

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

Docket No. DG 17-048

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

DIRECT TESTIMONY

OF

DAVID A. HEINTZ

April 28, 2017

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ATTACHMENTS

Attachment	Title
DAH-1	Qualifications of David A. Heintz
DAH-2	Summary of the Functional Cost Study
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, Suite
4 500, Marlborough, MA 01752.

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

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

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

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

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

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

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

15 A. Yes, I have testified before the Federal Energy Regulatory Commission, the New York
16 State Public Service Commission, the Pennsylvania Public Utility Commission, the New
17 Jersey Board of Public Utilities, the State of Rhode Island and Providence Plantation
18 Public Utility Commission, the Arkansas Public Service Commission, the Connecticut
19 Department of Public Utility Control, the Idaho Public Service Commission, the Illinois
20 Commerce Commission, and the Georgia Public Service Commission on a variety of

1 topics, including embedded class cost of service studies, rate design, cash working
2 capital, tariff provisions, and reconciliation mechanisms.

3 **II. SCOPE OF TESTIMONY**

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

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

8 **Q. Are you sponsoring any exhibits to support your testimony?**

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

- 10 • Attachment DAH-1 provides a summary of my qualifications;
- 11 • Attachment DAH-2 is a summary of the functional cost of service study; and
- 12 • Attachment DAH-3 provides the detailed study at the individual account level.

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

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

16 A. A cost of service study provides a measure of the cost responsibility of a company's
17 respective functions on the various rate classes based on cost causation principles. A
18 functional cost study is necessary to arrive at the cost responsibility for the functions
19 because many of the company's costs are common and incurred to provide service to all
20 customers. In general, costs are first identified based on the function for which they are

1 incurred, then those costs are classified, typically as demand, customer, and commodity,
2 and finally directly assigned or allocated to the various functions.

3 The functional cost of service study separates EnergyNorth's revenue requirement into
4 four functions: delivery, direct gas cost, propane and liquefied natural gas ("LNG")
5 costs, and miscellaneous indirect costs. The direct gas costs, propane and LNG costs, and
6 the miscellaneous indirect costs, collectively referred to as production costs, are
7 recovered through the Cost of Gas ("COG") mechanism rather than through base
8 distribution rates. The delivery costs are recovered through base distribution rates.
9 Therefore, the purpose of a functional cost study is to ensure that there is no "overlap" or
10 any "gaps" between costs recovered through distribution rates and costs recovered
11 through the COG mechanism.

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

14 A. As discussed above, this functional cost study divides the Company's total revenue
15 requirement into the costs to be recovered through base rates and those that are recovered
16 through the COG mechanism. The marginal cost study provides the basis for
17 determining the level of distribution revenues to be recovered from the various rate
18 classes as well as the components that are used to design rates.

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

20 A. Direct gas costs include all purchased gas costs including supplier, storage, and pipeline
21 demand and commodity costs, as well as commodity costs for propane gas and LNG.

1 Indirect gas costs include the propane and LNG facility costs and expenses required to
2 provide the supply service. Miscellaneous indirect costs are the costs associated with
3 supplying the gas commodity to customers that are not included in direct gas costs.
4 These costs consist of the bad debt expense related to the supply function, working
5 capital related to the supply function, and other miscellaneous operations and
6 maintenance expenses including gas acquisition, dispatching, and administrative and
7 general expenses related to the supply function but not included in direct gas costs.

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

9 A. Cost were directly assigned or allocated based on external or internal factors. An
10 external factor is based on data from a separate analysis, such as the number of customers
11 or sales and transportation revenues. An internal factor is calculated within the functional
12 cost study based on the combination of previously allocated costs.

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

14 A. The Company's propane and LNG facilities can provide a dual service, as they can serve
15 a gas supply function and provide pressure support for the distribution system. Company
16 witness Melissa Bartos examined this relationship¹ and determined that 8.7 percent of the
17 Tilton LNG facility is required for the pressure support function and the remaining 91.3
18 percent of the propane and LNG perform a supply function. These percentages were
19 used to allocate the propane and LNG facilities costs to delivery service as pressure
20 support and to supply service. All distribution facility costs, which are identified on page
21 1 of Attachment DAH-3, were directly assigned to delivery service. Intangible and

¹ See Attachment MFB-1, page 2.

1 general facility costs, which are set forth on page 1 of Attachment DAH-3, were allocated
2 to the functions based on labor, an indirect allocation factor.

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

4 A. Materials and supplies, pre-payments, and accumulated deferred income taxes were
5 allocated to the functions based on plant. Cash working capital was allocated on
6 operation and maintenance (“O&M”) expenses excluding gas costs and bad debt.

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

8 A. Production expenses related to gas acquisition were directly assigned to the supply
9 function and the remaining expenses were allocated between supply and delivery
10 services. All distribution, customer account, customer service, and sales expenses except
11 for uncollectible expense were directly assigned to delivery service. Uncollectible
12 expense was allocated between delivery and production on a revenue basis.
13 Administrative and General (“A&G”) expenses were allocated on labor except for
14 transferred costs and regulatory commission expense. Regulatory commission expenses
15 were allocated between delivery and production on a revenue basis and the transferred²
16 costs were allocated on all other A&G costs.

17 **Q. How were other expenses 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.

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 study at
3 current rates showing the earned returns by function. Pages 2 and 3 present a more
4 detailed summary of the production costs, separating the costs into LPG and LNG costs,
5 miscellaneous production costs, and bad debt costs at current and proposed rates of
6 return. The net result of the analysis is that a revenue requirement of \$1,273,288
7 associated with the supply function should be recovered through the COG mechanism.

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

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

12 A. Yes.