



COMMONWEALTH OF PENNSYLVANIA

July 20, 2018

The Honorable David A. Salapa
Administrative Law Judge
Pennsylvania Public Utility Commission
400 North Street
Commonwealth Keystone Building
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. SUEZ Water Pennsylvania, Inc. /
Docket No. R-2018-3000834**

Dear Judge Salapa:

Enclosed please find the Direct Testimony and Exhibit of Brian Kalcic, labeled OSBA Statement No. 1, with Exhibit BK-1, on behalf of the Office of Small Business Advocate (“OSBA”), 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 cursive script that reads "Sharon E. Webb".

Sharon E. Webb
Assistant Small Business Advocate
Attorney ID No. 73995

Enclosures

cc: Brian Kalcic
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION** :
 :
 : **Docket No. R-2018-3000834**
 v. : **Docket No. C-2018-3002132**
 :
 :
SUEZ WATER PENNSYLVANIA, INC. :

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 David A. Salapa
Administrative Law Judge
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Harrisburg, PA 17120
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(Expert Witness for OCA)

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DATE: July 20, 2018



Sharon E. Webb
Assistant Small Business Advocate
Attorney I.D. No. 73995



COMMONWEALTH OF PENNSYLVANIA

August 17, 2018

The Honorable David A. Salapa
Administrative Law Judge
Pennsylvania Public Utility Commission
400 North Street
Commonwealth Keystone Building
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. SUEZ Water Pennsylvania, Inc. /
Docket No. R-2018-3000834**

Dear Judge Salapa:

Enclosed please find the Rebuttal Testimony of Brian Kalcic, labeled OSBA Statement No. 1-R, on behalf of the Office of Small Business Advocate ("OSBA"), 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, appearing to read "Sharon E. Webb".

Sharon E. Webb
Assistant Small Business Advocate
Attorney ID No. 73995

Enclosures

cc: Brian Kalcic
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION** :
 :
 : **Docket No. R-2018-3000834**
 v. : **Docket No. C-2018-3002132**
 :
 SUEZ WATER PENNSYLVANIA, INC. :

CERTIFICATE OF SERVICE

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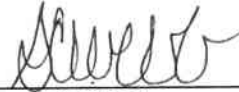
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(Counsel for PA Builders Association)

DATE: August 17, 2018



Sharon E. Webb
Assistant Small Business Advocate
Attorney I.D. No. 73995

OSBA STATEMENT NO. 1

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v.

: Docket No. R-2018-3000834

SUEZ WATER PENNSYLVANIA INC.

:

Direct Testimony and Exhibit of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

Date Served: July 20, 2018

Date Submitted for the Record: _____

Direct Testimony of Brian Kalcic

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Q. Please state your name and business address.

A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

Q. What is your occupation?

A. I am an economist and consultant in the field of public utility regulation, and principal of Excel Consulting. My qualifications are described in the Appendix to this testimony.

Q. On whose behalf are you testifying in this case?

A. I am testifying on behalf of the Office of Small Business Advocate (“OSBA”), which is representing the small business customers served by SUEZ Water Pennsylvania Inc. (“SWPA” or the “Company”).

Q. What is the subject of your testimony?

A. I will comment on the Company’s proposal to implement a Non-Residential Standby Rate (“Standby”) for customers with an alternative source of supply.

Q. Does the OSBA oppose the Company’s proposed standby rate?

A. Not in principle. However, as discussed below, I am recommending certain modifications to the Company’s proposed standby service rate schedule.

Standby Rate

Q. Mr. Kalcic, why is SWPA proposing to implement a standby rate in this case?

A. On pages 13-14 of SWPA Statement No. 6, Company witness Paul R. Herbert explains that the Company currently serves customers that have a private source of water supply, but rely on SWPA for back-up supply when their private supply is out of service. In the past, the

1 Company has provided back-up service to such customers when
2 needed, but only receives a customer or meter charge for any month
3 when no SWPA water is provided.

4 In order to recover the costs associated with providing standby
5 service, SWPA is proposing to implement a standby service rate
6 schedule.

7
8 **Q. To what customers would SWPA's proposed standby rate schedule
9 apply?**

10 A. The Application section of the Company's proposed standby rate
11 schedule states:

12
13 This rate is available to all non-residential customers that have
14 an alternative supply source or a non-residential customer that
15 purchases water from the Company and develops or obtains a
16 new source of supply.

17
18 **Q. How many potential standby customers does SWPA currently
19 serve?**

20 A. Four.¹

21
22 **Q. Why do you characterize such customers as *potential* standby
23 customers?**

24 A. To become a standby customer, a customer must: 1) decide to purchase
25 back-up service; and then 2) nominate the daily requirement (i.e.,
26 quantity) of back-up service to be reserved.

27 In other words, a customer with an alternative source of supply is
28 not obligated to purchase standby service.

29
30 **Q. Would an alternative supply customer that declines standby service
31 continue to be eligible for back-up water service from SWPA on an
32 as needed basis?**

¹ See the response to OCA-I-3.

1 A. Presumably not, since SWPA's proposed standby service is
2 considerably more expensive than the previously provided back-up
3 service.
4

5 **Q. Please describe the Company's proposed standby service charges.**

6 A. Mr. Herbert develops SWPA's proposed standby charges in Schedule J
7 of SWPA Exhibit No. PRH-1. As shown in Schedule J, the standby
8 rate schedule would include a two-part rate consisting of: 1) a monthly
9 capacity charge of \$153.00 per thousand gallons of nominated daily
10 standby supply; and 2) a consumption charge of \$3.10 per thousand
11 gallons of actual usage, when the customer's supply is unavailable.

12 Such charges are intended to reflect the average cost per unit (of
13 capacity and consumption) necessary to recover the base, maximum
14 day- and maximum hour- extra capacity cost ("BEC") portions of the
15 Company's claimed revenue requirement.
16

17 **Q. What is the total BEC revenue requirement used in Schedule J?**

18 A. The total BEC revenue requirement is \$21,686,483 (line 5) plus
19 \$13,352,576 (line 11) or \$35,039,059.
20

21 **Q. Do you have any comment on the Company's methodology for
22 calculating standby charges?**

23 A. Yes. The revenue requirement used in Schedule J represents 100% of
24 the Company's claimed BEC-related costs. However, the Company's
25 standby rates would apply only to *non-residential* customers. In order
26 to develop more accurate *non-residential* standby charges, the BEC-
27 related costs used in the standby calculation should be limited to the
28 BEC-related costs allocated to SWPA's non-residential classes in the
29 Company's cost-of-service study ("COSS").
30

31 **Q. Have you performed this alternative standby rate calculation?**

32 A. Yes, in Schedule BK-1.
33

1 **Q. What is the total BEC revenue requirement used in Schedule BK-**
2 **1?**

3 A. The total BEC revenue requirement is \$9,626,331 (line 5) plus
4 \$6,015,276 (line 12) or \$15,641,607, which is the total amount of BEC-
5 related costs allocated to Commercial, Industrial, Large Industrial and
6 Public Authority customers in the Company's COSS.

7
8 **Q. What is the total annual usage used in Schedule BK-1?**

9 A. The total annual usage (line 7) is 1,990,345 thousand gallons, which is
10 the total annual usage of Commercial, Industrial, Large Industrial and
11 Public Authority customers.²

12
13 **Q. How do the standby rates shown in Schedule BK-1 compare to**
14 **those in Schedule J?**

15 A. My adjusted standby charges are slightly lower than the Company. The
16 monthly capacity charge is \$147.11 per thousand gallons of nominated
17 daily standby supply, and \$3.02 per thousand gallons of actual usage.

18
19 **Q. Line 11 of Schedule BK-1 shows a monthly capacity charge of**
20 **\$14.71 per *hundred* gallons of nominated daily standby supply.**
21 **Are you recommending that standby customers have the option of**
22 **nominating daily standby capacity in 100-gallon per day units?**

23 A. Yes. Offering standby service in 100-gallon per day increments may
24 permit the standby customer to save money (if a full 1,000-gallon
25 increment of capacity is not needed), yet does not penalize the
26 Company in any way.

27
28 **Q. Do you have a specific recommendation for adjusting your**
29 **modified standby charges in the event the Commission grants the**
30 **Company less than its requested increase in this proceeding?**

31 A. Yes. In that event, I would recommend that the standby charges shown
32 on lines 10, 11 and 13 of Schedule BK-1 be reduced by the ratio of (i)

² Schedule J of SWPA Exhibit No. PRH-1 uses the total annual consumption of all SWPA customers, or 4,311,361 thousand gallons.

1 the Company's awarded revenue requirement, divided by (ii) the
2 Company's requested revenue requirement of \$53.619 million.

3.

4 **Q. Does this conclude your direct testimony?**

5 **A. Yes.**

EXHIBITS

Schedule BK-1

SUEZ WATER PENNSYLVANIA INC.

CALCULATION OF STANDBY RATES

Basis: BEC Costs Allocated to Commercial, Industrial, Large Industrial & Public Authority

Line No.	Description	Depreciation, Return and Income Taxes	
1	Base Costs	\$ 6,053,781	
2	Extra Capacity Costs:		
3	Maximum Day	2,803,048	
4	Maximum Hour	<u>769,502</u>	
5	Total	<u>\$ 9,626,331</u>	
6	Cost per Month (Ln 5 / 12)		\$ 802,194
7	Annual Usage, Thousand Gallons	1,990,345	
8	Usage per Day, Thousand Gallons (Ln 7 / 365)		5,453
9	Cost per Month per Thousand Gallons		
10	of Daily Demand (Ln 6 / Ln 8)		\$ 147.11
	or		
11	Cost per Month per Hundred Gallons (Ln 10 / 10)		\$ 14.71
12	Remaining Base and Extra Capacity Costs		\$ 6,015,276
13	Cost per Thousand Gallons (Ln 11 / Ln 7)		\$ 3.02

REFERENCED INTERROGATORY RESPONSES

OCA-I-3

Pennsylvania Public Utility Commission

v.

SUEZ Water Pennsylvania, Inc.

Docket No. R-2018-3000834

Interrogatories of the
Office of Consumer Advocate

Set I

OCA-I-3
(Hollenbach)

OCA-I-3 Please identify current nominated daily supply for standby service by customer, and the actual usage for each customer on a monthly basis for the most recent year available.

Response: The Company does not nominate daily supply for standby services. Standby service is supplied to four customers. See table below for last 12 months usage for each customer.

Customer 1		Customer 2		Customer 3		Customer 4	
Date	1,000 gal	Date	1,000 gal	Date	1,000 gal	Date	1,000 gal
04-25-2018	1	05-18-2018	9	05-18-2018	0	05-18-2018	0
03-26-2018	3	04-20-2018	2	04-20-2018	0	04-20-2018	0
02-26-2018	2	03-16-2018	2	03-16-2018	0	03-16-2018	0
01-29-2018	4	02-16-2018	2	02-16-2018	0	02-16-2018	0
12-27-2017	4	01-19-2018	0	01-19-2018	1	01-19-2018	0
11-28-2017	83	12-18-2017	1	12-18-2017	2	12-18-2017	0
10-23-2017	0	11-20-2017	2	11-20-2017	3	11-20-2017	0
09-25-2017	0	10-20-2017	3	10-20-2017	24	10-20-2017	0
08-28-2017	0	09-18-2017	16	09-18-2017	2	09-18-2017	0
07-24-2017	0	08-18-2017	16	08-18-2017	1	08-18-2017	0
06-26-2017	0	07-17-2017	16	07-17-2017	1	07-17-2017	328
05-26-2017	0	06-16-2017	1	06-16-2017	13	06-16-2017	0

APPENDIX

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Illinois Benedictine College with a Bachelor of Arts degree in Economics in December 1974. In May 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University, including Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice that offers business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Indiana, Kansas, Kentucky, Maine, Massachusetts, Minnesota,

Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Texas, and also before the Bonneville Power Administration.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :

v.

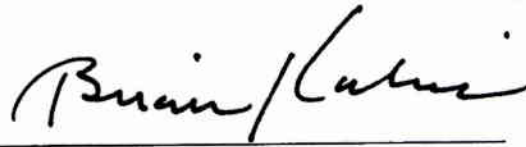
: **Docket No. R-2018-3000834**

SUEZ Water Pennsylvania Inc. :

VERIFICATION

I, Brian Kalcic, hereby state that the facts set forth in my direct testimony labeled OSBA Statement No. 1 are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: July 19, 2018



(Signature)

Brian Kalcic

OSBA STATEMENT NO. 1-R

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v.

: Docket No. R-2018-3000834

SUEZ WATER PENNSYLVANIA INC.

:

Rebuttal Testimony of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

Date Served: August 17, 2018

Date Submitted for the Record: _____

1 Rebuttal Testimony of Brian Kalcic

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3
4 **Q. Please state your name and business address.**

5 A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

6
7 **Q. Have you previously submitted direct testimony in this proceeding?**

8 A. Yes, I have.

9
10 **Q. What is the subject of your rebuttal testimony?**

11 A. I will respond to the direct testimony of Jerome D. Mierzwa on behalf
12 of the OCA.

13
14 OCA Witness Mierzwa

15
16 **Q. Does Mr. Mierzwa agree with the Company's proposed class**
17 **revenue allocation shown in Schedule A of SWPA Exhibit No.**
18 **PRH-1?**

19 A. No. Mr. Mierzwa states that while the Company's proposed revenue
20 allocation provides for movement for each customer class toward its
21 indicated cost of service, he believes "additional movement is
22 warranted and reasonable."¹

23
24 **Q. Does Mr. Mierzwa sponsor an alternative class revenue allocation?**

25 A. Yes. Mr. Mierzwa's proposed class revenue allocation is provided in
26 Table 2, at page 10 of his direct testimony, and shown, for
27 convenience, in Table 1R below.

28

¹ See OCA Statement No. 3, at page 9.

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Table 1R
OCA Proposed Class Revenue Allocation
(\$000)

<i>Class</i>	<i>Present Revenue</i>	<i>OCA Prop. Increase</i>	<i>Percent Increase</i>	<i>Relative Increase</i>
Residential	\$28,877.3	\$1,823.7	6.32%	58
Commercial	11,767.1	2,135.0	18.14%	166
Industrial	766.3	142.6	18.60%	171
Lrg. Industrial	701.0	152.1	21.70%	199
Public Authority	1,835.8	398.4	21.70%	199
Private Fire	1,446.0	313.8	21.70%	199
Public Fire	<u>923.8</u>	<u>85.0</u>	9.20%	84
Total	\$46,317.3	\$5,050.6	10.90%	100

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Q. How did Mr. Mierzwa arrive at his alternative class revenue allocation proposal?

A. Mr. Mierzwa used the results of a rerun of the Company's cost-of-service study ("COSS"), reflecting the removal of all costs and revenues associated with operating the Mahoning Township water system, to determine his revenue allocation proposal. More specifically, Mr. Mierzwa proposes to (i) limit increases to underperforming classes to no more than 200% of the system average increase, (ii) move the Commercial, Industrial and Public Fire classes to full cost of service, and (iii) assign the residual increase to the Residential class.

Q. How did Mr. Mierzwa establish his proposed limit on class increases of 2.0 times the system average?

A. Mr. Mierzwa used the 21.7% increase that the Company assigned to the Large Industrial class to establish his upper limit on class increases.²

² *Id.*

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Q. In what context did SWPA originally assign a 21.7% increase to the Large Industrial class?

A. The Company assigned a 21.7% increase to the Large Industrial class in the context of (i) the class cost-of-service results shown in Schedule B of SWPA Exhibit No. PRH-1, and (ii) its overall requested increase in rate revenue of \$6.2 million, or 13.3%.

Q. Does the Company's proposed Large Industrial increase of 21.7% equate to an increase of 2.0 times SWPA's filed system average increase?

A. No, the proposed Large Industrial increase is (21.7% divided by 13.3% or) 1.63 times the filed system average increase.

Q. Do you agree with Mr. Mierzwa that the upper limit on class increases in this proceeding should be 2.0 times the system average increase?

A. No. In my experience, it is rare for assigned class increases to exceed 150% of the system average increase, in recognition of gradualism considerations. As such, I find the OCA's proposed limit of 2.0 times the system average increase to be excessive.

Q. What would be an appropriate limit on class increases in this proceeding?

A. I believe the Company's proposed limit of 1.63 times the filed system average is reasonable, since it provides for meaningful movement toward class cost of service, without imposing an excessive increase on any rate class.

Q. Do you agree with Mr. Mierzwa's revenue allocation proposal?

A. No. In my view, the OCA's proposal would impose excessive increases on the Company's Large Industrial, Public Authority and Private Fire classes. I recommend that the Commission reject it, and instead maintain the relative class increases shown in Schedule A of

1 SWPA Exhibit No. PRH-1, when implementing any awarded revenue
2 increase in this proceeding.

3

4 **Q. Does this conclude your rebuttal testimony?**

5 **A. Yes.**

