



COMMONWEALTH OF PENNSYLVANIA

December 17, 2021

E-FILED

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

Re: Pennsylvania Public Utility Commission v. The Borough of Hanover – Municipal Waterworks / Docket No. R-2021-3026116

Dear Secretary Chiavetta:

The Pennsylvania Public Utility Commission's Implementation Order at *Electronic Access to Pre-Served Testimony*, Docket No. M-2012-2331973, requires that all testimony furnished to the court reporter during a proceeding must subsequently be provided to the Secretary's Bureau.

As such, this letter will confirm that the Office of Small Business Advocate ("OSBA") has e-filed the Direct Testimony and Exhibit of Brian Kalcic, labeled OSBA Statement No. 1, in the above-captioned proceeding.

All known parties were previously served with the aforementioned Testimony. If you have any questions, please contact me.

Sincerely,

/s/ Steven C. Gray

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

Enclosures

cc: Brian Kalcic
Parties of Record (**Cover Letter and Certificate of Service Only**)



COMMONWEALTH OF PENNSYLVANIA

September 30, 2021

The Honorable F. Joseph Brady
Administrative Law Judge
Pennsylvania Public Utility Commission
801 Market Street, Suite 4063
Philadelphia, PA 19107

Re: Pennsylvania Public Utility Commission v. The Borough of Hanover – Municipal Waterworks / Docket No. R-2021-3026116

Dear Judge Brady:

Enclosed please find the Direct Testimony and Exhibit of Brian Kalcic, labeled OSBA Statement No. 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,

/s/ Steven C. Gray

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

Enclosures

cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Brian Kalcic
Parties of Record

OSBA STATEMENT NO. 1

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v. : Docket No. R-2021-3026116

**THE BOROUGH OF HANOVER – MUNICIPAL :
WATERWORKS :**

Direct Testimony and Exhibit of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

Date Served: September 30, 2021

Date Submitted for the Record: December 14, 2021

Direct Testimony of Brian Kalcic

1 **Q. Please state your name and business address.**

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

3

4 **Q. What is your occupation?**

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

8

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

10 A. I am testifying on behalf of the Office of Small Business Advocate (“OSBA”),
11 which is representing the outside-Borough small business customers served by The
12 Borough of Hanover –Municipal Waterworks (“Hanover” or the “Borough”).

13

14 **Q. What is the subject of your testimony?**

15 A. I have been asked by the OSBA to evaluate the propriety of Hanover’s proposed
16 class revenue allocation for outside-Borough customers, and to sponsor changes to
17 that allocation, if appropriate.

18

19 **Q. Do you have any preliminary comments?**

20 Yes. I wish to note at the outset that my recommendations and schedules reflect the
21 Borough’s full rate request in this proceeding. Any such reference is intended for

1 comparison purposes only and should not be construed as a recommendation by the
2 OSBA that the Commission grant the Borough's request in whole or in part.

3

4 **Q. Please summarize your findings and recommendations.**

5 A. Based on my analysis of Hanover's filing and discovery responses, I find that the
6 Borough's proposed class revenue allocation is cost based, and I therefore
7 recommend that the Commission adopt the Borough's class revenue allocation
8 proposal.

9 Likewise, in the event that the Commission awards Hanover a final increase
10 that is less than its requested increase of \$1.563 million, I recommend that the
11 Borough's proposed class increases be reduced proportionately.

12

13 **Class Revenue Allocation**

14

15 **Q. Mr. Kalcic, how many different rate schedules are included in the Borough's
16 current tariff?**

17 A. At present, Hanover serves approximately 11,000 customers that reside outside the
18 Borough limits via two separate rate schedules, which are applicable to: a) General
19 Metered Service ("GMS") customers; and b) Private and Public Fire Service
20 customers. However, the Borough's GMS rate schedule contains separate (single
21 block) consumption charges applicable to Residential, Commercial/Public,
22 Industrial and Large Industrial customers.

23

1 **Q. Is Hanover proposing to implement any charges in its current rate structure in**
2 **this proceeding?**

3 A. No, it is not.

4
5 **Q. How does Hanover propose to recover its requested revenue increase in this**
6 **case?**

7 A. Schedule BK-1 provides a summary of the Borough's proposed revenue allocation
8 for outside-Borough customers. Per line 7 of Schedule BK-1, the Borough's
9 requested system average increase in total outside-Borough rate revenue is 28.9%.
10 The proposed increases to individual customer classes range from a low of 0.0%
11 (Public Fire) to a high of 40.1% (Private Fire).

12
13 **Q. Did the Borough prepare a class cost of service study ("COSS") for this**
14 **proceeding**

15 A. Yes. The Borough's filed COSS is contained in Exhibit CEH-1.

16
17 **Q. How did Hanover arrive at the proposed revenue allocation shown in Schedule**
18 **BK-1?**

19 A. The Borough proposed rates are designed to recover the total allocated cost of
20 service for outside-Borough customers of \$7.222 million from outside-Borough
21 customers.¹

¹ See Hanover Statement No. 3 at page 8.

1

2 **Q. Does Hanover’s proposed revenue allocation move all outside-Borough rate**
3 **classes closer to their respective cost-based revenue levels?**

4 A. With one minor exception, it does. As discussed below, Schedule BK-2 shows that
5 all classes except Private Fire would move closer to cost of service under the
6 Borough’s proposed revenue allocation.

7

8 **Q. Please describe Schedule BK-2.**

9 A. Schedule BK-2 consists of two pages. Page 1 of Schedule BK-2 reports class
10 revenue subsidies, at both present and proposed rates, based on the Borough’s
11 COSS. These class subsidies are derived in columns 3 and 6, respectively, of page
12 2 of Schedule BK-2, by subtracting class cost of service from class rate revenues, at
13 present and Borough proposed rates. The subsidy calculation provides a dollar
14 measure of the difference between actual class revenues and those revenue levels
15 that, if attained, would produce rates of return for each class of 1.93% at present
16 rates, and 6.27% at proposed rates.

17

18 **Q. Why is information about class subsidies relevant?**

19 A. By definition, if a class is not paying exactly its cost of service, it is either: a)
20 receiving a subsidy (i.e., paying too little); or b) providing a subsidy (i.e., paying
21 too much). In order to determine whether or not a class is moving toward cost of
22 service, one must ascertain whether the class’s present subsidy is growing or

1 shrinking at proposed rates. If its present subsidy is growing at proposed rates, the
2 class is moving in the wrong direction (i.e., away from cost of service).

3 Conversely, if its present subsidy is shrinking at proposed rates, the class is moving
4 closer to cost of service.

5 In short, the proper yardstick for measuring the degree of movement toward
6 cost of service is the change in the absolute level of class subsidies at present and
7 proposed rates.

8

9 **Q. Has the Commission recently indicated its agreement with your position that**
10 **the proper metric for measuring the degree of movement toward cost of**
11 **service is the change in the absolute level of class subsidies at present and**
12 **proposed rates?**

13 A. Yes. On page 36 of its Opinion and Order in the City of Bethlehem – Water
14 Department base rate proceeding at Docket No. R-2020-3020256, entered on April
15 15, 2021, the Commission stated: “As noted by the OSBA, the proper yardstick for
16 measuring the degree of movement toward cost of service is the change in the
17 absolute level of class subsidies at present and proposed rates.”

18

19 **Q What does page 1 of Schedule BK-2 indicate with respect to Hanover’s**
20 **proposed class revenue allocation?**

21 A. The subsidy figures shown in column 2 indicate that Hanover’s proposed revenue
22 allocation would essentially move all classes to full cost of service, i.e., subject to

1 rate design rounding, with the exception of the Private Fire class (line 5), which
2 would move from slightly below (\$1,134) to slightly above (\$2,278) its indicated
3 cost of service at Hanover's proposed rates.

4
5 **Q. Are you therefore in agreement with Hanover's proposed class revenue**
6 **allocation shown in Schedule BK-1?**

7 A. Yes, I am.

8

9 **Q. Do you have a recommendation in the event that the Commission awards**
10 **Hanover an overall jurisdictional increase that is less than its requested**
11 **increase of \$1.563 million in this proceeding?**

12 A. Yes. In that event, I would recommend that the awarded jurisdictional increase be
13 allocated to classes in proportion to the Borough's proposed class increases shown
14 in column 2 of Schedule BK-1.

15

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

17 A. Yes.

EXHIBIT BK-1

Schedules BK-1 and BK-2

BOROUGH OF HANOVER - MUNICIPAL WATER WORKS

Borough Proposed Allocation of its
Requested Increase in Total Base Rate Revenue
for Outside-Borough Customers
(Future Test Year Ending December 31, 2022)

<u>Line</u>	<u>Classification</u>	<u>Present Revenue</u>	<u>Proposed Increase</u>	
			<u>Amount</u>	<u>Percent</u>
		1	2	3
1	Residential	\$2,936,274	\$787,988	26.8%
2	Commercial/Public	\$461,670	\$118,845	25.7%
3	Industrial	\$400,183	\$94,953	23.7%
4	Large Industrial	\$1,275,662	\$480,790	37.7%
5	Private Fire	\$200,901	\$80,525	40.1%
6	Public Fire	<u>\$131,772</u>	<u>(\$1)</u>	0.0%
7	Subtotal	\$5,406,462	\$1,563,100	28.9%
8	Other Revenues	<u>\$252,752</u>	<u>\$0</u>	0.0%
9	Total Outside	\$5,659,214	\$1,563,100	27.6%

Source: Exhibit CEH-1, Schedule A

BOROUGH OF HANOVER - MUNICIPAL WATER WORKS

Class Revenue Subsidies at
Present and Borough Proposed Rates
Outside-Borough Customers
(Future Test Year Ending December 31, 2022)

<u>Line</u>	<u>Classification</u>	<u>Present Subsidy</u>	<u>Proposed Subsidy</u>
		1	2
1	Residential	\$18,205	\$2,253
2	Commercial/Public	\$12,438	(\$1,408)
3	Industrial	\$22,916	(\$213)
4	Large Industrial	(\$52,426)	(\$2,909)
5	Private Fire	(\$1,134)	\$2,278
6	Public Fire	<u>\$0</u>	<u>(\$1)</u>
7	Total Outside	(\$1)	\$0

Source: Schedule BK-2, page 2 of 2.

Note: A positive figure indicates that a class is providing a subsidy;
a negative figure indicates that it is receiving a subsidy.

BOROUGH OF HANOVER - MUNICIPAL WATER WORKS

Calculation of Class Revenue Subsidies
at Present and Borough Proposed Rates
(Future Test Year Ending December 31, 2022)

<u>Line</u>	<u>Classification</u>	<u>Present Rate Revenue</u> (1)	<u>Cost of Service at Present Rates</u> (2)	<u>Subsidies at Present Rates</u> (3) = (1) - (2)	<u>Proposed Rate Revenue</u> (4)	<u>Cost of Service at Proposed Rates</u> (5)	<u>Subsidies at Proposed Rates</u> (6) = (4) - (5)
1	Residential	\$2,936,274	\$2,918,069	\$18,205	\$3,724,262	\$3,722,009	\$2,253
2	Commercial/Public	\$461,670	\$449,231	\$12,438	\$580,515	\$581,923	(\$1,408)
3	Industrial	\$400,183	\$377,267	\$22,916	\$495,136	\$495,349	(\$213)
4	Large Industrial	\$1,275,662	\$1,328,088	(\$52,426)	\$1,756,452	\$1,759,361	(\$2,909)
5	Private Fire	\$200,901	\$202,035	(\$1,134)	\$281,426	\$279,148	\$2,278
6	Public Fire	<u>\$131,772</u>	<u>\$131,772</u>	<u>\$0</u>	<u>\$131,771</u>	<u>\$131,772</u>	<u>(\$1)</u>
7	Total Outside	\$5,406,462	\$5,406,462	\$0	\$6,969,562	\$6,969,562	\$0

Source: Exhibit CEH-1,
Schedule A

OSBA-I-1

Exhibit CEH-1,
Schedule A

Exhibit CEH-1,
Schedule A

REFERENCED INTERROGATORY RESPONSES

OSBA-I-1

Interrogatories of the
Office of Small Business Advocate to
The Borough of Hanover – Municipal Waterworks
Docket No. R-2021-3026116

Set I

Witness: C. Heppenstall

1. Please provide a copy of all cost-of-service workpapers including, but not limited to, the complete cost-of-service study utilized to produce the class rates of return under present rates shown in Exhibit CEH-1, Schedule A.

See response to OCA I-3 for the Excel version of the cost of service study. See ‘OSBA I-1 Attachment’ for the cost of service workpapers and ‘OSBA I-1 Attachment 2.xlsx’ for the cost of service study utilities to produce the class rates of return under present rates.

BOROUGH OF HANOVER - HANOVER MUNICIPAL WATER WORKS

DEVELOPMENT OF RATE OF RETURN BY CUSTOMER CLASSIFICATION
UNDER UNITIZED PRESENT RATES

ITEM (1)	COST OF SERVICE (2)	OUTSIDE - BOROUGH					
		RESIDENTIAL (3)	COMMERCIAL (4)	INDUSTRIAL (5)	LARGE INDUSTRIAL (6)	PRIVATE FIRE (7)	PUBLIC FIRE (8)
1. REVENUES FROM SALES	5,406,461	2,918,069	449,231	377,267	1,328,088	202,035	131,772
2. OTHER REVENUES	252,753	134,738	20,808	17,542	61,840	10,276	7,549
3. TOTAL OPERATING REVENUES	5,659,214	3,052,807	470,039	394,809	1,389,928	212,311	139,321
4. LESS: OPERATING EXPENSES (INCLUDES REALLOCATION OF FIRE)	4,962,222	2,711,280	413,373	343,162	1,198,186	178,089	118,132
5. RETURN	696,992	341,526	56,665	51,647	191,742	34,222	21,189
6. ORIGINAL COSTS MEASURE OF VALUE	36,029,944	17,656,673	2,929,403	2,668,058	9,912,704	1,769,247	1,093,858
7. RATE OF RETURN, PERCENT	1.93	1.93	1.93	1.94	1.93	1.93	1.94
8. RELATIVE RATE OF RETURN	1.00	1.00	1.00	1.00	1.00	1.00	1.00

CALCULATION OF RETURN BY CLASS AFTER REALLOCATE PUBLIC FIRE

1. REVENUES FROM SALES	5,406,461	3,027,347	464,885	383,131	1,329,063	202,035
2. OTHER REVENUES	252,753	140,998	21,705	17,878	61,896	10,276
3. TOTAL OPERATING REVENUES	5,659,214	3,168,345	486,590	401,009	1,390,959	212,311
4. LESS: OPERATING EXPENSES (INCLUDES REALLOCATION OF FIRE)	4,962,222	2,809,247	427,407	348,419	1,199,060	178,089
5. RETURN	696,992	359,098	59,183	52,590	191,899	34,222
6. ORIGINAL COSTS MEASURE OF VALUE	36,029,944	18,563,809	3,059,353	2,716,735	9,920,799	1,769,247
7. RATE OF RETURN, PERCENT	1.93	1.93	1.93	1.94	1.93	1.93
8. RELATIVE RATE OF RETURN	1.00	1.00	1.00	1.00	1.00	1.00

APPENDIX

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Benedictine University 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.

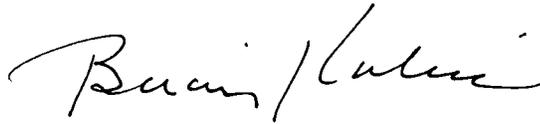
**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. A-2021-3026116
	:	
The Borough of Hanover – Municipal Waterworks	:	

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: September 29, 2021



(Signature)

Brian Kalcic

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

**THE BOROUGH OF HANOVER –
MUNICIPAL WATERWORKS**

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DOCKET NO. R-2021-3026116

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*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).

Laura J. Antinucci, Esquire
Erin L. Gannon, Esquire
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The Honorable F. Joseph Brady
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DATE: September 30, 2021

/s/ Steven C. Gray

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

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

**THE BOROUGH OF HANOVER –
MUNICIPAL WATERWORKS**

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DATE: December 17, 2021

/s/ Steven C. Gray

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