



**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DG 14-180

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Distribution Service Rate Case

DIRECT TESTIMONY

OF

DAVID A. HEINTZ

August 1, 2014

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LIST OF ATTACHMENTS

Attachment DAH -1: Qualifications of David A. Heintz

Attachment DAH -2: Summary of the Functional Cost Study

Attachment DAH -3: Functional Cost Study – Account Level Detail

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1 **I. INTRODUCTION**

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

3 A. My name is David A. Heintz. My business address is 293 Boston Post Road West,
4 Suite 500, Marlborough, MA 01752.

5

6 **Q. By whom are you employed and in what capacity?**

7 A. I am a Vice President at Concentric Energy Advisors, Inc. (“Concentric”), a
8 management consulting firm.

9

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

11 A. A summary of my education and experience is contained in Attachment DAH-1
12 which accompanies this testimony.

13

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

15 A. I am testifying on behalf of Liberty Utilities (EnergyNorth Natural Gas) Corp.
16 (“EnergyNorth” or the “Company”).

17

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

19 A. Yes, I have testified before the Federal Energy Regulatory Commission, the New
20 York State Public Service Commission, the Pennsylvania Public Utility
21 Commission, the New Jersey Board of Public Utilities, the State of Rhode Island
22 and Providence Plantation Public Utility Commission, the Arkansas Public Service

1 Commission, the Connecticut Department of Public Utility Control, the Illinois
2 Commerce Commission and the Georgia Public Service Commission on a variety
3 of topics, including embedded class cost of service studies, rate design, cash
4 working capital, tariff provisions, and reconciliation mechanisms.

5

6 **II. SCOPE OF TESTIMONY**

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

8 A. The purpose of my testimony is to discuss the functional cost of service study
9 performed by Concentric and used as support for the rates proposed by
10 EnergyNorth in this proceeding.

11

12 **Q. Are you sponsoring any attachments to support your testimony?**

13 A. Yes. Included with my testimony are the following attachments:

- 14 • Attachment DAH-1 provides a summary of my qualifications;
- 15 • Attachment DAH-2 is a summary of the functional cost of service study;
- 16 and
- 17 • Attachment DAH-3 provides the detailed study at the individual account
- 18 level.

19

1 **III. FUNCTIONAL COST OF SERVICE STUDY**

2 **Q. What is a functional cost of service study and why was such a study performed**
3 **for this case?**

4 A. A cost of service study provides a measure of the cost responsibility of a company's
5 respective functions or the various rate classes based on cost causation principles.
6 An allocated cost study is necessary to arrive at the cost responsibility for the
7 functions or rate classes because many of the company's costs are common and
8 incurred to serve all classes of customers. In general, costs are first identified based
9 on the function for which they are incurred, then those costs are classified, typically
10 as demand, customer, and commodity, and finally directly assigned or allocated to
11 the various functions.

12
13 The functional cost of service study separates EnergyNorth's revenue requirement
14 into four functions: delivery, direct gas cost, propane and LNG costs, and
15 miscellaneous indirect costs. The direct gas costs, propane and LNG costs and the
16 miscellaneous indirect costs, collectively referred to as production costs, are
17 recovered through the Cost of Gas ("COG") mechanism rather than through base
18 distribution rates. The delivery costs are recovered through base distribution rates.
19 Therefore, the purpose of a functional cost study is to ensure that there is no
20 "overlap" or any "gaps" between costs recovered through distribution rates and
21 costs recovered through the COG mechanism.

22

1 **Q. What, if any, is the relationship between the marginal cost study that is also**
2 **being filed with this case and this functional cost study?**

3 A. As discussed above, the functional cost study separates the Company's total
4 revenue requirement between the costs to be recovered through base rates and those
5 that are recovered through the COG mechanism. The marginal cost study provides
6 the basis for determining the level of distribution revenues to be recovered from the
7 various rate classes as well as the component that are used to design rates.

8
9 **Q. What is included in each of the categories of costs?**

10 A. Direct gas costs include all purchased gas costs including supplier, storage and
11 pipeline demand and commodity costs, as well as commodity costs for propane gas
12 and Liquefied Natural Gas ("LNG"). Indirect gas costs include the propane and
13 LNG facility costs and expenses required to provide the supply service.
14 Miscellaneous indirect costs are the costs associated with supplying the gas
15 commodity to customers that are not included in direct gas costs. These costs
16 consist of the bad debt expense related to the supply function, working capital
17 related to the supply function, and other miscellaneous operations and maintenance
18 expenses including gas acquisition, dispatching, and administrative and general
19 expenses related to the supply function but not included in direct gas costs.

20
21 **Q. How were costs allocated in the functional study?**

22 A. Cost were directly assigned or allocated based on external or internal factors. An

1 external factor is based on data from a separate analysis, such as the number of
2 customers or sales and transportation revenues. An internal factor is calculated
3 within the functional cost study based on the combination of previously allocated
4 costs.

5
6 **Q. How are facilities costs treated in the functional study?**

7 A. The Company's propane and LNG facilities provide a dual service, as they serve a
8 gas supply function and provide pressure support for the distribution system as a
9 whole. Company witness James Simpson examined this relationship¹ and
10 determined that 13.1 percent of the propane and LNG facilities are required for the
11 pressure support function and the remaining 86.9 percent perform a supply
12 function. These percentages were used to allocate the propane and LNG facilities
13 costs to delivery service as pressure support and to supply service. All distribution
14 facility costs, which are identified on page 1 of Attachment DAH-3, were directly
15 assigned to delivery service. Intangible and general facility costs, which are set
16 forth on page 1 of Attachment DAH-3, were allocated to the functions on the basis
17 of labor, an indirect allocation factor.

18
19 **Q. How were the other rate base amounts treated in the functional study?**

20 A. Materials and supplies, pre-payments and accumulated deferred income taxes were

¹ See Attachment JDS/MCS-1.2.

1 allocated to the functions on the basis of plant. Cash working capital was allocated
2 on operation and maintenance (“O&M”) expenses excluding gas costs and bad
3 debt.

4
5 **Q. How were O&M expenses treated in the functional study?**

6 A. Production expenses related to gas acquisition were directly assigned to the supply
7 function and the remaining expenses were allocated between supply and delivery
8 services. All distribution, customer account, customer service and sales expenses
9 with the exception of uncollectible expense were directly assigned to delivery
10 service. Bad debt expense was allocated between delivery and production on the
11 basis of revenues. Administrative and General (“A&G”) expenses were allocated
12 on labor with the exception of transferred costs and regulatory commission
13 expense. Regulatory commission expenses were allocated between delivery and
14 production on the basis of revenues. Finally, the Transferred² costs were allocated
15 on all other A&G costs.

16
17 **Q. How were other expense treated in the functional study?**

18 A. Depreciation expenses were allocated to the functions following the plant accounts.
19 Taxes other than income were allocated on a plant or labor factor.

20

² Transferred costs are a credit and represent expenses recorded in Accounts 920 and 921 which are transferred to construction costs or to non-utility accounts.

1 **Q. Please describe the results of the functional study?**

2 A. Attachment DAH-2, page 1 presents a summary of the results of the functional
3 study at current rates showing the earned returns by function. Pages 2 and 3 of this
4 Attachment presents a more detailed summary of the production costs, separating
5 the costs into LPG and LNG costs, miscellaneous production costs, and bad debt
6 costs at current and proposed rates of return.

7

8 Attachment DAH-3 provides a detailed view of the allocation of each item of the
9 revenue requirement by each account and the external and internal allocation
10 factors used in the study.

11 **Q. Does this complete your testimony?**

12 A. Yes.