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File #:

August 30, 2010

BY HAND

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

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SECRETARY'S BUREAU

RE: Petition of Duquesne Light Company to Contest the Finding of Non-Compliance with the Alternative Energy Portfolio Standards Act and Modify the Alternative Compliance Payment or, in the alternative, Declare a Force Majeure for Duquesne Light Company for the 2008/2009 Alternative Energy Compliance Period - Docket No. P-2010-2153577

Dear Secretary Chiavetta:

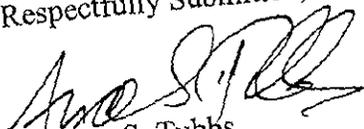
As directed by Ordering Paragraph No. 3 of the Interim Order in the above-referenced proceeding, enclosed please find copies of the following written testimony:

- CEEP St. No. 1 - Direct Testimony of Wayne L. Williams, Ph.D
- CEEP St. No. 2 – Direct Testimony of Dina M. Deana
- OSBA St. No. 1 – Direct Testimony Brian Kalcic
- Duquesne Light Company St. No. 1 – Direct Testimony of Anthony F. Pekny
- Duquesne Light Company St. No. 2 – Direct Testimony Gary S. Page
- Duquesne Light Company St. No. 1-R – Rebuttal Testimony of Anthony F. Pekny

A copy of the Interim Order is also enclosed.

August 30, 2010
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Respectfully Submitted,


Andrew S. Tubbs

AST/jl

Enclosures

cc: Honorable Katrina L. Dunderdale (letter & certificate of service only)
Certificate of Service (letter & certificate of service only)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v.

: Docket No. P-2010-2153577

DUQUESNE LIGHT COMPANY :

Direct Testimony of
BRIAN KALCIC

On Behalf of the
Pennsylvania Office of Small Business Advocate

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Date Served: July 16, 2010

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 Duquesne Light Company (“Duquesne” or “Company”).

Q. What is the subject of your testimony?

A. I have been asked by the OSBA to review and comment on Duquesne’s petition contesting the Commission’s finding that the Company failed to comply with the Alternative Energy Portfolio Standards (“AEPS”) Act for the 2008/2009 AEPS compliance period (i.e., “Petition”).

Q. Will your testimony address all aspects of the Company’s Petition?

A. No, it will not. My testimony is limited to the issue of whether or not it would be appropriate to recover the costs associated with any of the Company’s alternative proposals (to remedy the Commission’s finding of non-compliance) from ratepayers.¹

Q. How is your testimony organized?

A. In Section I of my testimony, I briefly review the Company’s proposed remedies to the Commission’s finding of non-compliance. Section II examines Duquesne’s alternative proposal to recover the cost of the

¹ See Duquesne’s Petition at paragraphs 11, 28 and 42.

1 alternative compliance payment from customers, and explains why the
2 Commission should reject it.

3
4 **I. Duquesne's Proposed Remedies**

5
6 **Q. Mr. Kalcic, what is Duquesne's primary proposal/remedy in this
7 proceeding?**

8 A. First and foremost, Duquesne's Petition requests that the Commission
9 accept (as eligible) the 42,980 Tier I alternative energy credits
10 ("AECs") procured from Cadillac Renewable Energy ("Cadillac") for
11 the 2008/2009 AEPS compliance period. If the Commission were to
12 accept the Cadillac AECs, there would be no need for Duquesne to
13 make an alternative compliance payment to satisfy its 2008/2009 AEPS
14 requirement.

15
16 **Q. What is the amount of the alternative compliance payment at issue
17 in this case?**

18 A. Based upon the Non-Compliance Letter issued by the Commission's
19 Bureau of Conservation, Economics & Energy Planning to Duquesne
20 dated January 4, 2010, the alternative compliance payment owed by
21 Duquesne is \$1,934,100.

22
23 **Q. What are the Company's alternative proposals to remedy the
24 Commission's finding of non-compliance?**

25 A. According to Paragraph 11 of Duquesne's Petition, if the Commission
26 does not accept the Cadillac AECs, the Commission should: a) permit
27 Duquesne to acquire an additional 42,980 AECs for the 2009/2010
28 AEPS compliance period; b) substitute banked AECs for the Cadillac
29 AECs; c) exchange the Cadillac AECs for equivalent AECs procured
30 within the PJM service territory; or d) declare a force majeure for
31 Duquesne for the 2008/2009 AEPS compliance period and allow the
32 Company to: i) make the alternative compliance payment and recover
33 the payment from ratepayers, *or* ii) purchase 42,980 additional Tier I

1 AECs in the 2009/2010 compliance period (to satisfy its 2008/2009
2 AEPS requirements).

3
4 **II. Recovery of Costs from Ratepayers**

5
6 **Q. Mr. Kalcic, whether or not the Commission were to declare a force
7 majeure for Duquesne for the 2008/2009 AEPS compliance period,
8 would it be appropriate for the Company to collect an alternative
9 compliance payment from customers?**

10 A. No, it would not.

11
12 **Q. Why not?**

13 A. The 2008/2009 AEPS compliance period covers the period from June 1,
14 2008 through May 31, 2009. However, counsel advises that the default
15 service rates for small commercial and industrial customers (“Small
16 C&I customers”) are to remain fixed from January 1, 2008, through
17 December 31, 2010 pursuant to a stipulation that was approved in
18 Duquesne’s provider of last resort proceeding (“POLR IV”) at Docket
19 P-00072247 (Order entered June 22, 2007). Specifically, the average
20 POLR rate for Small C&I customers, i.e., customers which have a
21 maximum registered peak demand of less than 25 kW and are served
22 under rate schedules GS/GM and GMH, are to remain fixed throughout
23 the period. While individual customers in this procurement group were
24 to experience annual rate changes on January 1, 2009, and January 1,
25 2010 (to reflect the phase-out of Duquesne’s demand charges and/or
26 declining block rates), such rate changes were intended to be revenue
27 neutral on a class basis.

28 As a result, counsel advises that any attempt by Duquesne to
29 recover an alternative compliance payment from Small C&I customers
30 for the twelve month period ended May 31, 2009, would be in violation
31 of the approved stipulation in POLR IV.

32
33 **Q. Are there any other procurement classes affected by a POLR IV
34 stipulation?**

1 A. Yes. Counsel advises that a further POLR IV stipulation offered
2 comparable generation rate cap protection through December 31, 2008,
3 to Duquesne's medium commercial and industrial customers ("Medium
4 C&I customers"), i.e., customers which have a maximum registered
5 peak demand between 25 kW and 300 kW. Such capped generation
6 rates were subsequently continued through June 30, 2009, by the Joint
7 Petition for Settlement of Duquesne's Petition for Special Permission to
8 File a Tariff on less than 60 days Notice at Docket No P-2008-2079461
9 (Order entered April 20, 2009) ("Medium C&I Case").

10 Accordingly, counsel advises that any attempt by Duquesne to
11 recover an alternative compliance payment from Medium C&I
12 customers for the twelve month period ended May 31, 2009, would be
13 in violation of the approved settlements in POLR IV and the Medium
14 C&I Case.

15
16 **Q. What do you recommend?**

17 A. Consistent with the above discussion, I recommend that the
18 Commission deny Duquesne's request to recover the cost of an
19 alternative compliance payment from Small and/or Medium C&I
20 customers.

21
22 **Q. Mr. Kalcic, as an alternative, Duquesne's Petition requests that the**
23 **Commission allow Duquesne to satisfy its 2008/2009 AEPS**
24 **requirement by purchasing an additional 42,980 Tier I AECs in the**
25 **2009/2010 compliance period. Has Duquesne indicated whether or**
26 **not it would seek recovery of the cost of such additional Tier I**
27 **AECs from ratepayers?**

28 A. I don't believe so.

29
30 **Q. Would it be appropriate to recover such costs from ratepayers?**

31 A. No, it would not. The fact that Duquesne would purchase the additional
32 Tier I AECs during the 2009/2010 compliance period does not negate
33 the fact that the additional Tier I AEC purchases would be undertaken
34 solely to satisfy AEPS requirements for the *2008/2009 AEPS*

1 *compliance period*, during which the generation rates for Small and
2 Medium C&I customers were fixed. Therefore, Duquesne should not
3 be permitted to recover the cost associated with such purchases from
4 ratepayers.

5

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

7 A. Yes.

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, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Texas, and also before the Bonneville Power Administration.