

BEFORE THE  
NEW YORK STATE  
PUBLIC SERVICE COMMISSION

-----x  
Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
New York State Electric & Gas Corporation  
for Electric Service

Case 15-E- \_\_\_\_\_

Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
New York State Electric & Gas Corporation  
for Gas Service

Case 15-G- \_\_\_\_\_

Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
Rochester Gas and Electric Corporation  
for Electric Service

Case 15-E- \_\_\_\_\_

Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
Rochester Gas and Electric Corporation  
for Gas Service

Case 15-G- \_\_\_\_\_

-----x  
**DIRECT TESTIMONY OF DAVID A. HEINTZ**

May 20, 2015

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

**TABLE OF CONTENTS**

1  
2  
3  
4  
5  
6  
7

I. INTRODUCTION .....1  
II. OVERVIEW OF EMBEDDED COST OF SERVICE STUDIES .....7  
III. TREATMENT OF COMMON COSTS (ELECTRIC & GAS) .....13  
IV. ELECTRIC COST OF SERVICE STUDIES .....19  
V. GAS COST OF SERVICE STUDIES .....25  
VI. COMPETITIVE SERVICES .....29

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

**I. INTRODUCTION**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

Q. Please state your name.

A. My name is David A. Heintz.

Q. Please state your current position and business address.

A. I am a Vice President with Concentric Energy Advisors, Inc. (“Concentric”).  
Concentric is a management consulting firm specializing in financial and  
economic services to the energy industry. My business address is 293 Boston  
Post Road West, Suite 500, Marlborough, Massachusetts 01752.

Q. Please summarize your educational background and work experience.

A. I have over 30 years’ experience in the utility industry, the last 17 of which have  
been in the field of utility management and consulting. My Curriculum Vitae is  
attached as Exhibit \_\_ (ECOS-1).

Q. Have you previously testified in other proceedings before the New York State  
Public Service Commission (“PSC” or the “Commission”) or any other state or  
federal regulatory agency or court?

A. Yes, I have previously testified before the Commission in Case 88-T-132. I have  
also testified before the Arkansas Public Service Commission, the Connecticut  
Department of Public Utility Control, the Georgia Public Service Commission,  
the Illinois Commerce Commission, the Massachusetts Department of Public  
Utilities, the New Jersey Board of Public Utilities, the Pennsylvania Public Utility  
Commission, the Rhode Island Public Utilities Commission, and the Federal  
Energy Regulatory Commission.

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Q. What is the overall purpose of your testimony?

2 A. The overall purpose of my testimony is to present the results of the electric and  
3 gas embedded cost of service (“ECOS”) studies for both New York State Electric  
4 & Gas Corporation (“NYSEG”) and Rochester Gas and Electric Corporation  
5 (“RG&E” and together with NYSEG, the “Companies”) and to provide support  
6 for the Companies’ revenue allocation and rate design proposals.

7 Q. Please describe the format of your testimony.

8 A. First, I will provide an overview of the electric and gas ECOS studies. Second, I  
9 will discuss the functionalization, classification, and allocation of common costs.  
10 Third, I will cover the results and specifics of the electric studies. Fourth, I will  
11 address the results and specifics of the gas studies.

12 Q. Are you sponsoring any exhibits?

13 A. Yes. I am sponsoring the following exhibits:

14 1) Exhibit \_\_ (ECOS-1) contains my CV.

15 2) Exhibit \_\_ (ECOS-A1) contains a list and description of NYSEG Electric  
16 service classifications;

17 3) Exhibit \_\_ (ECOS-A2) includes the NYSEG Electric ECOS study summary of  
18 results and indexed rates of return by service class;

19 4) Exhibit \_\_ (ECOS-A3) presents the NYSEG Electric ECOS study summary  
20 functional revenue requirement;

21 5) Exhibit \_\_ (ECOS-A4) contains a listing of all the major accounts in the  
22 NYSEG Electric ECOS study by service class and classification;

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

- 1           6) Exhibit \_\_ (ECOS-A5) includes the NYSEG Electric ECOS study summary of
- 2           results by function;
- 3           7) Exhibit \_\_ (ECOS-A6) contains a listing of major accounts in the NYSEG
- 4           Electric ECOS study and how they are allocated to each function;
- 5           8) Exhibit \_\_ (ECOS-A7) presents a listing of major accounts in the NYSEG
- 6           Electric ECOS study and how they are functionalized, classified and allocated
- 7           to each function;
- 8           9) Exhibit \_\_ (ECOS-A8) includes an explanation of NYSEG Electric Allocation
- 9           Factors used in the ECOS study;
- 10          10) Exhibit \_\_ (ECOS-A9) shows NYSEG Electric Allocation Factors used in the
- 11          ECOS study;
- 12          11) Exhibit \_\_ (ECOS-A10) contains NYSEG Electric ECOS study summary unit
- 13          cost;
- 14          12) Exhibit \_\_ (ECOS-A11) shows the calculation of the Delivery revenue
- 15          requirement for the NYSEG Electric Merchant Function Charge (“MFC”);
- 16          13) Exhibit \_\_ (ECOS-A12) includes the NYSEG Electric Meter Investment,
- 17          Meter Services, and Meter Reading revenue requirement at the claimed rate of
- 18          return (“ROR”) allocated to each service class;
- 19          14) Exhibit \_\_ (ECOS-A13) shows the NYSEG Electric Competitive Energy
- 20          Services;
- 21          15) Exhibit \_\_ (ECOS-A14) includes a NYSEG Electric index of workpapers. A
- 22          copy of the workpapers will be provided to New York State Department of
- 23          Public Service Staff (“Staff”);

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

- 1           16) Exhibit \_\_ (ECOS-B1) shows a list and description of RG&E Electric service  
2                    classifications;
- 3           17) Exhibit \_\_ (ECOS-B2) contains the RG&E Electric ECOS study summary of  
4                    results and indexed rates of return by service class;
- 5           18) Exhibit \_\_ (ECOS-B3) shows the RG&E Electric ECOS study summary  
6                    functional revenue requirement;
- 7           19) Exhibit \_\_ (ECOS-B4) includes a listing of all the major accounts in the  
8                    RG&E Electric ECOS study by service class and classification;
- 9           20) Exhibit \_\_ (ECOS-B5) contains the RG&E Electric ECOS study summary of  
10                   results by function;
- 11          21) Exhibit \_\_ (ECOS-B6) presents a listing of major accounts in the RG&E  
12                    Electric ECOS study and how they are allocated to each function;
- 13          22) Exhibit \_\_ (ECOS-B7) includes a listing of major accounts in the RG&E  
14                    Electric ECOS study and how they are functionalized, classified and allocated  
15                    to each function;
- 16          23) Exhibit \_\_ (ECOS-B8) provides an explanation of RG&E Electric Allocation  
17                    Factors used in the ECOS study;
- 18          24) Exhibit \_\_ (ECOS-B9) contains the RG&E Electric Allocation Factors used in  
19                    the ECOS study;
- 20          25) Exhibit \_\_ (ECOS-B10) presents the RG&E Electric ECOS study summary  
21                    unit cost;
- 22          26) Exhibit \_\_ (ECOS-B11) provides the calculation of the Delivery revenue  
23                    requirement for the RG&E Electric MFC;

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

- 1           27) Exhibit \_\_ (ECOS-B12) includes the RG&E Electric Meter Investment, Meter  
2           Services, and Meter Reading revenue requirement at the claimed ROR  
3           allocated to each service class;
- 4           28) Exhibit \_\_ (ECOS-B13) identifies the RG&E Electric Competitive Energy  
5           Services;
- 6           29) Exhibit \_\_ (ECOS-B14) contains an RG&E Electric index of workpapers. A  
7           copy of the workpapers will be provided to Staff;
- 8           30) Exhibit \_\_ (ECOS-C1) provides a list and description of the NYSEG Gas  
9           service classifications;
- 10          31) Exhibit \_\_ (ECOS-C2) includes a NYSEG Gas ECOS study summary of  
11          results and indexed rates of return by service class;
- 12          32) Exhibit \_\_ (ECOS-C3) presents the NYSEG Gas ECOS study summary  
13          functional revenue requirement;
- 14          33) Exhibit \_\_ (ECOS-C4) contains a listing of all the major accounts in the  
15          NYSEG Gas ECOS study by service class and classification;
- 16          34) Exhibit \_\_ (ECOS-C5) includes the NYSEG Gas ECOS study summary of  
17          results by function;
- 18          35) Exhibit \_\_ (ECOS-C6) includes a listing of major accounts in the NYSEG Gas  
19          ECOS study and how they are allocated to each function;
- 20          36) Exhibit \_\_ (ECOS-C7) provides a listing of major accounts in the NYSEG  
21          Gas ECOS study and how they are functionalized, classified and allocated to  
22          each function;

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

- 1 37) Exhibit \_\_ (ECOS-C8) provides the explanation of NYSEG Gas Allocation  
2 Factors used in the ECOS study;
- 3 38) Exhibit \_\_ (ECOS-C9) shows the NYSEG Gas Allocation Factors used in the  
4 ECOS study;
- 5 39) Exhibit \_\_ (ECOS-C10) presents the NYSEG Gas ECOS study summary unit  
6 cost;
- 7 40) Exhibit \_\_ (ECOS-C11) contains the calculation of the Delivery revenue  
8 requirement for the NYSEG Gas MFC;
- 9 41) Exhibit \_\_ (ECOS-C12) includes a NYSEG Gas index of workpapers. A copy  
10 of the workpapers will be provided to Staff;
- 11 42) Exhibit \_\_ (ECOS-D1) contains a list and description of the RG&E Gas  
12 service classifications;
- 13 43) Exhibit \_\_ (ECOS-D2) includes an RG&E Gas ECOS study summary of  
14 results and indexed rates of return by service class;
- 15 44) Exhibit \_\_ (ECOS-D3) contains the RG&E Gas ECOS study summary  
16 functional revenue requirement;
- 17 45) Exhibit \_\_ (ECOS-D4) provides a listing of all the major accounts in the  
18 RG&E Gas ECOS study by service class and classification;
- 19 46) Exhibit \_\_ (ECOS-D5) shows the RG&E Gas ECOS study summary of results  
20 by function;
- 21 47) Exhibit \_\_ (ECOS-D6) includes a listing of major accounts in the RG&E Gas  
22 ECOS study and how they are allocated to each function;



**DIRECT TESTIMONY OF DAVID A. HEINTZ**

- 1 48) Exhibit \_\_ (ECOS-D7) provides a listing of major accounts in the RG&E Gas
- 2 ECOS study and how they are functionalized, classified and allocated to each
- 3 function;
- 4 49) Exhibit \_\_ (ECOS-D8) provides an explanation of RG&E Gas Allocation
- 5 Factors used in the ECOS study;
- 6 50) Exhibit \_\_ (ECOS-D9) contains the RG&E Gas Allocation Factors used in the
- 7 ECOS study;
- 8 51) Exhibit \_\_ (ECOS-D10) includes the RG&E Gas ECOS study summary unit
- 9 cost;
- 10 52) Exhibit \_\_ (ECOS-D11) shows the calculation of the Delivery revenue
- 11 requirement for the RG&E Gas MFC; and
- 12 53) Exhibit \_\_ (ECOS-D12) includes an RG&E Gas index of workpapers. A copy
- 13 of the workpapers will be provided to Staff.

**II. OVERVIEW OF EMBEDDED COST OF SERVICE STUDIES**

- 15 Q. What is the purpose of the ECOS studies?
- 16 A. The cost to serve customers of any utility company generally consists of operating
- 17 expenses and return on ratebase. For the historical test period, these costs are
- 18 contained in the books and records of the company and are readily available to
- 19 establish the overall cost to serve the collective body of customers of the utility.
- 20 The cost to provide service related to individual functions and to individual
- 21 service classes can vary greatly based on the facilities used to provide service and
- 22 the level of demand placed on the system. These costs, however, are not all
- 23 readily available from a company's accounting system.

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Historically, the ECOS studies were developed to assign or allocate each  
2 relevant component of cost on an appropriate basis to service classifications to  
3 determine the cost to serve the respective classes. ECOS studies traditionally  
4 have been used as a guide in revenue allocation and rate design to provide a  
5 measure of the relationship between the revenues supplied by each service class  
6 and the cost of plant and expenses imposed on a utility’s system by the customers  
7 in those classes. These studies enable a company to calculate a rate of return for  
8 each service class so that comparisons can be made between each class of service  
9 and the total system return. The Revenue Allocation, Rate Design, Economic  
10 Development, and Tariff Panel discusses how the Companies used the results of  
11 the ECOS studies as a guide in establishing the proposed delivery service class  
12 revenue requirements for electric and gas service.

13 With the advent of rate unbundling in New York, the ECOS studies now  
14 serve an additional purpose. As explained below, functionalization has always  
15 been the first step in the cost of service process. This part of the process produces  
16 a logical breakdown of costs that facilitates classification of costs into major  
17 categories of Customer-, Demand-, and Energy-related components prior to the  
18 full allocation of costs to the various service classes. With unbundling, the  
19 functionalization step takes on heightened importance because the embedded  
20 costs of each functional service will provide the basis for developing unbundled  
21 rates for the Commission-designated competitive services, e.g., Supply  
22 Procurement (also referred to as the “Merchant Function Charge” or “MFC”), Bill  
23 Issuance and Payment Processing (“BIPP”), and electric Competitive Metering.

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Q. Please provide an overview of the process for conducting ECOS studies.

2 A. The ECOS study process is essentially comprised of the following three steps: 1)  
3 functionalization; 2) classification; and 3) allocation.

4 Q. What is the first step in the cost of service process?

5 A. Starting with an historical revenue requirement, investments and expenses are  
6 separated by the functional service categories that they support.

7           The functionalization step involves the assignment of the dollars in each  
8 Federal Energy Regulatory Commission (“FERC”) account to a specific function.  
9 For both the electric and gas ECOS studies, the Companies assigned costs to  
10 functions consistent with the June 9, 2006, Recommended Decision (“RD”) in  
11 Case 05-E-1222, as adopted by the Commission in its August 23, 2006 Order  
12 Adopting Recommended Decision with Modifications<sup>1</sup> and continued in the July  
13 14, 2010 Joint Proposal (“2010 JP”) in Cases 09-E-0715 et al. as adopted by the  
14 Commission in its September 21, 2010, Order Establishing Rate Plan (“2010 Rate  
15 Order”).<sup>2</sup> The studies are also consistent with the Commission’s August 25, 2004  
16 Statement of Policy on Unbundling and Order Directing Tariff Filings (the  
17 “Unbundling Statement of Policy and Order”) in Case 00-M-0504 (the “End State

---

<sup>1</sup> Case 05-E-1222 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Electric Service, Order Adopting Recommended Decision with Modifications (Aug. 23, 2006).

<sup>2</sup> Cases 09-E-0715 et al. – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Electric Service, Order Establishing Rate Plan (Sept. 21, 2010).

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Proceeding – Unbundling Track”)<sup>3</sup> and the November 9, 2001 Order Directing  
2 Filing of Embedded Cost Studies in the End State Proceeding – Unbundling Track  
3 (“November 9, 2001 Order”).<sup>4</sup> Transmission and Distribution are also combined  
4 into one Delivery function for both the gas and electric studies. The electric  
5 Delivery function includes the fixed costs associated with company-owned  
6 production.

7 The assignment of account dollars is either made directly to a function  
8 (“direct assignment”) or on the basis of some pattern or group of related accounts  
9 (“indirect allocation” or “allocation”). For instance, the Uniform System of  
10 Accounts (“USoA”) identifies certain plant costs and expenses as electric  
11 transmission-related. Including these accounts in the Transmission function  
12 would be considered a direct assignment.

13 Indirect allocation requires additional analyses. For example, General  
14 Plant accounts identified in the USoA contain costs relating to investments made  
15 to support more than one of the functions identified in the November 9, 2001  
16 Order. Consequently, these accounts are indirectly allocated to functions in the  
17 cost studies based on some related pattern or group of accounts. In the case of  
18 General Plant, most accounts were allocated to a function in a manner consistent  
19 with the functionalization of Labor in these accounts. This method is consistent

---

<sup>3</sup> Case 00-M-0504 – Proceeding on Motion of the Commission Regarding Provider of Last Resort Responsibilities, the Role of Utilities in Competitive Energy Markets, and Fostering the Development of Retail Competitive Opportunities, Statement of Policy on Unbundling and Order Directing Tariff Filings (Aug. 25, 2004).

<sup>4</sup> Case 00-M-0504, Order Directing Filing of Embedded Cost Studies (Nov. 9, 2001).

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 with generally-accepted FERC standards and the recommended approach in the  
2 National Association of Regulatory Utility Commissioners (“NARUC”) Electric  
3 Utility Cost Allocation Manual.

4 Q. What is the second step in the cost of service process?

5 A. The second step in the studies is classification, where functionalized costs are  
6 classified based upon the characteristics of the type of service being provided –  
7 whether the costs are primarily Customer-, Demand-, or Energy-related. For  
8 example, electric Transmission costs and gas mains are considered Demand-  
9 related, electric hydro plant costs are considered Energy-related, and services,  
10 meters, and billing costs are considered Customer-related.

11 Q. What is the third step in the ECOS process?

12 A. The classified costs are then allocated to the various service classes using a  
13 variety of allocation factors developed to reflect the cost responsibility that each  
14 class causes or imposes on the system for each element being allocated.

15 Q. What model did the Companies use to perform the electric and gas ECOS studies?

16 A. The Companies used a cost model developed and licensed by Concentric to  
17 perform its ECOS studies. This model follows a standard approach to preparing  
18 ECOS studies. By using this application, the Companies are able to specifically  
19 model their operations, treat each element of rate base, revenue, and operating  
20 expenses in detail, and assign or allocate each cost item to a specific function or  
21 functions, as well as to service classes.

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Q. Please provide an overview of the model.

2 A. As shown in Exhibits \_\_ (ECOS-A2 – A4, ECOS-B2 – B4, ECOS-C2 – C4, and  
3 ECOS-D2 – D4), the cost model is essentially a cost matrix. The vertical  
4 dimension of the studies provides an itemized list of the relevant company’s  
5 (NYSEG or RG&E) costs to serve its customers. The cost of service model  
6 begins with the development of rate base and continues with operating and  
7 maintenance (“O&M”) expenses, taxes, and revenues.

8 The horizontal portion of the ECOS studies consists of service classes and  
9 the allocated results to each class. The computer model also produces a cost of  
10 service report that contains only the underlying functional costs along the  
11 horizontal axis in Exhibits \_\_ (ECOS-A5 and -A6, ECOS-B5 and -B6, ECOS-C5  
12 and -C6, and ECOS-D5 and -D6).

13 Starting with the first page of the fully allocated component of the ECOS  
14 studies in Exhibits \_\_ (ECOS-A4, -B4, -C4, and -D4), each page has a column  
15 marked “Alloc. Factor,” which contains an acronym indicating the factor used to  
16 allocate the costs shown in the “Amount” column to individual service classes  
17 across the horizontal dimension of the studies. A list of these allocation factors,  
18 including a description of each, is provided in Exhibits \_\_ (ECOS-A8, -B8, -C8,  
19 and D8) and the actual allocation factors are shown in Exhibits \_\_ (ECOS-A9, -  
20 B9, -C9, and -D9).

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Q. Please describe any major changes in methodologies used from the ECOS studies  
2 filed in the Companies' last rate case.

3 A. In Appendix S of the 2010 JP approved in Cases 09-E-0715 et al., the Companies  
4 agreed to classify electric Distribution plants on a 50/50 demand/customer basis.  
5 The Companies made this change in the current studies for Distribution plant  
6 accounts FERC 364 (Poles, Towers & Fixtures), FERC 365 (Overhead  
7 Conductors), FERC 366 (Underground Conduit), and FERC 367 (Underground  
8 Conductors).

9 The Companies also made a minor change to the treatment of  
10 miscellaneous revenue. In the prior studies, the Companies allocated all  
11 miscellaneous revenues to the classes on the basis of Delivery revenues. In the  
12 current studies, the miscellaneous revenues were reviewed in more detail and  
13 allocated to the classes using more account-specific factors.

14 Q. What are the competitive functions contained in the embedded studies?

15 A. The studies contain separate functions for BIPP, MFC or Supply Procurement,  
16 Electric Meter Investment, Electric Meter Services, and Electric Meter Reading. I  
17 will describe each in more detail later in my testimony.

18 **III. TREATMENT OF COMMON COSTS (ELECTRIC & GAS)**

19 Q. Please describe the Companies' methodology for functionalizing costs that cannot  
20 be directly assigned to one of the functions.

21 A. As I discussed earlier, such costs must be indirectly allocated on the basis of some  
22 related pattern or group of accounts. The categories of costs that were indirectly

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 allocated to the functions include General Plant, Administrative & General  
2 Expense (“A&G”), Customer Care, and Uncollectibles.

3 Q. How did the Companies indirectly allocate general and common plant to the  
4 functions?

5 A. The majority of general and common plant accounts are allocated to each function  
6 consistent with the functional distribution of labor costs to each account and  
7 function.

8 Q. How did the Companies indirectly allocate the costs recorded in the numerous  
9 A&G expense accounts to each of the functions?

10 A. The Companies used a methodology that is in accordance with the Commission’s  
11 August 23, 2006 Order in Case 05-E-1222 and the 2010 Rate Order. Under this  
12 methodology, A&G accounts are reviewed and divided into groups based on those  
13 more closely related to either labor or to plant.

14 Expenses in FERC Accounts 920 (Administrative and General Salaries),  
15 921 (Office Supplies and Expenses), 922 (Administrative Expenses Transferred –  
16 Credit), 925 (Injuries and Damages), 926 (Employee Pensions and Benefits), 929  
17 (Duplicate Charges – Credit), 930.2 (Miscellaneous General Expenses), 932  
18 (Maintenance of General Plant for Gas), and 935 (Maintenance of General Plant  
19 for Electric) are all functionalized and allocated on the basis of Labor. These  
20 accounts include costs related to Pensions and Employee Benefits expenses and  
21 company-wide costs, such as executive salaries, accounting, and bookkeeping  
22 which are primarily Labor-related. The allocation of these costs on the basis of  
23 Labor is consistent with longstanding FERC practice and Commission-accepted



**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 cost causation principles and is also a recognized practice in the NARUC Utility  
2 Cost Allocation Manual.

3 A&G expenses recorded in FERC Accounts 924 (Property Insurance) and  
4 Accounts 931 (Rents) are not related to Labor, but are more closely tied to plant  
5 investments. Therefore, they were allocated on plant allocation factors.

6 Q. How did the Companies functionalize FERC Account 923 (Outside Services)?

7 A. The Companies subcategorized FERC Account 923 into two sub-accounts:

8 1) Iberdrola USA Management Corporation (“IUMC”) Labor; and 2) consultant  
9 and contractor fees incurred from other companies. IUMC charges represent the  
10 Companies’ portion of shared services, such as human resources, accounting  
11 services, and IT support services. Consistent with the determinations set forth in  
12 the August 23, 2006 Order and the underlying RD (page 130-31) as well as the  
13 2010 Rate Order, the non-IT-related IUMC expenses in Account 923 are  
14 functionalized and allocated on the basis of Labor while the remaining  
15 components are functionalized and allocated on the basis of a three-part weighted  
16 allocator.

17 Q. What is the three-part weighted allocator?

18 A. The three-part weighted allocator is a broad-based general allocator that is equally  
19 weighted using one-third Labor, one-third revenues, and one-third rate base. This  
20 approach to developing a general allocator embodies the various functional  
21 weightings from the most significant cost of service elements. The design and use  
22 of the three-part weighted allocator is consistent with the August 23, 2006 Order  
23 and the underlying RD.

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Q. How is FERC Account 928 (Regulatory Commission Expenses) functionalized?

2 A. FERC Account 928 is made up of the actual PSC general assessment and  
3 expenses associated with regulatory proceedings. The PSC general assessment  
4 expenses are functionalized to Delivery and the other expenses are functionalized  
5 using the three-part weighted allocator. The August 23, 2006 Order determined  
6 that it is reasonable to functionalize the regulatory assessment entirely to Delivery  
7 and that any legal expenses attributable to regulatory proceedings should be  
8 functionalized on the basis of the broad-based weighted allocator.

9 Q. How is FERC Account 930.1 (General Advertising Expense) functionalized?

10 A. The Companies functionalized this account entirely using the three-part weighted  
11 allocator consistent with the RD (page 129-30), as adopted by the August 23,  
12 2006 Order.

13 Q. How did the Companies allocate Customer Care-related costs to the various  
14 functions?

15 A. The Companies reviewed all expenses within the FERC Accounts 901  
16 (Supervision), 903 (Customer Records and Collection Expenses), and 905 (Misc.  
17 Customer Accounts Expenses) and categorized the expenses into costs relating to:  
18 Credit and Collections; Customer Relations Center (“Call Center”); BIPP; and  
19 Delivery-related expenses. The Companies moved all of the Credit and  
20 Collection-related costs to a new sub-account 906A and all of its Call Center  
21 activity and customer satisfaction expenses (Customer Satisfaction was previously  
22 called Consumer Affairs) to a new sub-account 906B. Both 906A and 906B are  
23 functionalized on the basis of revenues. The revenues for 906A, Credit and

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Collections, are further assigned to service classifications in the same manner as  
2 Account 904, Uncollectible expenses. As discussed below, the majority of  
3 Account 904 expenses are allocated to residential customers, who are responsible  
4 for the majority of Uncollectible amounts and create the Credit and Collection  
5 activities. This method was accepted in the RD (page 124-25), as adopted by the  
6 August 23, 2006 Order.

7 The balance of costs included in Accounts 901, 903 and 905 not assigned  
8 to 906A and 906B are separated by department and allocated to functions based  
9 on a review of the departmental data.

10 Q. What Customer Care costs are functionalized to the Delivery function in the  
11 ECOS studies?

12 A. Customer Care costs in Accounts 901, 903, and 905 that are directly assigned to  
13 the Delivery function include all billing expenses not related to BIPP, low income  
14 program costs, customer service quality costs related to mandated PSC reporting,  
15 and field customer service costs related to service calls not Credit and  
16 Collections-related. The Delivery function also receives an indirect allocation of  
17 Credit and Collection costs and Call Center costs based on revenues.

18 Q. How did the ECOS study address the allocation of Account 904, Uncollectibles,  
19 to functions?

20 A. Uncollectibles are the Companies' accounts receivable write-offs that are  
21 accumulated in FERC Account 904. The Companies functionalized and allocated  
22 Uncollectibles on the basis of total revenues (including commodity) since these  
23 write-offs are a function of revenues that will not be collected. Because the

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1           Uncollectibles costs are primarily related to residential customers, the Companies  
2           weighted the allocation of Uncollectible costs to the residential sector before the  
3           allocation to service classifications.

4   Q.    How did you develop the revenue allocator used to allocate Uncollectibles?

5   A.    As the ECOS studies do not include Commodity revenues, it was necessary to  
6           develop an allocator that included Commodity revenues in order to properly  
7           allocate Uncollectibles to functions. I reviewed the Companies’ revenues for the  
8           year ending December 31, 2013 and developed allocators using total retail  
9           revenues, including Commodity revenues, to allocate Uncollectibles to functions.

10   Q.   How did you functionalize FERC Accounts 908 (Customer Assistance Expenses),  
11           909 (Informational and Instructional Expenses), 910 (Customer Service and  
12           Information Expenses), 912 (Demonstrating and Selling Expenses), 913  
13           (Advertising Expenses), and 916 (Miscellaneous Sales Expenses)?

14   A.    First, the Companies identified all System Benefits Charges (“SBC”), Renewable  
15           Portfolio Standard Charges (“RPS”), Temporary State Assessment Surcharges  
16           (“TSAS”), and Energy Efficiency Portfolio Standard (“EEPS”) charges, which are  
17           mandated charges passed through to customers by the utility through surcharges.  
18           These specific surcharge amounts, identified in FERC Accounts 908 through 916,  
19           were excluded from the applicable expense accounts along with corresponding  
20           amounts from the applicable revenue accounts.

21           Next, the Companies followed the determinations for the assignment of  
22           these accounts to functions as specified in the RD as adopted in the August 23,  
23           2006 Order as well as the Order itself. Account 908 is functionalized to Delivery

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 in the electric and gas studies. In the electric studies, Account 909 contains  
2 Marketing and Sales expenses similar to the expenses that settle to Account 908.  
3 Therefore these costs are functionalized to Delivery. There were no Account 909  
4 expenses in the gas studies after the surcharge expenses were removed. Accounts  
5 910 through 916 are functionalized using the three-part weighted allocator.

6 Q. How are Accounts 908 through 916 allocated to service classes?

7 A. The Companies made a determination as to the percentage of the expenses in  
8 these accounts that related to residential programs versus non-residential  
9 programs for each account. Following this residential/non-residential separation,  
10 Accounts 908 and 909 are allocated to service classes based on class Delivery  
11 revenues; whereas Accounts 910 through 916 are allocated to service classes  
12 using the three part allocator.

13 Q. How did the Companies functionalize and allocate Labor costs?

14 A. Labor costs from each O&M account were identified separately as a subset of the  
15 total expense in each cost of service study. These Labor costs are allocated and  
16 functionalized in the same manner as the total account for the majority of  
17 accounts. For accounts 901, 903, and 905, Labor is functionalized consistent with  
18 the Customer Care study results.

19 **IV. ELECTRIC COST OF SERVICE STUDIES**

20 Q. Please describe the service classes represented in the Companies' electric ECOS  
21 studies.

22 A. See Exhibits \_\_ (ECOS-A1 and -B1) for a list of electric service classifications.

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Q. How were the New York Power Authority, negotiated rate customers, and  
2 standby customers incorporated into the ECOS studies?

3 A. These customers were included in their otherwise applicable service classification  
4 (“OASC”) in the cost of service studies.

5 Q. Were NYSEG’s Industrial High Load Factor (“IHLF”) subsets within the Non-  
6 residential service classifications separately identified in the NYSEG electric  
7 ECOS study?

8 A. No. In this cost of service study, as in the last rate case filing, the IHLF rate  
9 classes were combined with the non-IHLF classes in developing the allocated  
10 results.

11 Q. Were any adjustments made to the data in the electric ECOS studies?

12 A. The ECOS studies starting point is the Annual Financial Compliance filings for  
13 calendar year 2013 submitted on March 26, 2014 in Case 09-E-0715 et al. For the  
14 electric ECOS studies, the compliance filings were adjusted to exclude  
15 commodity supply costs, non-bypassable charge (“NBC”) revenues, and  
16 surcharge revenues and costs associated with SBC, EEPS, RPS, TSAS and Gross  
17 Receipt Taxes (“GRT”).

18 Q. What functions are included in the electric ECOS studies?

19 A. The electric studies functionalized costs into:

- 20 1) Supply Procurement / MFC;  
21 2) Transmission & Distribution (“Delivery”);  
22 3) Bill Issuance and Payment Processing (BIPP);  
23 4) Meter Reading (Meter Data Services);

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 5) Meter Investment; and

2 6) Meter Services.

3 Q. What is the Companies' rationale for allocating costs to the functions identified  
4 above?

5 A. The Companies generally functionalized dollars by account in accordance with  
6 Attachment A to the November 9, 2001 Order.

7 Q. What costs were functionalized to Delivery?

8 A. The Delivery function includes direct costs associated with Fixed Production,  
9 Transmission, and Distribution. The Fixed Production component includes the  
10 Companies' hydroelectric and diesel plant costs and related O&M accounts. The  
11 Transmission component includes all of the Transmission plant and Transmission  
12 O&M accounts specified in the USoA. The Distribution component encompasses  
13 all Distribution plant, and Distribution O&M consistent with the USoA. The  
14 Delivery function also includes indirect costs related to General Plant and A&G  
15 expenses, which are a result of the overall allocation process.

16 Q. What allocation methods did the Companies use to apportion the major rate base  
17 and expense items to service classes?

18 A. Production-related investments consist of hydro and peaking facilities. The hydro  
19 facilities are allocated to classes using total energy sales, adjusted for line losses.  
20 This allocation approach properly recognizes the varied load level throughout the  
21 year by both actual generation and customer loads. The peaking-related costs are  
22 allocated to classes using a 2 Coincident Peak average ("2CP") method to better  
23 capture the higher load level or peaking characteristics of rate classes in assigning

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 these costs that are generally used for a very limited number of hours in the year.

2 The 2CP method calculates the average of the class contribution to the summer  
3 and winter system peaks. For electric service, transmission costs are classified as  
4 Demand-related and allocated to classes based on a 12 Coincident Peak (“12CP”)  
5 methodology, which is consistent with the methodology used by the Companies in  
6 determining its transmission revenue requirement at FERC. The 12CP method  
7 calculates the average of the class contribution to the 12 monthly system peaks.

8 This approach recognizes the diverse capability requirements of the Companies to  
9 provide safe and adequate service for all hours of the year. By recognizing the 12  
10 highest peaks, I also recognize that the service from the Companies to customers  
11 must provide for the Delivery of a diverse mix of energy resources to all  
12 customers year round throughout its service territory. These allocation factors are  
13 adjusted for losses in deriving the final class allocation factors.

14 Q. How are the Companies’ overhead and underground Distribution facilities  
15 allocated to service classes in the electric ECOS model?

16 A. As mentioned above, in the settlement of the Companies’ prior rate cases, Cases  
17 09-E-0715 et al., the Companies agreed to classify electric Distribution plant on a  
18 50/50 demand/customer basis. This classification is utilized for Accounts 364,  
19 365, 366, and 367 with each of these accounts having a separate customer  
20 component and a demand component. The customer component is allocated to  
21 service classes based on customer counts and the demand component is allocated  
22 to service classes based on class peaks adjusted for losses.



**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Further, each of these accounts (364, 365, 366, and 367) is separated into a  
2 primary and secondary voltage classification prior to any allocation of costs.

3 Customer count and class peak allocations are developed separately for each  
4 voltage level. This process properly assigns costs to the rate classes by ensuring  
5 that secondary costs are not incorrectly allocated to primary customers who are  
6 not served from these facilities.

7 In addition, services (Account 369), meters (Account 370), and lighting  
8 (Account 373) are also classified as customer-related plant costs. Services are  
9 allocated only to secondary customers based on customer count. Meters are  
10 allocated to each service class based on the current typical meter costs times the  
11 number of customers; with a distinction between meter transformers, meter  
12 investments, and meter services. Lastly, street lighting is allocated based on the  
13 number of lights recorded under each lighting sub class.

14 Q. How did you allocate line transformer costs (Account 368)?

15 A. Line transformer costs are allocated to classes in a similar manner as secondary  
16 conductors by using non-coincident class peaks excluding any primary customers.

17 Q. How did you allocate the various O&M expenses in the electric ECOS studies?

18 A. O&M expenses are detailed by account and allocated on their corresponding  
19 allocated plant costs except as detailed in my earlier testimony.

20 Q. What allocation factors are used in the electric ECOS studies?

21 A. As I previously discussed, the results of the ECOS studies include a report  
22 identifying and describing the allocation factors used to allocate each cost of

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 service item, as shown in Exhibits \_\_ (ECOS-A7 and -B7). Exhibits \_\_ (ECOS-  
2 A8 and -B8) provide a description of all allocation factors.

3 Q. How did the Companies treat their economic development rate incentives in  
4 determining the Companies' fully allocated Delivery revenue requirement?

5 A. Revenues and usage associated with all customers receiving rate incentives  
6 pursuant to economic development programs are included in the customer's  
7 OASC. The revenues are taken from the books and records of each Company for  
8 each service classification reflected the discounted amount for customers  
9 receiving the above-listed economic incentives. For the purposes of the ECOS  
10 studies, the Companies adjusted service class booked revenues to allocate the total  
11 economic incentive discounted amount for the year back to the class where the  
12 customers receiving the discounts reside. The Companies made a second  
13 revenue-neutral adjustment to redistribute the total discounts resulting from the  
14 above-referenced economic development programs to all retail customers based  
15 on their kWh usage. By making these adjustments, the economic development  
16 discounts do not reduce the returns for only the service classifications that include  
17 customers receiving incentive rates. Instead, the impact of these discounts is  
18 spread to all classes that support the economic development programs.

19 Q. Please describe the outputs of the model based on the process described above.

20 A. The outputs of the model include a determination of rates of return by service  
21 classification at existing rates and at equal rates of return, as shown in Exhibits \_\_  
22 (ECOS-A2 and -B2). Additionally, Exhibits \_\_ (ECOS-A5 and -B5) display the  
23 rates of return at equal rates of return and claimed rates of return by function. The

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 results of the equalized rate of return studies are used to develop the competitive  
2 service rates, which I will discuss later and which will be discussed by the  
3 Revenue Allocation, Rate Design, Economic Development, and Tariff Panel.

4 Q. What relative rate of return by service class resulted from the electric ECOS  
5 studies?

6 A. The service class rate of return is derived by dividing the net operating income  
7 associated with each service class by the rate base allocated to each service class.  
8 The relative rate of return index for each service class is determined by taking the  
9 calculated service class rate of return and dividing it by the overall system  
10 average rate of return. The results of this calculation are shown in Exhibits \_\_  
11 (ECOS-A2 and -B2).

12 **V. GAS COST OF SERVICE STUDIES**

13 Q. Please describe the Service Classes represented in the Companies gas ECOS  
14 Studies.

15 A. Exhibits \_\_ (ECOS-C1 and -D1) contain the list of gas service classifications used  
16 in the gas ECOS Studies.

17 Q. Were any adjustments made to the data in the gas ECOS studies?

18 A. As described under the electric discussion, the ECOS studies starting point is the  
19 Annual Financial Compliance filings for calendar year 2013 submitted on March  
20 26, 2014, in Case 09-E-0715 et al. For the gas ECOS studies, the compliance  
21 filings were adjusted to exclude commodity supply costs and revenues as well as  
22 surcharge revenues and costs associated with SBC, TSAS, and GRT. In addition,

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 the working capital on gas storage inventory is added back into the gas studies as  
2 the compliance filings exclude gas storage inventory.

3 Q. What functions are included in the gas ECOS studies?

4 A. The gas studies functionalized costs into:

- 5 1) Supply Procurement / MFC;
- 6 2) Transmission & Distribution (Delivery); and
- 7 3) Bill Issuance and Payment Processing (BIPP).

8 Q. What is the Companies' rationale for allocating costs to the functions identified  
9 above?

10 A. The Companies generally functionalized dollars by account in accordance with  
11 Attachment A to the November 9, 2001 Order.

12 Q. How are storage costs treated in the gas ECOS studies?

13 A. Working capital costs related to underground gas storage inventory are contained  
14 in rate base. A portion of the underground storage working capital costs is  
15 determined to be reliability-related and functionalized as Delivery. The balance  
16 of underground storage working capital costs is included in the MFC function.  
17 The costs that are recovered in the reliability surcharge are shown in the  
18 supporting workpapers.

19 Q. Have you calculated a level of reliability to assign to customers in the gas ECOS  
20 studies?

21 A. Yes, I have. The Companies used the workpapers from the November 2013  
22 reliability surcharge calculations (included as part of the Companies' monthly  
23 Supply Charge filing) to support its allocations.

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Q. Please identify the costs functionalized to Delivery.

2 A. Gas Plant Accounts 304 through 387 are directly assigned to the Delivery  
3 function. As discussed earlier, Intangible Plant and General Plant are indirectly  
4 allocated to all the functions primarily on Labor costs. Transmission and  
5 Distribution O&M Expenses, Accounts 850 through 894, are functionalized 100%  
6 to Delivery. Consistent with the other functions, the Delivery function is also  
7 indirectly allocated a portion of Customer Care, Uncollectibles, Credit and  
8 Collections, Call Center, and A&G expenses.

9 Q. What methods did the Companies use to apportion the major rate base and  
10 associated expense items to service classes?

11 A. The major rate base items in the gas ECOS studies include Account 376  
12 (Distribution Mains), Account 381 (Meters), and Account 380 (Services).  
13 Distribution Mains are classified as entirely Demand-related consistent with the  
14 Companies' last filing and allocated to service classes based on a design day  
15 allocator. Meters are classified as fully Customer-related and allocated to service  
16 class using the average meter cost per service class weighted by the average  
17 number of customers per class based on NYSEG or RG&E data. Services are  
18 also classified as fully Customer-related and allocated to service class using the  
19 average service line cost per service class multiplied by an estimated number of  
20 services per class based on NYSEG or RG&E data, as applicable.

21 Q. How are O&M expenses allocated in the gas ECOS model?

22 A. Transmission and Distribution O&M expenses are allocated following the  
23 corresponding plant allocations to each service class. Distribution expenses,

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Accounts 870 to 894, were allocated consistently with the Distribution plant  
2 allocations.

3 Q. How did the Companies treat their gas economic development rate incentives in  
4 determining their respective fully-allocated Delivery revenue requirement?

5 A. Consistent with the electric economic development discussion, revenues and  
6 usage associated with all customers receiving gas rate incentives pursuant to the  
7 Economic Development Incentive (“EDI”) and Economic Development Zone  
8 Incentive (“EDZI”) were included in the customers’ applicable service class. The  
9 revenues taken from the books and records of NYSEG and RG&E for each of  
10 their respective service classification reflected the discounted amount for  
11 customers receiving the above-listed economic incentives. For the purposes of  
12 the ECOS studies, the Companies adjusted service class booked revenues to  
13 allocate the total economic incentive-discounted amount for the year back to the  
14 class where the customers receiving the discounts reside. The Companies made a  
15 second revenue-neutral adjustment to redistribute the total discounts resulting  
16 from the above-referenced economic development programs to all retail  
17 customers (excluding customers receiving interruptible and special contract rates)  
18 based on usage. By making these adjustments, the economic development  
19 discounts do not reduce the returns for only the service classifications that include  
20 customers receiving incentive rates. Instead, the impact of these discounts is  
21 spread to all classes that support the economic development programs.

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 Q. What were the outputs of the model based on the process described above?

2 A. The outputs of the model include a determination of rates of return by service  
3 classification at existing rates and at equal rates of return, as shown in Exhibits \_\_  
4 (ECOS-C2 and -D2). Additionally, Exhibits \_\_ (ECOS-C5 and -D5) display the  
5 rates of return at equal rates of return and claimed rates of return by function. The  
6 results of the equalized rate of return studies are used to develop the competitive  
7 service rates, which I will discuss later.

8 Q. What relative rate of return by service class resulted from the gas ECOS studies?

9 A. The service class rate of return is derived by dividing the net operating income  
10 associated with each service class by the rate base allocated to each service class.  
11 The relative rate of return index for each service class is determined by taking the  
12 calculated service class rate of return and dividing it by the overall system  
13 average rate of return. The results of this calculation are shown in Exhibits \_\_  
14 (ECOS-C2 and -D2).

15 **VI. COMPETITIVE SERVICES**

16 Q. What costs are included in the Gas Supply Procurement (MFC) function?

17 A. This function includes those “Supply-related” costs within the Companies’  
18 Energy Supply department that are associated with the acquisition of gas  
19 commodity and capacity required to serve firm load. As discussed above, the  
20 Companies directly assigned the storage inventory component of working capital  
21 not related to reliability to the MFC function. The gas studies also allocated the  
22 working capital related to the commodity hedge margin account to the Supply  
23 Procurement function.

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1           Additionally, the Companies indirectly allocated a percentage of General  
2           Plant costs and Customer Care, Uncollectibles, Credit and Collections, and A&G  
3           to MFC, as well as to the other functions. The details of the MFC Revenue  
4           Requirement are detailed in Exhibits \_\_ (ECOS-C11 and -D11). The revenue  
5           requirements at current and proposed rates of return are also shown in Exhibits \_\_  
6           (ECOS-C5 and -D5).

7   Q.    What costs are included in the electric Supply Procurement (MFC) function?

8   A.    This function includes those “Supply-related” costs within the Companies’  
9           Energy Supply department that are associated with the acquisition of energy and  
10          capacity required to serve retail load. The Companies directly assigned working  
11          capital associated with purchased power and commodity hedge margin to the  
12          Supply Procurement function. Additionally, the Companies indirectly allocate a  
13          percentage of General Plant costs and Customer Care, Uncollectibles, Credit and  
14          Collections, and A&G to Supply Procurement as well as to the MFC function.

15   Q.    How did the Companies determine what portion or percentage of the Energy  
16          Supply department costs to include in the Supply Procurement (MFC) function?

17   A.    The Companies conducted special studies to categorize the activities and quantify  
18          those costs within the Energy Supply department that are associated with the  
19          Supply and Delivery functions.

20   Q.    How did the Companies assign working capital to Supply Procurement?

21   A.    The Companies assigned working capital for purchase power to electric Supply  
22          Procurement and reflected a six-day lag for purchased power costs. This  
23          approach follows the treatment endorsed in the March 24, 2003 RD in the End



**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 State Proceeding – Unbundling Track, as adopted by the Commission in the  
2 Unbundling Statement of Policy and Order and was also used in the last case.

3 For the gas Supply Procurement function, the Companies directly assigned  
4 working capital related to gas storage inventory not related to reliability to the  
5 MFC function.

6 Finally, the Companies assigned working capital related to the commodity  
7 hedge margin account directly to both the electric and gas Supply Procurement  
8 functions.

9 Q. What costs are functionalized to BIPP?

10 A. The Companies maintain no accounts that include only BIPP costs.

11 Consequently, this function includes the portion of Customer Care costs related to  
12 BIPP and the allocated portion of General Plant, A&G expenses, Credit and  
13 Collections, and Uncollectibles. I discussed the treatment of Customer Care costs  
14 previously in my testimony.

15 Q. Please explain the process used to identify BIPP costs in the Customer Care  
16 analysis discussed above.

17 A. The Companies received information from departmental personnel to determine  
18 what activities were being charged to the Customer Care accounts. The  
19 Companies directly assigned any costs identified within FERC Accounts 901,  
20 903, or 905 to the BIPP function that were related to printing and mailing bills  
21 and receiving and processing payments. For example, postage and bill print  
22 expenses were identified and directly assigned to the BIPP function. Expenses  
23 associated with the Remittance Processing department were also directly assigned

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 to the BIPP function. A portion of the Credit and Collections costs and Call  
2 Center costs identified in Accounts 906A and 906B were allocated to the BIPP  
3 function based on revenues. The revenue requirements at current and proposed  
4 rates of return are detailed in Exhibits \_\_ (ECOS-A5, -B5, -C5 and -D5).

5 Q. What costs are functionalized to Electric Meter Investment?

6 A. Meter Investment includes meter plant, as defined by the USoA, with the  
7 exception of investment associated with metering transformers. This investment  
8 is included in Delivery consistent with the Commission's determination in the  
9 Competitive Metering proceeding (Case 00-E-0165) that the delivery company  
10 will continue to provide metering transformers. Capitalized meter installation  
11 costs are directly assigned to the Meter Services function as required by the  
12 Unbundling Statement of Policy and Order.

13 Q. What costs are functionalized to Electric Meter Services?

14 A. Meter Services include the Meter Operations and Maintenance Accounts under  
15 the USoA. The Companies also included capitalized meter installation costs in  
16 the Meter Services function.

17 Q. How did the Companies functionalize costs to Electric Meter Reading?

18 A. Meter Reading includes the expenses recorded in FERC Account 902 (Meter  
19 Reading Expenses).

20 Q. Did the Companies include an exhibit describing the Electric Competitive Energy  
21 Service Programs?

22 A. Yes. As mentioned in the Unbundling Statement of Policy and Order (page 31-  
23 32), Utilities were required to track these costs and report on them in their next

**DIRECT TESTIMONY OF DAVID A. HEINTZ**

1 major rate filing. These costs are being provided for informational purposes only  
2 and are not intended to establish a separate competitive rate. See Exhibits \_\_  
3 (ECOS-A13 and -B13).

4 Q. Does this conclude your direct testimony at this time?

5 A. Yes, it does.

6 40006.1 254575