ten Peachtree Place, 15th Floor
Atlanta, GA 30309

Henry N. Gillman, Esq.
David Stephen Hope, Esq.
Miami-Dade County
111 NW First Street, Suite 2800
Miami, FL 33128-1993



Floyd R. Self

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 090539-GU

FLORIDA CITY GAS

REBUTTAL TESTIMONY OF CAROLYN BERMUDEZ

1 **Q. Please state your name and business address.**

2 A. My name is Carolyn Bermudez. My business address is Florida City Gas, 955
3 East 25th Street, Hialeah, Florida, 33013.

4 **Q. Are you the same Carolyn Bermudez who had filed direct testimony?**

5 A. Yes, I am.

6 **Q. Since the filing of your direct testimony, have you changed jobs?**

7 A. Yes, I have. On January 4, 2011, I assumed my new job as the Region Manager
8 for Florida City Gas ("FCG" or the "Company").

9 **Q. What are your new responsibilities in this position?**

10 A. As the Region Manager for FCG I am responsible for all aspects of local
11 operations at the Brevard, Hialeah, and Port St. Lucie service centers including
12 managing distribution, field service, and meter reading functions. I will also focus
13 on safety, compliance, and operational quality for FCG. I report to Mr. Melvin
14 Williams.

COM 5
APA 8
ECR 8
GCL 1
RAD
SSC
ADM
OPC
CLK CF.RPR

DOCUMENT NUMBER DATE
00709 JAN 28 =
FPSC-COMMISSION CLERK

1 **Q. Does this change in responsibilities since you filed your direct testimony**
2 **require any changes or have any other impact on your direct testimony?**

3 A. The only change would be to update my current position to reflect my new duties
4 with FCG. The facts and analyses I have provided have not changed because of
5 my new duties.

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. My rebuttal testimony addresses the cost of service associated with the rates in the
8 2008 Natural Gas Transportation Service Agreement (“2008 TSA”) at issue in the
9 docket and the Competitive Rate Adjustment (“CRA”) testimony of the various
10 Miami-Dade Water and Sewer Department (“MDWASD”) witnesses. Contrary to
11 their beliefs, the analysis I have provided to calculate the incremental costs to
12 provide transportation service to the three MDWASD plants is appropriate. In
13 addition, I discuss the benefits to customers of the CRA and why it is important to
14 the Company’s ability to meets its revenue requirements. Finally, I discuss how
15 much money MDWASD owes FCG for its failure to pay the tariff rates.

16 **Q. Do you have any exhibits associated with your rebuttal testimony?**

17 A. Yes, I am responsible for the following rebuttal exhibit:

<u>Exhibit No.</u>	<u>Description</u>
18 CB-6	19 February 20, 1997 Alexander Orr and Hialeah Plant 20 Rate Design Incremental Cost of Service Study

Cost of Service Issues

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

Q. Mr. Langer asserts that the analysis you undertook that is attached to your testimony as Exhibit __ (CB-1) and which is also attached to Mr. Langer’s testimony as Exhibit __ (JL-9), and which became the basis for the Company’s decision to withdraw the 2008 TSA, is not a cost of service study as is required by the Company’s tariff and Commission’s rules. Can you please respond to this testimony?

A. A traditional cost of service study is not the type of information that is necessary to properly understand the incremental cost to serve a customer within a particular class of customers. In order to test whether the rates in the 2008 TSA recovered their costs, some type of analysis is required to obtain a reasonable approximation for the relevant costs of service. I used the best available information – the actual plant investment by FCG and allocation factors and adjustments based upon the Commission’s decisions in our last rate case for the class of service applicable to MDWASD. In my direct testimony I discussed the specific allocations and adjustments I made both in the original analysis based upon November 2008 surveillance report data, as well as in the subsequent updated analyses using more recent surveillance report data.

For these reasons, and to specifically address the point – yes, the analysis in Exhibit __ (CB-1), is not a true cost of service study as the Company would undertake in a rate case. That is why the Company has said that it has not done and routinely does not perform customer specific cost of service studies.

1 **Q: Has the Company provided any additional witnesses to rebut the testimony**
2 **offered by MDWASD witness Mr. Saffer?**

3 A: Yes. We believe Mr. Saffer and Mr. Langer have confused the proper analysis of
4 how incremental costs applicable to FCG's service to MDWASD should be
5 calculated. To assist the Commission in sorting through this subject, in addition
6 to my rebuttal testimony, FCG is presenting the rebuttal testimony of Dave
7 Heintz, a Vice President of Concentric Energy Services. Mr. Heintz will address
8 the validity of my original analysis and will also specifically respond to Mr.
9 Saffer's analysis.

10 **Q: Can you briefly compare the findings of Mr. Heintz's testimony relative to**
11 **your approach and analysis?**

12 A: Yes. Mr. Heintz has confirmed that the methodology I presented in my direct
13 testimony is the more appropriate methodology to determine whether the rates in
14 the 2008 TSA recover their incremental costs. Mr. Heintz also demonstrates that
15 the analysis offered by Mr. Saffer fails to properly characterize MDWASD's
16 incremental cost of service. In rebutting Mr. Saffer's approach, Mr. Heintz
17 presents a revised analysis that the Commission may want to consider. FCG does
18 not recommend his alternative as it is contrary to the public policy of setting rates
19 based upon a system-wide average cost of service by class.

1 **Q. What are the specific results of the different approaches employed by you**
2 **and Mr. Heintz?**

3 **A.** The rates resulting from my class of service allocation methodology are higher
4 than the customer specific incremental costs produced by Mr. Heintz in his
5 rebuttal testimony but fall reasonably within the same range. For the Alexander
6 Orr Plant, my original analysis showed an incremental cost of service of \$0.0548
7 per therm. Mr. Heintz applied his alternative methodology to produce a cost of
8 service of \$0.0376 per therm. For the Hialeah Plant, my original analysis
9 produced an incremental cost of service of \$0.09312 per therm, as compared to
10 the results of Mr. Heintz's analysis which produced a cost of service of \$0.0555
11 per therm.

12 **Q: Why are these results different?**

13 **A:** My original analysis looks at the costs allocated to the entire class of commercial
14 customers applicable to MDWASD's service and allocates to MDWASD the
15 proper proportion of those class costs. Mr. Heintz's looks at the specific facility
16 costs incurred to connect MDWASD's facilities to FCG's system in order to
17 provide an "apples to apples" comparison to a cost of bypass analysis.

18 **Q: What is your recommendation to the Commission as to which approach it**
19 **should accept as the best public policy to be applied to its evaluation of the**
20 **incremental cost of service under the proposed 2008 TSA?**

21 **A:** Both are valid approaches to evaluating a special services arrangement.
22 Additionally, both alternatives show that Mr. Saffer and MDWASD's approach is

1 wrong. The analysis presented in my direct testimony provides the best approach
2 to be used by the Company in all or in the majority of cases as it can be equally
3 applied to all members of a customer class and obtain consistent results.
4 MDWASD is part of a class of service and under the Commission's rate policy
5 decisions it should bear its pro-rata share of the costs allocated to this class
6 through the rate it pays. If you end up providing a customer in that class a below
7 tariff contract rate, the CRA is designed to recover the difference between the
8 class rate and the discounted rate from the remaining firm customers. On the
9 other hand, the analysis provided by Mr. Heintz may be useful in those limited
10 situations where the customer is seeking a discounted rate supported by verifiable
11 documentation of a gas to gas bypass alternative. Absent such data, the only
12 appropriate approach is to look at the differential of the average class cost for
13 recovery through the CRA rider.

14 **Q. Based upon these two methodologies, how should the Commission proceed?**

15 **A.** Most importantly, the Commission should not approve the 2008 TSA because the
16 rates clearly do not recover the incremental cost of the service under either
17 analysis. After formally rejecting the 2008 TSA, the parties then need to meet and
18 attempt to negotiate a new agreement with rates that recover the incremental
19 costs. The results of these two methodologies will certainly be relevant for those
20 negotiations, just like documented information regarding viable bypass
21 alternatives will be relevant. These are all factors that must be considered and
22 evaluated as a part of the negotiation process. When a new agreement is

1 presented to the Commission for approval, we need to be united in demonstrating
2 to the Commission that there is an appropriate tariff provision that authorizes the
3 proposed service agreement, that there is verifiable information for any bypass
4 alternatives, and that the rates recover their incremental costs.

5 **Q. Mr. Langer claims that there is no FCG investment in the facilities serving**
6 **the MDWASD plants. Do you agree?**

7 **A.** No. Mr. Langer is correct that MDWASD did pay and contribute certain costs
8 associated with the service lines and meters. However, at the same time the
9 Company also incurred some incremental capital costs associated with the high
10 pressure mains for the Alexander Orr and Hialeah plants, \$387,250 and \$833,239,
11 respectively. See my Exhibit __ (CB-6, February 20, 1997 Alexander Orr and
12 Hialeah Plant Rate Design Incremental Cost of Service Study). These costs are
13 included as the basis of my analysis.

14 **Q. So, your analysis excluded any contributed costs paid for by MDWASD?**

15 **A.** Yes, that is correct.

16 **Q. Mr. Langer and Mr. Saffer assert that FCG has more than recovered its**
17 **investment in the facilities serving MDWASD. Do you agree?**

18 **A.** No. First, I believe this position is predicated on the assumption that MDWASD
19 contributed all of the facilities necessary to providing service and that any
20 additional expenditures to serve the MDWASD plants would be nominal and thus
21 would have been recovered by now. As you can see in Exhibit __ (CB-6), the
22 Company has made substantial investments to service. Moreover, based upon this

1 Commission's decisions in our last rate case, and as Mr. Heintz testifies in more
2 detail, the depreciation rate for these facilities is only about 3 percent a year.
3 Thus, these facilities are still a long way from being fully depreciated.

4 **CRA Issues**

5 **Q. Several of the MDWASD witnesses believe that FCG may have over-**
6 **recovered revenues through the CRA. Do you agree?**

7 A. No. The MDWASD testimony appears to be based upon a misunderstanding as to
8 how the CRA works. I discussed in detail in my direct testimony the basis for
9 establishing the CRA, who it applies to, and how it is calculated and recovered,
10 and there is nothing in the MDWASD testimony that rebuts what I said.
11 However, for purposes of responding to the MDWASD direct testimony, there are
12 two points that need to be made here. First, the CRA applies prospectively based
13 upon historical under-recovery due to the difference between the Company's tariff
14 rates and the below tariff rates for services subject to the CRA. As FCG has
15 migrated those CRA-recoverable below tariff rate customers to tariff rates, in the
16 annual CRA true up process we recognized those actions and adjusted the CRA
17 recovery downward until where it is now zero. When MDWASD became a tariff
18 rate customer, there were no longer any other below tariff rate customers for
19 whom the CRA required recovery. Thus, Mr. Armstrong's claim at page 17 of his
20 testimony that "FCG has collected more than \$853,000 in one year for providing
21 Miami-Dade access to two miles of its pipe," is simply wrong. The monies
22 recovered through the CRA in the year for the data cited by him reflects the total

1 CRA recovery for all of the then below tariff rate contracts, and not just
2 MDWASD.

3 **Q. What is the other CRA issue raised by the MDWASD witnesses?**

4 A. Mr. Armstrong at page 28 of his testimony implies that because FCG can recover
5 the difference between a special service rate and the tariff rate, that FCG is
6 somehow recovering more than it should. As I discussed in my direct testimony,
7 because a special service agreement rate recovers something less than the total
8 cost of service, as would be true for tariff customers, the difference between the
9 contract rate and the tariff rate is recoverable from the general body of ratepayers
10 if it is in a class of service subject to the CRA. Thus, because of the continuing
11 oversight by the Commission there has been no over-recovery of the CRA.

12 **Conclusion and Summary**

13 **Q. Please summarize the key points of your testimony.**

14 A. The methodology I utilized to evaluate whether the 2008 TSA rates recovered
15 their costs was an appropriate methodology whether it was or was not strictly
16 speaking an incremental cost of service study. With respect to the CRA, there
17 has not been an over-recovery through the CRA process. Given the fact that
18 under any analysis the 2008 TSA rates do not recover their costs, the 2008 TSA
19 should be denied and not otherwise allowed to become effective. Within 30 days
20 of the final order in this case FCG should be paid the difference between what

1 was charged and what MDWASD paid plus the applicable late charges as set forth
2 in our tariff.

3 **Q. Does this conclude your pre-filed rebuttal testimony?**

4 A. Yes.

MEMORANDUM

To: Ray DeMoine
From: Carl Palermo
Date: February 20, 1997
Re: WASA - Alexander Orr and Hialeah Water Plant Rate Design

Incremental Cost of Service Study

02/20/97
page 3 of 6

WASA - Alexander Orr Water Plant

Rate Base

Description	Amount
Cost of Plant:	
Incremental Capital Cost: High Pressure Main	\$387,250
Service Line and Meter Set	\$0
KSC Allocation of HP Main	\$0
A/D Provision:	
KSC Allocation of HP Main	\$0
Service Line and Meter Set	\$0
	<u>\$0</u>
Net Plant	\$387,250
Working Capital	\$0
Accumulated Deferred Income Taxes	\$0
Deferred Investment Tax Credit	\$0
Rate Base	\$387,250

Incremental Cost of Service Study

02/20/97
page 3 of 6

WASA - Hialeah Water Plant

Rate Base

<u>Description</u>	<u>Amount</u>
Cost of Plant: Incremental Capital Cost: High Pressure Main	\$833,239
Service Line and Meter Set	\$0
KSC Allocation of HP Main	\$0
A/D Provision: KSC Allocation of HP Main	\$0
Service Line and Meter Set	\$0
	\$0
Net Plant	\$833,239
Working Capital	\$0
Accumulated Deferred Income Taxes	\$0
Deferred Investment Tax Credit	\$0
Rate Base	<u>\$833,239</u>