



COMMONWEALTH OF PENNSYLVANIA

November 29, 2016

E-FILED

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: City of DuBois-Bureau of Water Request for Approval to Increase Water Rates
Docket No. R-2016-2554150**

Dear Secretary Chiavetta:

Enclosed please find the Main Brief, on behalf of the Office of Small Business Advocate, in the above-captioned proceeding. As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Steven C. Gray".

Steven C. Gray
Assistant Small Business Advocate
Attorney ID No. 77538

Enclosures

cc: Mr. Brian Kalcic
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	
v.	:	Docket No. R-2016-2554150
	:	C-2016-2556342
CITY OF DUBOIS – BUREAU OF WATER	:	

**MAIN BRIEF
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE**

Steven C. Gray
Assistant Small Business Advocate
Attorney ID # 77538

For: John R. Evans
Small Business Advocate

Office of Small Business Advocate
300 North Second Street, Suite 202
Harrisburg, PA 17101

Dated: November 29, 2016

I. Introduction

On June 30, 2016, the City of DuBois - Bureau of Water (the “City” or “DuBois”) filed Supplement No. 22 to Tariff Water - Pa. P.U.C. No. 4 with the Pennsylvania Public Utility Commission (“Commission”). The proposed tariff would provide the City with a general rate increase of \$257,604 per year.

On July 13, 2016, the Office of Small Business Advocate (“OSBA”) filed a Formal Complaint.

On September 9, 2016, a Prehearing Conference was held before Administrative Law Judge (“ALJ”) Mark A. Hoyer.

On September 14, 2016, ALJ Hoyer issued a Prehearing Order setting forth the procedural schedule in this case.

On October 5, 2016, the OSBA served the Direct Testimony of Brian Kalcic.

On November 10, 2016, an Evidentiary Hearing was held before ALJ Hoyer.

The OSBA submits this Main Brief in accordance with the procedural schedule set forth in the ALJ’s Prehearing Order

II. Summary of Argument

The City's class cost of service study, which uses the Base-Extra Capacity methodology, provides a just and reasonable measure of class cost of service and should be approved in this proceeding.

The City's proposed revenue allocation (at DuBois' requested revenue requirement level) is based directly on the City's cost of service study. The City's proposed revenue allocation moves all outside-City customer classes to their respective cost of service, and should be approved in this proceeding.

If the City is granted a revenue increase less than its original request of \$257,604, the ALJ and the Commission should adopt the OSBA's recommended proportional scaleback methodology to assign rate increases to the various customer classes.

The ALJ and the Commission should order the City to consider revising its tariffed rate structure if the City finds that it is unable to implement a cost-based class revenue allocation in its next base rates case.

III. Rate Base

The OSBA will not be briefing this issue.

IV. Revenues

The OSBA will not be briefing this issue.

V. Expenses

The OSBA will not be briefing this issue.

VI. Taxes

The OSBA will not be briefing this issue.

VII. Rate of Return

The OSBA will not be briefing this issue.

VIII. Miscellaneous Issue(s)

The OSBA will not be briefing this issue.

IX. Rate Structure

A. Cost of Service

The City filed a class cost of service study (“COSS”) with its June 30th base rates filing. See City of DuBois Statement No. 2, at Exhibit CEH-2. The City used the Base-Extra Capacity (“BEC”) methodology in its COSS. OSBA witness Brian Kalcic explained the BEC methodology, as follows:

In general, the BEC methodology consists of two major steps.

First, the utility’s system-wide revenue requirement is *classified* into functional cost categories (i.e., base, extra-capacity, customer and fire protection). Extra-capacity costs are further classified as either maximum-day (Max-Day) or maximum-hour (Max-Hour) related.

Second, as discussed below, each functional cost category is *allocated* to rate classes in accordance with a factor that reflects relative cost responsibility.

The BEC classification and allocation steps combine to produce a measure of total cost of service, by rate class.

By comparing allocated cost responsibility to actual revenue levels, one can determine whether a given rate class is contributing above or below its cost-of-service indications.

OSBA Statement No. 1, at 3 (emphasis in original) (formatting added).

Mr. Kalcic continued:

The [City’s COSS] allocates functionalized costs to the following (inside- and Outside-City) classes: a) Residential; b) Commercial/Public; c) Industrial; d) Sale for Resale; and e) Public Fire Protection.

Id. Mr. Kalcic further explained the factors that the City used in its COSS to allocate costs to the various customer rate classes:

The allocation factor varies with each type of classified cost.

Base costs are defined as those costs that vary directly with water usage, as well as the costs associated with serving customers under average (as opposed to peak) load conditions. As such, base costs are allocated to classes in proportion to annual class usage levels.

Max-Day and Max-Hour costs are defined as the costs incurred (or necessary) to serve load in excess of average load levels.

Accordingly, Max-Day costs are allocated to classes in proportion to the excess maximum day demand of each class (i.e., the difference between a class's maximum day demand and its average daily demand or usage).

Similarly, Max-Hour costs are allocated to classes in proportion to the excess maximum hour demand of each class (i.e., the difference between a class's maximum hour demand and its average hourly usage).

Customer costs are defined as those that vary with the number of customers served by the utility, and are allocated to classes based the number of customers and/or the number of equivalent meters or services in each class.

Finally, **Fire Protection costs** (associated with the facilities needed to meet the potential peak demand for fire service) are allocated to inside- and outside-City Public Fire classes on the basis of the number of fire hydrants.

OSBA Statement No. 1, at 3-4 (emphasis added) (formatting added).

The OSBA observes that the City employed the same COSS methodology in this proceeding as it did in its previous base rates case at Docket No. R-2013-2350509. OSBA Statement No. 1, at 4.

The OSBA respectfully submits that the City's COSS employs a reasonable and appropriate methodology, and the City's COSS should be used to determine class revenue requirement levels in this proceeding.

B. Revenue Allocation

The City's proposed revenue allocation is based directly on its COSS. OSBA Statement No. 1, at 4-5. Specifically, Mr. Kalcic testified, as follows:

DuBois is proposing to (i) set aggregate inside- and outside-City revenues at cost of service and (ii) set individual outside-City class revenue levels at cost of service (within rounding). In other words, DuBois' proposed revenue allocation is cost based for all outside-City customer classes.

OSBA Statement No. 1, at 4-5.

The OSBA supports the City's proposed revenue allocation since it moves all of DuBois' outside-City customer classes to their respective cost of service. OSBA Statement No. 1, at 5.

Naturally, the City's COSS was performed at a revenue requirement level that reflects DuBois' full requested increase of \$257,604. As indicated above, the OSBA does not take a position as to the amount of the revenue increase that should be awarded in this proceeding.

If the ALJ and the Commission were to allow the City a revenue increase that is less than its originally requested amount of \$257,604, Mr. Kalcic recommended the following methodology to determine class rate increases:

In that event, I would recommend that DuBois' proposed outside-City class increases . . . be reduced proportionately. For example, if the Commission were to award DuBois a final outside-City increase of \$128,800, then all of the City's proposed outside-City class increases should be reduced by the ratio of \$128,800 to \$257,600 or 50.0%.

OSBA Statement No. 1, at 5. *See also*, OSBA Statement No. 1, Schedule BK-1.

Specifically, whatever the final revenue increase granted to the City, that dollar figure will be the numerator, and \$257,604 will be the denominator, in a calculation of the proportional scaleback ratio. For example, if the City were to be granted a revenue increase of \$64,401.00, the proportional scaleback ratio would be calculated as follows:

$$(\$64,401.00 \div \$257,600.00) = 0.25$$

Next, each individual customer rate class, as set forth in OSBA Statement No. 1, Schedule BK-1, would be multiplied by the calculated proportional scaleback ratio of 0.25. For example, the Commercial class would receive the following rate increase:

$$(\$56,021.00 \times 0.25) = \$14,005.25$$

This same calculation would be performed for each of the individual customer rate classes.

The OSBA respectfully submits that Mr. Kalcic's proportional scaleback methodology has the advantages of being simple to understand, simple to execute, and provides a just and reasonable result for all outside-City customer classes.

C. Tariff Structure

Mr. Kalcic explained how the City proposes to implement its proposed revenue increases to its metered-service customers, as follows:

[T]he City is proposing [for Rate MR customers] (i) to apply an across-the-board increase of 16.7% to outside-City customer charges and (ii) to increase its first and second block outside-City consumption charges by 38.8% and 35.3%, respectively.

OSBA Statement No. 1, at 5. *See also*, OSBA Statement No. 1, Schedule BK-3.

The OSBA does not oppose the City's proposal. OSBA Statement No. 1, at 5. However, Mr. Kalcic observed that the current tariffed rate structure may cause problems for the City in the future:

[A]t the present time, the City provides service to four separate classes on Rate MR, which contains only two rate blocks. As discussed below, the City may find, going forward, that its existing Rate MR rate structure no longer provides the degree of rate design flexibility needed to implement a given set of class

revenue targets (or to set class revenues at cost of service). Under such circumstances, the City would need to consider modifying its existing rate structure.

OSBA Statement No. 1, at 5-6.

With regard to rate design flexibility, Mr. Kalcic continued:

In order to implement a set of class revenue targets using one rate schedule, the rate analyst normally needs to be able to differentiate between the levels of one or more of the tariff charges that apply to those classes.

In the case where two or more customer classes share the same rate schedule (as opposed to the case where classes are served via *separate* rate schedules), the analyst normally relies upon different rate block charges to implement (or hit) class revenue targets.

OSBA Statement No. 1, at 6 (emphasis in original) (formatting added). A problem may occur when the number of rate classes that take service on a given rate schedule exceeds the number of rate blocks in that rate schedule. In such circumstances, the rate analyst may not be able to manipulate the rates applicable to the limited number of existing rate blocks sufficiently to hit all the intended "class revenue targets."

To solve this problem, Mr. Kalcic proposed two possible solutions:

The City could adopt either of the following approaches:

- 1) add one or more rate blocks to Rate MR, based upon an analysis of class usage levels; or
- 2) serve one or more Rate MR classes on a separate rate schedule(s).

In practice, either approach should provide the rate design flexibility needed to implement specific class revenue targets.

OSBA Statement No. 1, at 6 (formatting added).

The OSBA respectfully requests that the ALJ and the Commission recommend to the City that it consider these two possible solutions if DuBois' existing rate structure limits the City's ability to implement a cost-based class revenue allocation in a future base rates case.

D. Summary and Alternatives

To summarize, the OSBA supports the City's COSS methodology and the City's proposed revenue allocation.

If the ALJ and Commission grant a revenue increase less than the \$257,604 amount, the OSBA recommends that Mr. Kalcic's proportional scaleback methodology be employed to determine the final rate increases for the various customer classes.

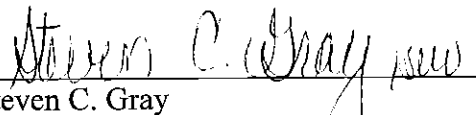
The OSBA also recommends that the City should seriously consider addressing its limited tariffed rate structure in its next base rates filing.

X. Conclusion

Wherefore, the OSBA respectfully requests that the ALJ and the Commission:

- (a) Approve the cost of service study methodology employed by the City;
- (b) Approve the revenue allocation proposed by the City, if the full revenue request is granted;
- (c) Employ Mr. Kalcic's proportional scaleback methodology to assign rate increases to the outside-City customer classes, if a revenue increase is granted that is less than the City's original request; and
- (d) Instruct the City to consider revising its limited rate structure in the City's next base rates case filing.

Respectfully submitted,



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Assistant Small Business Advocate
Attorney I.D. No. 77538

For:
John R. Evans
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Dated: November 29, 2016

APPENDIX 1

PROPOSED FINDINGS OF FACT
PROPOSED CONCLUSIONS OF LAW

Proposed Findings of Fact

On June 30, 2016, the City of DuBois - Bureau of Water filed Supplement No. 22 to Tariff Water - Pa. P.U.C. No. 4 with the Pennsylvania Public Utility Commission.

As filed, Supplement No. 22 would provide the City of DuBois with a general rate increase of \$257,604 per year.

The Office of Small Business Advocate filed a Formal Complaint against Supplement No. 22 on July 13, 2016.

The City of DuBois' class cost of service study uses the Base-Extra Capacity methodology.

The City of DuBois' proposed revenue allocation, at the City of DuBois' requested revenue requirement level, is based directly on the City of DuBois's cost of service study.

The City of DuBois' proposed revenue allocation moves all outside-City customer classes to their respective cost of service revenue levels.

The City of DuBois' existing Rate MR rate structure does not provide the degree of rate design flexibility that may be needed to implement cost-based class revenue targets in future base rate cases.

Proposed Conclusions of Law

Every rate made, demanded, or received by any public utility . . . shall be just and reasonable. 66 Pa. C.S. § 1301.

No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service. 66 Pa. C.S. § 1304.

The City of DuBois' cost of service study employs a just, reasonable, and appropriate methodology.

The City of DuBois' revenue allocation (at the filed revenue requirement) is based upon the City of DuBois' cost of service study, moves the customer classes to their respective cost of service, and results in just, reasonable, and nondiscriminatory rates.

If the City of DuBois is granted a revenue increase less than the originally requested amount, the proportional scaleback methodology proposed by OSBA witness Brian Kalcic shall be used to determine just, reasonable, and nondiscriminatory customer class rate increases.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

City of DuBois-Bureau of Water Request :
for Approval to Increase Water Rates : **Docket No. R-2016-2554150**
: **C-2016-2556342**

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email and/or First-Class mail (unless other noted below) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

The Honorable Mark A. Hoyer
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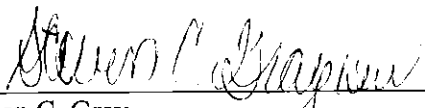
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DATE: November 29, 2016



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