

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition of Miami-Dade County through  
The Miami-Dade Water and Sewer Department  
for Approval of Special Gas Transportation  
Service Agreement with Florida City Gas

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Docket No. 090539-GU

**REBUTTAL TESTIMONY**

**OF**

**FRED SAFFER**

**ON BEHALF OF MIAMI-DADE COUNTY WATER AND SEWER  
DEPARTMENT**

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**REBUTTAL TESTIMONY OF FRED R. SAFFER ON BEHALF OF  
MIAMI-DADE WATER AND SEWER DEPARTMENT**

1 **Q. PLEASE STATE YOUR NAME AND OCCUPATION.**

2 A. My name is Fred R. Saffer. My business address is 1705 Bimini Drive,  
3 Orlando, Florida 32806. I am a utility consultant and I provide financial,  
4 engineering and management consulting services to distribution rural electric  
5 cooperatives and municipalities, counties, municipal joint action agencies and  
6 other governmental entities that own and operate or regulate electric, water and  
7 wastewater utility systems.

8 **Q. ARE YOU THE SAME FRED R. SAFFER WHO SUBMITTED DIRECT  
9 TESTIMONY IN THIS PROCEEDING?**

10 A. Yes.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY AT THIS TIME?**

12 A. On November 13, 2008, Florida City Gas ("FCG" or the "Company")  
13 submitted a petition to the Florida Public Service Commission ("FPSC" or the  
14 "Commission") for approval of a special gas transmission service agreement  
15 with Miami-Dade County Water & Sewer Department ("Miami-Dade" or the  
16 "Department") referred to hereinafter as the "2008 Agreement." In Article 11  
17 at page 5 of that pleading, the FCG stated (emphasis added):

18           The agreement provisions are **justified, are in the best**  
19           **interests of FCG and do not harm FCG's ratepayers**  
20           because (a) **FCG will recover its cost to serve Miami**  
21           **Dade County via the rates charged to Miami-Dade**  
22           **County, (b) serving Miami-Dade County removes from the**  
23           general body of ratepayers costs that would otherwise be  
24           allocated to those ratepayers in the absence of the  
25           agreement, (c) losing Miami-Dade County as a customer

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1 would be detrimental to the general body of ratepayers, and  
2 (d) Miami-Dade County negotiated the agreement at arm's  
3 length with FCG and Miami-Dade County approved the  
4 agreement as being in the best interest of Miami-Dade  
5 County and its customers.

6 Moreover, in Article 11, FCG stated in part (emphasis added):

7 FCG requests that the Commission approve its Miami-  
8 Dade County gas transportation agreement as a special  
9 contracts . . . Such approval will ensure that FCG  
10 continues to service this significant gas transportation  
11 customer **at compensatory rates** and that FCG and its  
12 ratepayers will receive **the benefits** of that agreement.

13 In spite of the Company's above quoted support for the 2008 Agreement, FCG  
14 unilaterally withdrew the agreement from any consideration by the Commission  
15 and now, by way of the direct testimony of Company witnesses Melvin  
16 Williams and Caroline Bermudez, makes the claim that the 2008 Agreement  
17 rates will not recover the Company's costs of providing the natural gas  
18 transmission service to Miami-Dade. Therefore, my testimony will rebut certain  
19 portions of the direct testimony of FCG witnesses Mr. Williams and Ms.  
20 Bermudez.

21 **Q. PLEASE SUMMARIZE THE DIRECT TESTIMONY OF COMPANY**  
22 **WITNESSES WILLIAMS AND BERMUDEZ YOU WILL ADDRESS IN**  
23 **YOU REBUTTAL TESTIMONY.**

24 **A.** The position of FCG, as set forth in the direct testimony of witness Bermudez  
25 and Williams, is summarized on lines 19 and 20 at page 25 of Ms. Bermudez'

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1 testimony where she states:

2 Service to MDWASD under the rates in the 2008 TSA [the  
3 2008 Agreement] does not recover the cost of service.

4 Accordingly, the 2008 TSA should be denied and not  
5 otherwise enforced.

6 It is my professional opinion that the rates set forth in the 2008 Agreement more  
7 than recover the incremental costs the Company incurs in providing natural gas  
8 transmission service to Miami- Dade.

9 **Q. HAVE YOU REVIEWED THE VARIOUS COST OF SERVICE**  
10 **ANALYSES MS. BERMUDEZ HAS INTRODUCED WITH HER DIRECT**  
11 **TESTIMONY?**

12 A. Yes, and irrespective of her multiple claims that the various analyses she has  
13 introduced represent the Company's incremental cost to service Miami-Dade,  
14 those cost analyses are not representative of the Company's incremental costs.

15 **Q. DOES THE COMPANY TARIFF REFERENCE MS. BERMUDEZ**  
16 **INCLUDED IN THE 2008 AGREEMENT REQUIRE THE COMPANY**  
17 **TO PREPARE AN INCREMENTAL COST ANALYSIS?**

18 A. Yes. The Monthly Rate provision of the Company's tariff Contract Demand  
19 Service (KDS) states in part:

20 but the rates shall not be set lower than the incremental  
21 costs the Company incurs to serve the Customer.

22 However, on line 5 at page 5 of her direct testimony, Ms. Bermudez stated that  
23 she only did a "cursory review" of the proposed rates in the 2008 Agreement  
24 and, therefore, she ignored the requirement for an incremental cost analysis  
25 clearly stated in the KDS Rate Schedule she selected for the agreement.

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1 **Q. DOES MS. BERMUDEZ CLAIM THE COMPANY HAS PREPARED**  
2 **AND PRESENTED AN ANALYSIS OF THE INCREMENTAL COSTS**  
3 **TO SERVE MIAMI-DADE.**

4 A. Commencing on line 5 at page 11 of her direct testimony, Ms. Bermudez states  
5 in part:

6 FCG does not conduct customer specific or site-specific  
7 cost studies. Thus, you cannot look at our rate case or our  
8 surveillance reports and other filings with the PSC or the  
9 books and records of the company to obtain a specific cost  
10 of service for MDWSD collectively or specifically their  
11 three plants that we serve.

12 By her introduction of misleading testimony and evidence, she implies and in  
13 some instances states that she or other Company personnel did prepare  
14 incremental cost analyses. When asked at page 9 of her direct testimony if she  
15 had prepared any new cost studies in order to substantiate a new rate with the  
16 Department, her answer was no. However, on lines 16 and 17 at page 9 she  
17 stated that the November 2008 analysis was a "good and reasonable baseline."  
18 Then in the last column of Exhibit CB-1 the 2008 costs and resulting rates are  
19 characterized as "Total Incremental Cost of Service" and "Incremental Cost  
20 Rate." However, it is not an incremental cost rate since the classical definition  
21 of an incremental cost rate excludes any fixed costs and, of course, the average  
22 system cost elements such as depreciation expense, income taxes and return on  
23 investment are fixed costs.

24 **Q. WHAT DO THE COST ANALYSES SET FORTH IN EXHIBIT CB-1**  
25 **SHOW?**

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1 A. I am not sure what the Exhibit CB-1 analyses show. I do know, however, that  
2 those analyses do not represent the incremental costs associated with the  
3 Company's service to Miami-Dade. On lines 6 through 10 at page 6 of her direct  
4 testimony, Ms Bermudez states that the rates set forth in the 1998 Agreement,  
5 which were the same as the rates proposed in the 2008 Agreement, had been  
6 approved by the Commission in the Company's 2000 and 2003 rate cases  
7 without "questioning, changing, or otherwise challenging the rate being  
8 charged." Irrespective of this testimony, Ms. Bermudez now claims the data  
9 shown in the "1998 Rate Design" column was a recently found mysterious  
10 analyses by the NUI Marketing group and for which Ms. Bermudez has been  
11 unable to verify the source material used in those analyses.

12 **Q. DOES MS. BERMUDEZ' EXHIBIT CB-2 PROVIDE ANY**  
13 **ENLIGHTENMENT WITH RESPECT TO THE RATES SHE HAS**  
14 **CALCULATED IN EXHIBIT CB-1?**

15 A. No. Throughout her testimony, Ms. Bermudez attempts to support her cost of  
16 service analyses on the basis that the methodology she has applied is the same  
17 cost allocation methods the Commission approved in the 2003 rate proceeding.  
18 I would be surprised that the Commission would adopt rates based on such a  
19 simplistic allocation methodology.  
20 If anything, the CB-2 data includes a questionable cost allocation method that  
21 results in meaningless rates. In Ms. Bermudez' rate analyses, all of the total  
22 system cost data from the November 2008 Surveillance Report is allocated to  
23 the Miami-Dade service using a customer allocation factor Ms. Bermudez  
24 claims is from the 2003 rate proceeding. However, page 6 of Attachment 6 to  
25 the Commission Order in Docket No. 030569-GU indicates that the customer

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1 allocation factor is not applicable to the "Third Party Supplier" customer class.  
2 Moreover, the only customer related costs included in the total system costs  
3 from the Surveillance Report would be a minor portion of the O&M expenses  
4 such as meter reading and billing costs. If one were attempting to develop an  
5 average system allocated cost of service for a single, the balance of the listed  
6 costs would be allocated to that customer by allocation factors other than the  
7 customer factor. Therefore, in addition to not representing the Company's  
8 incremental costs of serving Miami-Dade, the rates developed in Exhibit CB-1  
9 are totally meaningless and do not provide the Commission with any basis for  
10 rejecting the 2008 Agreement and the rates included therein.

11 **Q. ARE THERE OTHER INSTANCES WHERE MS. BERMUDEZ'**  
12 **TESTIMONY COULD BE MISLEADING?**

13 **A.** Yes. At page 13 of her direct testimony, Ms. Bermudez is asked to continue her  
14 discussion of the 2008 Surveillance Report analysis and, commencing on line  
15 15, she states (emphasis added):

16 The total **incremental** cost of service reflects the sum of  
17 the allocated expenses and Required Return on Investment  
18 (Rows 20 and 22 and Rows 47 and 49, respectively). Rows  
19 26 and 53, respectively, reflect the Estimated Annual  
20 Volume in therms, which is an average of the prior three  
21 years consumption. The **incremental rate** for the plants is  
22 reflected on Rows 28 and 55: For the Alexander Orr plant  
23 the **incremental cost rate** is \$0.05448 per therm and for  
24 the Hialeah and Black Point/South Dade plants the  
25 **incremental cost rate** is \$0.09312 per therm.

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1 By repeating the terms "incremental costs" and incremental rates" over and over  
2 to describe her analyses simply does not make it so.

3 **Q. DOES MS. BERMUDEZ STATE HER OPINION AS TO THE CEILING**  
4 **RATE IF A VIABLE BYPASS OPTION IS AVAILABLE TO MIAMI-**  
5 **DADE?**

6 A. Yes. On lines 11 and 12 at page 17 of her direct testimony Ms. Bermudez  
7 states:

8 Where a viable bypass option is available, it would in  
9 essence become the ceiling for the rate.

10 **Q. IS A VIABLE BYPASS OPTION AVAILABLE TO MIAMI DADE?**

11 A. Yes. At page 6 of his direct testimony, Miami-Dade witness Joseph Ruiz states  
12 that the Department's most recent quotes for bypass are approximately \$650,000  
13 for the Orr Plant and \$1.2 million for the Hialeah plant. Based on the  
14 Department issuing 40-year revenue bonds with a 4.0% interest rate, the annual  
15 level debt service for the Orr and Hialeah Plant bypass would require rates of  
16 \$0.0085 per therm and \$0.0184 per therm respectively. Thus, the \$0.01 per  
17 therm and \$0.03 per therm rates set forth in the 2008 Agreement are in excess of  
18 what witness Bermudez claims should be the "ceiling" rate.

19 **Q. HOW DO THE VIABLE BYPASS OPTION RATES DISCUSSED ABOVE**  
20 **COMPARE WITH THE INCREMENTAL RATES YOU TESTIFIED TO**  
21 **IN YOUR DIRECT TESTIMONY?**

22 A. In Exhibit FRS-3, the incremental rates were shown to be \$0.0078 per therm and  
23 \$0.0182 per therm for the Orr Plant and Hialeah Plant respectively. Thus the  
24 incremental rates I calculated in my direct testimony are very nearly the same as  
25 the viable bypass option rates Witness Bermudez testified should be the ceiling



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1 rates. Therefore, irrespective of the test that is applied, either the incremental  
2 cost test or the viable bypass option test, the rates proposed in the 2008  
3 Agreement are just and reasonable and provide the Company with adequate cost  
4 recovery from the volumes of gas delivered to the Miami-Dade plants.

5 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE COMPANY**  
6 **WITNESSES' ADMISSION OF A FAULTY REVIEW OF THE TERMS**  
7 **OF THE 2008 AGREEMENT?**

8 A. Mr. Williams and Ms. Bermudez are both quick to minimize or negate their  
9 involvement in the negotiations of the 2008 Agreement. However, Ms.  
10 Bermudez has testified that she is the Company's manager who substituted the  
11 KDS Rate Schedule in the 2008 Agreement and that her review of the rates was  
12 only "cursory." Ms. Bermudez has testified that service to Miami-Dade was  
13 included in the Company's 2000 and 2003 rate cases before the Commission and  
14 was a part of the GS1250k service classification. If that is so, it would not have  
15 been necessary to include any rate schedule reference in the 2008 Agreement.  
16 At the time the Company's 2000 and 2003 rate cases were before the  
17 Commission, the Company's service to Miami-Dade was being provided by the  
18 uncontested 1998 Agreement. Therefore, I question the veracity of Ms.  
19 Bermudez claim that the Miami-Dade service was included as a part of the KDS  
20 or GS1250K Rate Schedule customer classes in the Company's 2000 and 2003  
21 rate cases.

22 Mr. Williams admits that three of the Company's tariffs may apply to the service  
23 the Company provides Miami-Dade: (i) the KDS Rate Schedule; (ii) the  
24 Flexible Gas Rate Schedule; or (iii) the GS1250k Rate Schedule. Ms. Bermudez  
25 inserted the KDS Rate Schedule in the 2008 Agreement and not one of the other

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1 two rate schedules. Miami-Dade had nothing to do with her selection of the  
2 KDS Rate Schedule. Therefore, since a Company's representative selected the  
3 KDS Rate Schedule, the Company should be required to live by its own tariff  
4 terms and conditions and, as required by the Monthly Rate provision of  
5 Schedule KDS, provide a meaningful calculation of the incremental costs  
6 associated with its service to Miami-Dade.

7 Ms. Bermudez recognizes that the KDS Rate Schedule requires FCG to analyze  
8 its incremental cost of service but she admits FCG failed to perform this  
9 analysis. Ms. Bermudez suggests that the Commission accept her allocation  
10 process as an incremental cost study, even though the results of her allocation  
11 process bears no resemblance to an incremental cost study or an average system  
12 allocated cost study. Therefore, according to Ms. Bermudez, FCG failed to  
13 comply with its tariff requirements and failed to exercise proper utility  
14 management decision-making.

15 Commencing on at line 11 of page 9 of his direct testimony, Mr. Williams states  
16 (emphasis added):

17 the internal approval process at FCG that was in place at  
18 the time the 2008 TSA was negotiated and executed **was**  
19 **flawed**. The level of checks and balances that are now in  
20 place were absent such that **the Company did not engage**  
21 **in a complete and proper evaluation** of the terms and  
22 conditions of the 2008 TSA prior to its execution.

23 Mr. Williams went on to state, commencing on line 15 (emphasis added):

24 The renegotiation process at that time was very  
25 compartmentalized and there was **no analysis of the cost**

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1           of service attributable to the level of service requested by  
2           MDWASD during the term of the 2008 TSA.

3           Then, in spite of the fact that the Company President signed the 2008  
4           Agreement, Mr. Williams lays off the blame on the FCG employees that  
5           negotiated the agreement when, beginning on line 18 at page 9 of his direct  
6           testimony he states:

7                     Importantly, the individuals directly involved in the  
8                     negotiation did not seek a review by other key departments  
9                     to determine compliance with the current tariff or other  
10                    business requirements of the Company.

11           Therefore, according to Mr. Williams, FCG failed in all respects to act in a  
12           prudent and reasonable manner when negotiating, reviewing and signing the  
13           2008 Agreement.

14   **Q.   PLEASE SUMMARIZE YOUR DISPUTE WITH FCG'S ALLEGED**  
15   **"INCREMENTAL COST OF SERVICE" DATA.**

16   **A.**   In their direct testimony, the Company witnesses do everything that they can to  
17           avoid admitting the 1998 Agreement rates probably reflected the Miami-Dade  
18           bypass costs and the Company's incremental cost of service calculated at that  
19           time by the Company's employees performing a true cost of service analysis.  
20           Mr. Williams and Ms. Bermudez simply refuse to perform such an analysis, or  
21           perhaps they do not know the difference between what they purport to show as  
22           "incremental costs" and what competent experts in the utility industry know to  
23           be "incremental costs." Ms. Bermudez' after-the-fact allocation method using  
24           the GS1250k service classification data from prior Company rate cases and  
25           subsequent Company financial reports is not a valid substitute for an

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1 incremental cost of service analysis.

2 The disparity between Ms. Bermudez' allocation method and a true incremental  
3 cost analysis is made crystal clear by the enormous differences in the 2008  
4 O&M Ms. Bermudez has allocated to the Miami-Dade service as shown in her  
5 Exhibit CB-1 and also identified in Mr. Jack Langer's Exhibit JL-9. Even  
6 though Ms. Bermudez testifies on lines 21 and 22 at page 15 of her direct  
7 testimony that the Company's capital investment in the plant and facilities to  
8 serve Miami-Dade "may remain unchanged", her cost allocation set forth in  
9 Exhibit CB-1 indicates a \$34,273 or nearly 400% increase in depreciation  
10 expense from 1998 and 2008. In short, the employees of FCG who negotiated  
11 and signed the 1998 Agreement, the Amendment to the 1998 Agreement and the  
12 2008 Agreement appear to have been operating on the correct premise that the  
13 Company's incremental costs to serve Miami-Dade were minimal and were not  
14 likely to have increased much, if at all, since 1998.

15 Ms. Bermudez has improperly identified her analysis to FCG management,  
16 Commission Staff and now, this Commission, as an incremental cost analysis  
17 while at the same time admitting that neither she nor anybody else at FCG  
18 performed an incremental cost analysis. By doing so, Ms. Bermudez presented  
19 inflated costs, which she improperly characterized as incremental costs, to her  
20 superiors at FCG, to Commission Staff and now to this Commission. By  
21 submitting these excessive costs for consideration, she appears to have  
22 convinced her superiors to withdraw the 2008 Agreement from Commission  
23 consideration. She also has cast doubt on the competence of the FCG  
24 employees who negotiated in good faith with Miami-Dade and who may have  
25 known the irrefutable difference between a true incremental cost study and a

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1           simple revenue and cost allocation process.

2   **Q.    DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

3   **A.    Yes, it does.**

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