

RECEIVED--FPSC

09 JAN 30 AM 9:47

**PEOPLES GAS SYSTEM**

COMMISSION  
CLERK

**BEFORE THE**

**FLORIDA PUBLIC SERVICE COMMISSION**

**Docket No. 080318-GU**

**In Re: Petition for rate increase  
by Peoples Gas System**

**Submitted for Filing:  
January 30, 2009**

**REBUTTAL TESTIMONY  
AND EXHIBIT OF:**

**BRUCE NARZISSENFELD  
On Behalf of Peoples Gas System**

DOCUMENT NUMBER-DATE

00776 JAN 30 09

FPSC-COMMISSION CLERK

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Bruce Narzissenfeld and my business address is 702 North  
3 Franklin Street, Tampa, Florida 33602.

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

5 A. I am employed by Peoples Gas System ("Peoples" or the "Company") as  
6 Vice President - Operations.

7 Q. ARE YOU THE SAME BRUCE NARZISSENFELD WHO FILED  
8 DIRECT TESTIMONY IN THIS PROCEEDING?

9 A. Yes, I am.

10 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

11 A. The purpose of my rebuttal testimony is to address the distribution plant  
12 rate base adjustments proposed in the prepared direct testimony of witness  
13 Helmuth Schultz, III, hired by the Office of Public Counsel ("OPC"), and  
14 testifying on behalf of the Citizens of the State of Florida.

15 Q. HAVE YOU PREPARED ANY EXHIBITS SUPPORTING YOUR  
16 REBUTTAL TESTIMONY?

17 A. Yes I have. Exhibit No. \_\_\_\_ (BN-1) was prepared by me or under my  
18 direction and supervision.

19 Q. PLEASE SUMMARIZE YOUR CONCERNS AND  
20 DISAGREEMENTS REGARDING THE SUBSTANCE OF  
21 WITNESS SCHULTZ'S TESTIMONY.

22 A. Mr. Schultz recommends a reduction to distribution plant rate base by  
23 \$15,277,686 for projected 2008 and 2009 capital expenditures. He  
24 accuses the Company of significantly overstating capital expenditures.  
25 This is not correct. Results for 2008 are now known and disprove Mr.

DOCUMENT NUMBER-DATE

00776 JAN 30 08

FPSC-COMMISSION CLERK

1 Schultz's claims since actual capital expenditures *exceeded* projections for  
2 2008. Peoples has a very good history of estimating capital expenditures  
3 compared to its budget. The Company's five-year average of actual  
4 capital expenditures compared to budget is within 3 percent. This  
5 demonstrates the Company's ability to reliably project capital  
6 expenditures and challenges the credibility of Mr. Schultz's proposed  
7 reductions which are 19 percent and 15 percent of 2008 and 2009  
8 projected capital expenditures, respectively. Finally, Mr. Schultz's  
9 proposed adjustments are computed using incorrect data.

10 Mr. Schultz reduced depreciation expense and accumulated  
11 depreciation to reflect his proposed distribution plant revisions. Because  
12 the distribution plant adjustments are not appropriate, the adjustments to  
13 depreciation expense and accumulated depreciation are not necessary.

14 **Q. PLEASE SUMMARIZE MR. SCHULTZ'S PROPOSED**  
15 **ADJUSTMENTS FOR CAPITAL EXPENDITURES.**

16 A. As shown on Exhibit No.\_\_\_\_(BN-1), Mr. Shultz proposes to reduce  
17 capital expenditures for steel main, plastic main and plastic services by  
18 \$11,612,550 for 2008 and by \$8,912,444 for 2009. Together these items  
19 reduce the 2009 13-month average distribution plant rate base by  
20 \$15,277,686.

21 **Q. PLEASE EXPLAIN IN MORE DETAIL YOUR CONCERNS WITH**  
22 **MR. SCHULTZ'S PROPOSED 2008 ADJUSTMENT.**

23 A. Mr. Schultz recommends an \$11,612,550 adjustment for 2008 or 19  
24 percent of the Company's total 2008 capital expenditure projection,  
25 implying that Peoples grossly over-estimated capital expenditures. Mr.

1 Schultz makes three fundamental errors in his analysis. First, he selected  
2 only three categories of capital spending when considering the adjustment.  
3 He ignores other categories of spending and the Company's history of  
4 managing its overall capital budget. Because the Company's budgets are  
5 prepared during the summer before the calendar fiscal year begins, it is not  
6 uncommon for capital projects and priorities to change. The Company  
7 constantly re-prioritizes and adjusts among spending categories of the total  
8 capital budget. Therefore, variances in specific categories are typically  
9 offsetting. In addition, there may be variances between years simply due  
10 to timing issues. Exhibit No. \_\_\_\_ (BN-1) compares total budget to actual  
11 capital expenditures for each of the past five years, and shows that over  
12 this time frame the Company was within 3 percent of budget. This is a far  
13 cry from the magnitude of the adjustment proposed by Mr. Schultz.

14 Additionally, in recommending his adjustment, Mr. Schultz re-  
15 estimates 2008 capital expenditures based on certain erroneous data  
16 provided by the Company. However, as it relates to 2008, this is a moot  
17 issue since 2008 actual costs are now known, and exceed the Company's  
18 projections for the year.

19 **Q. PLEASE DESCRIBE HOW ERRONEOUS DATA WAS**  
20 **PROVIDED.**

21 A. The Company, in an effort to be fully responsive to OPC's Interrogatory  
22 No. 70, *estimated* projected footages for several sizes of pipe by dividing  
23 projected spending by what it believed to be its 2007 actual costs per foot.  
24 Peoples estimated footages because its budget system does not capture this  
25 type of data. Projected budgets are prepared by operating personnel at a

1 project level and only the financial projections are captured in the budget  
2 system. Therefore, the information necessary to apply Mr. Schultz's  
3 adjustment methodology is not available and, unfortunately, he used the  
4 inaccurate estimated footage amounts to recommend his adjustments to  
5 capital expenditures.

6 **Q. HAS PEOPLES PROVIDED A CORRECTED ANSWER TO OPC'S**  
7 **INTERROGATORY NO. 70?**

8 A. Yes. Peoples has provided a corrected answer to Interrogatory No. 70. In  
9 addition, the Company has provided corrected answers to OPC's  
10 Interrogatories Nos. 72 and 73.

11 **Q. DESPITE PROVIDING ERRONEOUS INFORMATION IN**  
12 **RESPONSE TO OPC'S INTERROGATORIES NOS. 70, 72 AND 73,**  
13 **DID THE COMPANY PROVIDE OTHER DATA TO OPC AND**  
14 **MR. SCHULTZ WITH RESPECT TO 2008 CAPITAL SPENDING?**

15 A. Yes. There were other data points from which Mr. Schultz could have  
16 validated his calculated adjustment for 2008, but failed to do so. For  
17 example, Peoples' answer to OPC's Interrogatory No. 1 (served almost  
18 three months before Mr. Schultz's testimony was filed) reflected that  
19 Peoples had spent almost \$41.6 million of its budgeted \$62 million as of  
20 July 31, 2008. Peoples' answer to Staff Interrogatory No. 53, served  
21 November 12, 2008 – slightly more than a month before Mr. Schultz's  
22 testimony was filed – indicated that as of the date of the answer, Peoples'  
23 2008 capital expenditures were expected to be \$68 million, about \$6  
24 million more than projected in the MFRs filed with the Company's  
25 petition. That interrogatory answer also stated that there had been no

1 changes to the projected 2009 capital expenditures shown on MFR  
2 Schedule G-1, page 26.

3 **Q. PLEASE EXPLAIN YOUR CONCERNS WITH MR. SCHULTZ'S**  
4 **PROPOSED ADJUSTMENT FOR 2009.**

5 A. In addition to making the same erroneous adjustment for 2009 based on  
6 inaccurate estimated footage data, Mr. Schultz, as he did for 2008,  
7 considers only three categories of spending in his analysis. He  
8 recommends an \$8,912,444 reduction to capital expenditures for 2009, or  
9 15 percent of the Company's total 2009 projection. Nothing has occurred  
10 which would cause the Company to believe that its 2009 projections  
11 should be changed, and history strongly suggests that actual capital  
12 expenditures for the projected test year will be very close to what was  
13 projected in the Company's filing in this case.

14 **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING MR.**  
15 **SCHULTZ'S TESTIMONY?**

16 A. Yes. Mr. Schultz claims that the Company's capital expenditure growth  
17 assumptions are inconsistent with the Company's assumptions about  
18 customer growth and use per customer. There is no direct relationship  
19 between use per customer and capital expenditures. For example, the cost  
20 to establish service to a new customer is not impacted by whether  
21 customers, both in total or individually, are conserving and using less gas.  
22 In addition, use per customer can be decreasing while overall system  
23 usage is increasing due to an increase in the total number of customers or  
24 changes in customer mix.

25 While it is true that economic conditions have reduced the near-

1 term customer growth estimate, the Company's planning cycle employs a  
2 longer time horizon. Consistent with Commission requirements, the  
3 Company evaluates expansion capital based on a four-year payback  
4 period, and this criterion is reflected in the Company's 2009 budget.  
5 Short-term economic conditions should not automatically reduce the  
6 Company's expansion plans and delay bringing gas to areas not currently  
7 served. The Company's expansion plans support Florida's initiative to  
8 improve fuel diversity and reduce the state's carbon footprint consistent  
9 with Governor Crist's Executive Order No. 07-126.

10 **Q. DO YOU AGREE WITH MR. SCHULTZ'S ADJUSTMENTS TO**  
11 **DEPRECIATION EXPENSE AND ACCUMULATED**  
12 **DEPRECIATION?**

13 A. No. Because his adjustments to capital expenditures for 2008 and 2009  
14 are improper, so are his recommended adjustments to depreciation  
15 expense and accumulated depreciation for those years.

16 **Summary of Rebuttal Testimony**

17 **Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

18 A. Mr. Schultz has proposed reductions in capital expenditures of  
19 \$11,612,550 and \$8,912,444 for 2008 and 2009, respectively, based on his  
20 estimated costs in three selected spending categories. Final 2008 total  
21 capital expenditures are now known and not only validate, but exceed, the  
22 level of capital spending included in the Company's filing. Mr. Schultz's  
23 adjustments are computed using incorrect data, despite the fact that other  
24 data provided by Peoples strongly suggested his adjustments were  
25 incorrect and ignored the Company's proven track record of reliably

1           estimating total capital expenditures. Since the adjustments to capital  
2           expenditures are not appropriate, the adjustments proposed by Mr. Schultz  
3           to depreciation expense and accumulated depreciation are unnecessary and  
4           inappropriate.

5   **Q.    DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

6   **A.    Yes, it does.**

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

**2008 Projected Capital Expenditures (3 categories):**

	Per Company	Per Mr. Schultz	Difference	Actual 2008 Spending *	Difference
Steel main	\$12,833,391	\$9,762,499	(\$3,070,892)	\$23,880,682	\$11,047,291
Plastic main	20,630,825	10,423,901	(10,206,924)	14,053,589	(6,577,236)
Plastic services	8,107,182	9,772,448	1,665,266	8,036,906	(70,276)
	<u>\$41,571,398</u>	<u>\$29,958,848</u>	<u>(\$11,612,550)</u>	<u>\$45,971,177</u>	<u>\$4,399,779</u>
% of total budget			<b>-19%</b>		<b>7%</b>

**2009 Projected Capital Expenditures (3 categories):**

	Per Company	Per Mr. Schultz	Difference
Steel main	\$10,869,303	\$11,553,810	\$684,507
Plastic main	23,555,402	11,901,572	(11,653,830)
Plastic services	10,013,680	12,070,559	2,056,879
	<u>\$44,438,385</u>	<u>\$35,525,941</u>	<u>(\$8,912,444)</u>
% of total budget			<b>-15%</b>

**Historical Capital Expenditures - Total Company**

	Budget	Actual	Difference
2004	\$39,995,242	\$37,935,503	(\$2,059,739)
2005	40,000,001	42,318,988	2,318,987
2006	50,931,012	53,886,465	2,955,453
2007	50,034,998	48,097,076	(1,937,922)
2008	62,452,570	68,591,647 *	6,139,077
	<u>\$243,413,823</u>	<u>\$250,829,679</u>	<u>\$7,415,856</u>
2009	\$59,998,964		
			<b>3%</b>

\* Preliminary Unaudited Results