

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 090539-GU

FLORIDA CITY GAS

REBUTTAL TESTIMONY OF DAVID A. HEINTZ

1 **Q. Please state your name, business address, and job title.**

2 A. My name is David A. Heintz. My business address is 293 Boston Post Road
3 West, Suite 500, Marlborough, MA 01752. I am a Vice President at Concentric
4 Energy Advisors (“Concentric”) and a member of the Regulatory Advisory and
5 Litigation Support Services Area of the Firm. Concentric is a management
6 consulting and financial advisory firm focused on the North American energy and
7 water industries.

8 **Q. Please describe Concentric’s business activities.**

9 A. Concentric is a management consulting firm that provides strategic consulting,
10 transaction-related financial advisory services, management, and regulatory and
11 litigation support services spanning a variety of issues in the electric, gas, and
12 water industries. From an industry-wide perspective, Concentric Staff and
13 Affiliates have a wide breadth of experience including senior and executive level

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1 positions with management consulting firms, utility companies, regulatory
2 agencies, competitive energy suppliers, investment banks, and universities.

3 Included in Concentric's relevant experience are the areas of utility
4 costing and pricing, resource planning, competitive market analysis, Federal/State
5 regulatory practices and policies, utility mergers/acquisitions, corporate
6 organization, asset purchases/sales, management prudence, and energy industry
7 restructuring, representing a wide variety of client assignments. Concentric has
8 assisted numerous utility companies located in the U.S. and Canada.

9 **Q. Please describe your education and experience.**

10 A. I have over thirty (30) years of experience in the utility industry, the last twelve
11 (12) of which have been in the field of utility management and consulting. A
12 summary of my education and experience is contained in Exhibit _____ (DAH-1)
13 which is at the end of this testimony.

14 **Q. On whose behalf are you appearing in this proceeding?**

15 A. I am appearing on behalf of Florida City Gas ("FCG" or the "Company").

16 **Q. Have you testified before regulatory authorities in the past?**

17 A. Yes, I have testified before regulatory authorities in several other states and
18 before the Federal Energy Regulatory Commission ("FERC").

1 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

2 A. The Company has asked me to review and comment on the direct testimony and
3 cost of service analysis presented by Mr. Fred Saffer regarding the cost to serve
4 one of FCG's transportation customers, Miami-Dade Water and Sewer
5 Department ("MDWASD"). In responding to Mr. Saffer's testimony, I will also
6 address the direct testimony of Ms. Carolyn Bermudez since Mr. Saffer's
7 testimony evaluates the analyses Ms. Bermudez did in 2009 that led to FCG
8 withdrawing the parties' transportation agreement from Commission
9 consideration.

10 **Q. Can you provide a short summary of each of the testimonies?**

11 A. Yes. The direct testimony of Ms. Bermudez addresses several issues in the case
12 including the background of the 2008 Natural Gas Transportation Special
13 Agreement ("2008 TSA"), various cost of service studies she completed in order
14 to calculate the incremental cost to serve MDWASD, MDWASD's failure to
15 provide the Company with any viable bypass information, the benefits to
16 customers from the Competitive Rate Adjustment ("CRA"), and, lastly, the
17 amount owed to FCG by MDWASD for its failure to pay the tariff rates. On
18 behalf of MDWASD, Mr. Saffer provides an all-together different analysis
19 regarding the cost to serve MDWASD as well as his opinion as to the how the
20 Commission should determine the relevancy of the 2008 TSA.

1 **Q. Does your rebuttal testimony address all of the issues described above?**

2 A. No, it does not. My rebuttal testimony focuses on the details related to the
3 specific cost of service analyses presented in this case. I will first discuss the
4 reasonableness of Ms. Bermudez's testimony in the context in which she has
5 developed her cost of service for MDWASD. I then offer my opinion regarding
6 the incremental cost of service analysis completed by Mr. Saffer. Finally, I will
7 provide my opinion as to FCG's incremental cost to serve MDWASD, which
8 would only be implemented when and if MDWASD can provide adequate
9 information that a bypass alternative is feasible.

10

11 **DISCUSSION OF MS. BERMUDEZ DIRECT TESTIMONY**

12 **Q. Since Mr. Saffer's testimony is really in response to the cost of service study**
13 **done by Ms. Bermudez in her Exhibit __ (CB-1), please describe the**
14 **methodology Ms. Bermudez used to calculate the cost of service for**
15 **MDWASD.**

16 A. The cost of service analyses provided by Ms. Bermudez are based on the General
17 Service ("GS") - 1,250K customer tariff, the class in which MDWASD likely
18 should reside if it were a tariff customer. Ms. Bermudez included a return on rate
19 base for the specific plant installed for MDWASD, which excluded any
20 contributions in aid of construction previously paid by MDWASD, as well as the
21 Company's last approved rate of return. In addition her cost of service included

1 an allocation of Operations and Maintenance (“O&M”) expenses, depreciation
2 expenses, taxes other than income taxes and income taxes. These expense items
3 were allocated based on a customer allocation factor that was established in the
4 Company’s last rate case for the GS-1,250K class.

5 **Q. Is this a cost of service study that would be completed in a full rate case?**

6 A. No, strictly speaking this is not a fully allocated cost to serve analysis specifically
7 performed for all the Company’s different rate classes, as would typically be done
8 in a full rate case. In a fully allocated cost of service study each of the
9 Company’s cost elements, i.e. rate base and expense accounts, would be reviewed
10 and allocated to the various classes of service on an appropriate basis. This would
11 involve special studies to determine the costs of meters and services for each
12 class; review of and direct assignment of costs where appropriate; analysis of the
13 costs of meter reading and billing; and the allocation of general and overhead
14 costs. The study performed by Ms. Bermudez used customer factors developed in
15 a full scale allocated cost of service study for the rate class in which MDWASD
16 would most likely be placed under the Company’s tariff as proxies for the costs to
17 serve MDWASD.

1 **Q. Is the method used by Ms. Bermudez an appropriate method of calculating a**
2 **rate for a customer such as MDWASD in the absence of a complete cost of**
3 **service study?**

4 A. The method used by Ms. Bermudez is certainly appropriate in that it is designed
5 to recover the direct costs of serving the customer, i.e. the installed plant, as well
6 as an allowance for other expense items based on factors developed for the class
7 of service MDWASD would be part of as a tariff customer. While the rate
8 resulting from this cost of service analysis is less than the full tariff rate, it does
9 recover some of the overhead and indirect system costs through the use of the
10 customer allocation factor that is allocated to each and every customer. The cost
11 of service and resulting rates calculated by Ms. Bermudez would result in the
12 minimal amount of subsidy as compared to the tariff rates.

13

14 **DISCUSSION OF MR. SAFER'S DIRECT TESTIMONY**

15 **Q. Have you reviewed the testimony and analysis completed by Mr. Safer?**

16 A. Yes, I have reviewed Mr. Safer's testimony from December 29, 2010 as well as
17 his Exhibit FRS-3.

18 **Q. Do you agree with the manner in which Mr. Safer has described and**
19 **developed his "Incremental Costs" and "Direct Cost Rates"?**

20 A. No, I do not. Specifically, I do not agree with Mr. Safer's use of the term
21 "Incremental Costs" as synonymous with variable costs in this case. I also

1 disagree with several of the assumptions Mr. Safer made in calculating his Direct
2 Cost Rates, including: 1) his calculation of the accumulated depreciation for both
3 the Orr Plant and the Hialeah Plant; 2) his use of the system average return of
4 5.06 percent for return allowance; and 3) his income tax calculation.

5 **Q. Please describe your disagreement with Mr. Safer's use of the term**
6 **Incremental Costs.**

7 A. Mr. Safer takes the Company's use of the term Incremental Costs out of context
8 and inappropriately uses it to explain how MDWASD is being overcharged. Mr.
9 Safer does not provide any evidence that would suggest that MDWASD should
10 not also be charged for the fixed costs or the investment that FCG has made in the
11 facilities that were built in order to transport and meter MDWASD's natural gas
12 use. Also, Mr. Safer states that the service provided to the MDWASD is different
13 from the Company's transportation service that it provides to other customers and
14 that the revenues from the tariffs rates being charged by the Company to
15 MDWASD represent an unjust and unreasonable cost recovery. Mr. Safer does
16 not explain or provide any evidence or information on how MDWASD is
17 different from FCG's other customers or why this cost is unjust and unreasonable
18 for MDWASD, but not unjust and unreasonable for FCG's other customers.

1 **Q. Please discuss the assumptions Mr. Safer has made regarding his cost of**
2 **service analysis for MDWASD.**

3 A. As noted above, there are three specific assumptions incorrectly made by Mr.
4 Safer that would affect the rate he has calculated for his Direct Cost Rates.
5 Initially, Mr. Safer mistakenly calculated his accumulated reserve for the FCG
6 facilities serving the Orr Plant and Hialeah Plant based on the allocation of the
7 Company's total gross plant. In order to calculate the incremental cost of a
8 specific customer it is appropriate to review the actual age of the investment. The
9 FCG plant serving Orr and Hialeah are approximately ten years old, yet Mr. Safer
10 has calculated the accumulated reserve for both facilities based on gross plant,
11 which depreciates these plants 46 percent in ten years. I don't believe that this is
12 an appropriate depreciation rate for distribution mains. More appropriately,
13 distribution mains would fully depreciate in forty or fifty years, or at a rate of
14 approximately three percent per year.

15 **Q. What are FCG's current depreciation rates for Mains?**

16 A. The approved depreciation rates by this Commission for Mains Other Than
17 Plastic and Mains - Plastic are 2.80 percent and 2.90 percent, respectively. The
18 depreciation rate for Industrial Meters and Regulation Station Equipment, which
19 may also be an investment component for Orr and Hialeah, is 3.20 percent.

1 Therefore, I have used a combination of these three rates, 3.00 percent¹, as the
2 depreciation rate in my cost of service calculations.

3 **Q. Please describe why Mr. Safer's use of the system average return of 5.06**
4 **percent is not appropriate when calculating the cost of service.**

5 A. In calculating his Direct Cost Rates, Mr. Safer uses the *current* system average
6 return of 5.06 percent. It is my opinion that in calculating a cost to service, both
7 on a company wide basis and on a customer specific basis, the appropriate rate of
8 return that should be utilized in order to calculate the return on rate base is the
9 allowed rate of return that was determined in the most recent order by the
10 Commission. In this case, the most recent allowed rate of return for FCG is 7.36
11 percent.²

12 **Q. Please discuss your final issue with Mr. Safer's Direct Cost Rate calculation.**

13 A. I have two specific issues related to the tax calculation developed by Mr. Safer.
14 First, he does not account for interest expense when calculating his total taxable
15 income, which overstates his income tax cost. Next, Mr. Safer incorrectly
16 calculates his income tax by not properly grossing for the tax on tax impact.
17 When calculating an income tax allowance for a given return it is necessary to
18 “gross up” the taxes to account for the tax on tax effect.

19

¹ The depreciation rates were determined in Order No. PSC-09-0835-PAA-GU, Docket No. 080182-GU, Attachment A, Page 7.

² The rate of return was determined in Order No. 04-0128-PAA-GU, Docket No. 030569-GU, Attachment 2, Page 80.

1 **THE APPROPRIATE INCREMENTAL COST TO SERVICE MDWASD**

2 **Q. When is it appropriate to extend an incremental or special contract rate to**
3 **customer instead of a tariff rate?**

4 **A.** Local distribution company tariffs are designed to recover the costs allocated to
5 the designated service classes based on the overall characteristics of the class.
6 Since rate classes are based on general usage or demand characteristics, they may
7 not, in all cases, meet the demands of some customers. Since these customers are
8 generally not numerous nor homogeneous enough to constitute a rate class by
9 themselves, a special contract rate may be an appropriate response. Common
10 circumstances where a special contract rate may be appropriate include: 1) bypass
11 risk; 2) interruptible or off-peak usage; or 3) when a large customer is located in
12 an area where the use of distribution facilities is minimal.

13 The need for a special contract rate for customers with bypass risk is the
14 clearest example of the theory that keeping a customer on the system with some
15 contribution to fixed cost recovery is better than losing the customer altogether.
16 Since interruptible or off-peak customers do not utilize the system during peak
17 periods they do not contribute to the need to size system facilities to meet peak
18 demands. Large customers that are situated such that they take service from the
19 system's high pressure distribution or transmission facilities and do not use the
20 system's lower pressure and smaller diameter mains may also be candidates for
21 special contract rates.

1 The goal when designing a special contract rate is to recover, at a
2 minimum, the customer specific costs, and obtain a contribution to utility return.
3 General and overhead costs are typically not included.

4 **Q. Have you calculated the appropriate incremental cost of service for**
5 **MDWASD?**

6 A. Yes, I have. As shown in Exhibit ____ (DAH-2), the Incremental Rate, based on a
7 customer specific cost of service analysis for the Orr Plant is \$0.0376/therm and
8 the incremental rate for the Hiialeah Plant is \$0.0555/therm.

9 **Q. Please explain your method of determining the cost of service?**

10 A. The starting point in determining the cost of service for a special contract
11 customer begins with the net plant. As noted earlier, the FCG facilities serving
12 MDWASD have been in service for ten years, therefore there have been ten years
13 of accumulated depreciation which must be subtracted from gross plant to
14 determine the appropriate net plant.

15 I allocated O&M expenses based on the customer factor from the last rate
16 case which is the same assumption used by Ms. Bermudez. For the depreciation
17 expense, I used the 3.00 percent depreciation rate discussed earlier.

18 As the next step in the analysis I determined the return allowance and
19 income tax expense. I used the Commission approved rate of return, 7.36 percent
20 as discussed above, from the Company's last rate case. To determine the income
21 tax allowance, I subtracted interest expense to reach taxable income based on an

1 effective, combined state and federal, tax rate of 37.63 percent. Finally, I
2 calculated the income tax allowance by applying a grossed-up tax factor of 60.33
3 percent.

4 Taxes other income taxes were computed using the currently effective
5 property tax rate of 2.019 percent.

6 **Q. Does this conclude your rebuttal testimony?**

7 A. Yes.

David A. Heintz
Vice President

Mr. Heintz is an Vice President who has over 30-years of experience working with regulated rates and tariffs at both the federal and state levels. He also provides clients with analyses of natural gas projects, markets and issues. Mr. Heintz's areas of expertise include cost of service, allocation and rate design, tariff terms and conditions, rate case preparation and regulatory issues.

REPRESENTATIVE PROJECT EXPERIENCE

Regulatory Analysis, Ratemaking, Cost of Service

- Filed testimony on the proper design of Kern River Gas Transmission Period Two rates in Docket RP04-274-023 on behalf of a Kern River shipper.
- Prepared a cost of service study for Atlanta Gas Light Company.
- Project manager for preparation of Granite State Gas Transmission FERC rate filing, Docket No. RP10-896. Witness on issues of billing determinants, revenues, cost allocation and rate design.
- Participated in the development of a gas cost of service and rate re-redesign for Northern Indiana Public Service Company.
- Assisted a customer group served by Southern Natural Gas Company in a FERC rate proceeding.
- Assisted ISO-NE in the evaluation of de-list bids and new capacity offers for the first two Forward Capacity Auctions conducted by ISO-NE.
- Prepared a cost of service study and rate design proposals for National Grid Rhode Island (Gas).
- Prepared cost of service studies for New England Gas Company in two Massachusetts rate filings.
- Assist New England Gas in the preparation of periodic filings before the Massachusetts Department of Public Utilities including Gas Cost and Local Distribution Adjustment filings.
- Prepared cost of service studies for Connecticut Natural Gas Corporation and Southern Connecticut Gas Company in their Phase 2 rate design proceeding before the Connecticut Department of Public Utility Control.
- Prepared a cost of service study and rate design proposals for Northwest Natural Gas Company (WA) which included the phase out a commercial rate class.
- Prepared a cost of service study for Puget Sound Energy and assisted in the development of a revenue decoupling mechanism.
- Prepared cost of service studies for Peoples Gas Light and Coke Company and North Shore Gas Company. Assisted in the development of a revenue decoupling mechanism for these companies.
- Performed a cost of service study for Arkansas Oklahoma Gas Corporation. Provided testimony on cost of service and rate design.
- Participated in the development of the revenue requirements for the gas and electric operating companies of a major mid-west utility.
- Participated in a review of the cost of service and rate design methodologies for the natural gas transmission affiliate of a Canadian Crown Corporation.
- Performed an electric cost of service and rate review for the City of Vero Beach, Florida.

- Performed a cost of service study for Chesapeake Utility Corporation, Delaware Division, and provided testimony on rate design issues.
- Performed cost of service and rate design studies integrating the rates and tariffs of Providence Gas Company and Valley Gas Company. Provide testimony on cost of service and proposed new rate designs for the integrated company.
- Performed cost of service study for an investor owned Canadian electric utility.
- Reviewed and provided support for the deferred purchased gas balances of a Louisiana local distribution company.
- Provided support and cost of service analysis for a Pennsylvania electric utility in a FERC complaint case.
- Assisted a Canadian marketing company in its intervention in Northern Border Pipeline Company FERC rate proceeding. Filed testimony on various cost-of-service and rate design issues.
- Assisted an Indiana local distribution company in the preparation of a general rate case and unbundling filing. Assisted in the development of the proposed unbundled services and tariffs.
- Assisted a New Jersey local distribution company with its initial filing under New Jersey's Electric Discount and Energy Competition Act.
- Assisted a major Southwest utility in the preparation of a cost of service and rate design study for filing with the regulatory commission.
- Reviewed and evaluated an electric cost-of-service and unbundling model for the Ontario Energy Board. This model is to be used by the municipal electric utilities in their filings to the Board.
- Assisted a group of Midwest local distribution companies served by Northern Natural Gas Company in a FERC rate proceeding. Filed testimony on various cost-of-service and rate design issues.
- Reviewed the rate harmonization proposal of a major Canadian gas utility for potential shortcomings alternative approaches.
- Responsible for the development, defense, implementation and administration of the Boston Gas Company's rates in rate cases and CGA filings. Prepared annual sales, revenue, margin and gas cost forecasts for budgeting and financial reporting. Directed the company's load research project. Represented the company in regulatory proceedings.
- Responsible for all aspects of United Gas Pipeline Company's rate department, including cost-of-service allocation and rate design, certificates and analysis of other pipeline FERC filings. Represented the company and supported its positions through testimony and negotiations with regulatory agencies, customers and intervenors.
- Responsible for the development of cost-of-service, allocation and rate design studies and filings for Consolidated Natural Gas Company. Analyzed supplier rate and certificate filings. Represented the company and supported its position in negotiations with regulatory agencies, customers and intervenors.
- Responsible for the development and support of FERC staff's position on allocation and rate design issues in pipeline rate and certificate filings.

Valuation and Appraisal

Assisted in the preparation of a report to the FERC on appraised value and insurance recommendations in a certificate proceeding.

Market Analysis

Assisted the Province of New Brunswick in the preparation of its Stage I document for the establishment of natural gas distribution within the Province.

Expert Witness Testimony Presentation

- Federal Energy Regulatory Commission
- Arkansas Public Service Commission
- Connecticut Department of Public Utility Control
- Delaware Public Service Commission
- Georgia Public Service Commission
- Illinois Commerce Commission
- Massachusetts Department of Public Utilities
- New York State Public Service Commission
- New Jersey Board of Public Utilities
- Pennsylvania Public Utility Commission
- State of Rhode Island and Providence Plantations Public Utility Commission
- Washington Utilities and Transportation Commission

PROFESSIONAL HISTORY

Concentric Energy Advisors, Inc. (2006 – Present)

Vice President

Assistant Vice President

Navigant Consulting (1998 – 2006)

Managing Consultant

Boston Gas Company (1993 – 1998)

Director, Rates and Revenue Analysis

United Gas Pipeline Company (1992 – 1993)

Director, Rates and Regulatory Affairs

Consolidated Natural Gas Company (1985 – 1992)

Manager, Regulatory Projects

Federal Regulatory Energy Commission (1979 – 1985)

Industry Economist, Allocation and Rate Design Branch

EDUCATION

M.B.A., Katz Graduate School of Business, University of Pittsburgh, 1989

B.S., Economics, Behrend College, Pennsylvania State University, 1978

Line No.	Description	Alexander Orr	Hialeah	Source
	(a)	(b)	(c)	(d)
1	Plant in Service	\$ 387,250	\$ 833,239	From Company Data Request
2	Accumulated Prov.	(116,175)	(249,972)	3% depreciation rate for 10 years
3	Net Plant	\$ 271,075	\$ 583,267	Line 1 + Line 2
4	Rate of Return	7.36%	7.36%	Approved Rate PSC-04-0128-PPA-GU
5	Return	19,951	42,928	Line 3 x Line 4
6	Interest Exp.	(7,834)	(16,856)	Weighted debt cost of 2.89% from PSC-04-0128-PPA-GU
7	Taxable Income	\$ 12,117	\$ 26,072	
8	Effective Tax Rate	0.3763	0.3763	5.5% State and 34% Federal
9	Income Taxes	\$ 7,311	\$ 15,730	
10	O&M	\$ 98,695	\$ 87,671	From data response (12/09)
11	Depreciation	11,618	24,997	3% depreciation rate
12	Taxes Other	5,473	11,776	2.019% effective property tax rate
13	Total Expenses	\$ 123,096	\$ 140,175	Sum of Lines 9 through 12
14	Total Cost of Service	\$ 143,047	\$ 183,103	Line 5 + 12
15	Volumes (therms)	3,800,000	3,300,000	3 Year Average Deliveries
16	Rate	\$ 0.0376	\$ 0.0555	Line 14 / Line 16