BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF DELAWARE  

IN THE MATTER OF THE APPLICATION OF )  
DELMARVA POWER & LIGHT COMPANY FOR A ) PSC DOCKET NO. 12-546  
CHANGE IN NATURAL GAS BASE RATES )  
(Filed December 7, 2012) )  

TESTIMONY OF STAFF WITNESS  
BRIAN KALCIC  

Regarding  
Cost of Service and Rate Design  

June 3, 2013
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Schedules BK-1 through BK-3

Appendix
I. QUALIFICATIONS AND OVERVIEW

Q. Please state your name and business address.
A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, 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 Delaware Public Service Commission Staff (“Staff”).

Q. What is the subject of your testimony?
A. Staff requested that I review the cost of service and rate design analysis sponsored by Delmarva Power & Light Company (“Delmarva” or the “Company”) in this proceeding, and to develop an appropriate rate design that would recover Staff witness David E. Peterson’s recommended increase in delivery revenues of $3.584 million.

In addition, I will review certain revisions to Delmarva’s proposed tariff, and sponsor alternative recommendations, where appropriate.
Q. How is your testimony organized?

My testimony is organized as follows. Section I of my testimony contains my qualifications and an overview of my testimony. Section II reviews the Company’s cost-of-service study. Section III examines the Company’s proposed class revenue allocation and presents Staff’s recommended revenue allocation. Section IV discusses Staff’s recommended rate design. Finally, Section V examines certain revisions to Delmarva’s proposed tariff.

Q. Please summarize your primary recommendations.

A. Based upon my review of the Company's filing and interrogatory responses, I recommend that the Delaware Public Service Commission (“Commission”):

- adopt Delmarva’s proposed cost-of-service methodology;
- adopt Staff’s recommended class revenue allocation;
- adopt Staff’s recommended rate design which includes non-uniform rate increases to individual rate schedule tariff components; and
- approve Staff’s modifications to Delmarva’s proposed penalty charges for unauthorized overruns.

The specific details associated with Staff’s recommendations are discussed below.
II. **COST-OF-SERVICE STUDY**

Q. Mr. Kalcic, please provide a brief description of the type of class cost-of-service analysis submitted by the Company in this proceeding.

A. The Company’s cost-of-service study ("C OSS") is sponsored by Mr. Michael T. Normand. Mr. Normand states that the COSS is based on the Company’s test year ended June 30, 2012, as adjusted for certain expense, sales and revenue changes identified by the Company, such that only *base-rate* related revenues and costs remain.

In general, the Company’s cost-of-service methodology reflects the traditional three-step process of functionalization, classification and allocation. *Functionalization* refers to the process whereby utility plant and related expenses are assigned to functions, such as transmission, distribution or customer service. *Classification* refers to the process where the functionalized costs are broken down into three primary cost categories: 1) demand-; 2) commodity-; 3) and customer-related costs. Finally, the *allocation* step refers to the process whereby the utility’s classified costs are assigned to rate classes, based upon a factor that reflects relative cost responsibility (for each type of cost incurred).

The functionalization, classification and allocation steps combine to produce a measure of total cost of service, by rate class. By comparing allocated cost responsibility to class revenue levels, one can determine whether a given rate class is contributing above or below its cost-of-service indications.
Q. **Mr. Kalcic, how many different rate classes are included in the Company’s current tariff?**

A. At present, the Company’s tariff contains (16) rate schedules. However, approximately 99.9% of the Company’s customers are served on just two rate schedules, i.e., Service Classifications (“Rates”) RG and GG.

Rate RG is available to residential (heating and non-heating) customers only. Rate GG is available to non-residential customers with less than 2,000 Mcf of monthly gas use, and a maximum daily use (i.e., Maximum Daily Quantity or MDQ) of less than 500 Mcf.

Q. **Does Delmarva propose to change and/or consolidate any of its current rate classes?**

A. No, it does not.

Q. **What classes are included in Delmarva’s COSS?**

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1 The current rate schedules include: Residential Gas Sales Service (RG), General Gas Sales Service (GG), Medium Volume Gas Sales Service (MVG), Large Volume Gas Sales Service (LVG), Large Volume Gas Sales Service-Qualified Fuel Cell Provider-Renewable Capable Power Production (LVG-QFCP), Peak Management Rider (PM), General Volume Firm Transportation Service (GVFT), Medium Volume Firm Transportation Service (MVFT), Large Volume Firm Transportation Service (LVFT), Stand-By Gas Supply Service (SBS), Gas Lighting Sales Service (GL), Quasi-Firm Transportation Service (QFT), Medium Volume Interruptible Gas Transportation Service (MVIT), Large Volume Interruptible Gas Transportation Service (LVIT), Flexibly Priced Gas Supply Service (FPS), and Negotiated Contract Rate Service (NCR).
A. The COSS allocates Delmarva’s claimed revenue requirement to the following firm
service customer classes: Residential (non-heating portion of Rate RG), Residential
Heating (space-heating portion of Rate RG), General Service (Rates GG and
GVFT), Medium Volume General (Rates MVG and MVFT), Large Volume
General (Rates LVG and LVFT), Large Volume QFCP (Rate LVG-QFCP) and
Lighting (Rate GL).

Q. Why are Delmarva’s non-firm (or non-core) service classes excluded from the
Company’s COSS?

A. The Company’s non-core service classes include Rates QFT, MVIT, LVIT, FPS
and NCR. At the present time, Delmarva is permitted to retain 20% of all margins
contributed by the Company’s non-core classes on a below-the-line basis, while
ratepayers’ (80%) share is applied as a credit to the Demand Cost Rate portion of
the Gas Cost Rate that is charged to firm sales customers.

Since no portion of the margins contributed by non-core customers is
available to offset Delmarva’s claimed (base rate) revenue requirement, the
Company’s COSS excludes all non-core rate classes (i.e., allocates costs only to the
firm sales and transportation classes).

Q. Mr. Kalcic, do you agree that it is reasonable to exclude non-core classes from
the Company’s COSS?
A. I do, as long as the approved non-firm margin revenue-sharing mechanism remains in place.

Q. Has Delmarva provided any corrections to its filed COSS in this proceeding?

A. Yes, it has. In its response to AG-COS-1, Delmarva corrected an error (related to an incorrect cell reference in its COSS model) in its filed COSS. The class rates of return from Delmarva’s filed and corrected COSSs are shown in Table 1 below.

<table>
<thead>
<tr>
<th>Customer Class</th>
<th>Filed Rate of Return</th>
<th>Corrected Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>5.92%</td>
<td>5.80%</td>
</tr>
<tr>
<td>General Service</td>
<td>7.41%</td>
<td>7.55%</td>
</tr>
<tr>
<td>Medium Volume General</td>
<td>9.79%</td>
<td>10.43%</td>
</tr>
<tr>
<td>Large Volume General</td>
<td>3.25%</td>
<td>3.63%</td>
</tr>
<tr>
<td>QFCP</td>
<td>-15.92%</td>
<td>-15.92%</td>
</tr>
<tr>
<td>Lighting</td>
<td>6.03%</td>
<td>6.96%</td>
</tr>
<tr>
<td>Total Company</td>
<td>6.21%</td>
<td>6.21%</td>
</tr>
</tbody>
</table>

Source: Delmarva’s response to AG-COS-1, Attachment 10.

Q. Did Delmarva deem the above differences in its filed versus corrected class rates of return significant enough to affect the Company’s rate design proposals in this case?

A. No.

Q. Do you recommend that any changes to the Company’s COSS methodology at this time?
Q. What does Delmarva’s corrected COSS indicate with respect to the relative contribution toward allocated cost of the Company’s firm delivery service classes?

A. Table 1 shows that the Medium Volume General, General Service and Lighting classes contribute revenues in excess of their respective cost-based revenue levels at present rates. Conversely, the Residential, Large Volume Service and QFCP classes are under-contributing – the QFCP class remarkably so. Stated differently, the Company’s COSS indicates that Residential, Large Volume Service and QFCP customers are being subsidized at present rates.

Q. Have you utilized the corrected cost-of-service results shown in Table 1 as a guide when preparing Staff’s recommended class revenue allocation in this proceeding?

A. Yes, I have.
III. CLASS REVENUE ALLOCATION

Q. Mr. Kalcic, how does Delmarva propose to recover its requested delivery revenue increase of $12.174 million from ratepayers?

A. Schedule BK-1 summarizes Delmarva’s proposed revenue allocation to the Company’s firm delivery service classes. As shown on lines 1-7 of Schedule BK-1, the Company’s proposed base revenue increases range from 9.7% (for Rates MVG and MVFT) to 537.9% (for Rate LV-QFCP). The proposed increase to the Company’s Residential class is 17.0% (per line 1).

Line 7 of Schedule BK-1 shows that the Company’s proposed increase of $12.174 million equates to an overall system average increase in adjusted test year delivery revenues of 17.4%. As such, Rates LVG, LVFT and LV-QFCP would receive delivery revenue increases in excess of the system average under Delmarva’s proposed revenue allocation.

Q. How did the Company arrive at the proposed class revenue allocation shown in Schedule BK-1?

A. With the exception of Rate LV-QFCP, Delmarva used a two-step process to derive its proposed revenue allocation. In Step 1, the Company determined the class revenue adjustments (if any) necessary to move the relative rate of return (RROR)
of each class within a predetermined bandwidth of 0.85 to 1.15 (around the Company’s proposed system average rate of return of 7.51%).

In Step 2, Delmarva assigned the residual increase, i.e., the Company’s total requested increase less the overall net increase assigned in Step 1, to all rate classes on uniform percentage basis (across class delivery revenues). Therefore, the total increase assigned to a given class is the sum of the class’ Step 1 and Step 2 increases.

Q. Please explain how Delmarva determined its proposed increase to the LV-QFCP class.

A. In the case of Rate LV-QFCP, Delmarva set the LV-QFCP Step 1 increase at the level necessary to move the class to full cost of service (i.e., provide a RROR of 1.00).

Q. Mr. Kalcic, why does Delmarva propose to set the LV-QFCP revenue requirement at full cost of service in this proceeding?

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2 The RROR of a class is calculated by dividing: 1) the class’ rate of return, by 2) the system average rate of return. By definition, a class that provides a rate of return equal to the system average will exhibit a RROR of 1.00.

3 Since the proposed LV-QFCP Step 1 increase is designed to establish a cost-based rate, no Step 2 increase is assigned to the class.
A. In compliance with the mandates contained in Delaware’s Renewable Energy Portfolio Standard Act, Delmarva established service for LV-QFCP customers in May 2012, with the understanding that the initial LV-QFCP rate would be revisited in the Company’s next base rate proceeding. Consistent with the intent of the Company’s Fuel Cell Provider Application, PSC Docket No. 11-362, the Rate LV-QFCP was to be set at full cost of service in the Company’s next base rate proceeding.

Q. Have you prepared a recommended class revenue allocation, similar to that shown in Schedule BK-1?

A. Yes. Staff’s recommended class revenue allocation is shown in Schedule BK-2.

Q. How did you determine Staff’s recommended revenue allocation shown in Schedule BK-2?

A. Mr. Peterson is recommending an overall revenue increase of $3.584 million, which equates to a system average increase in adjusted test period delivery revenues of 5.1%, as shown on line 7 of Schedule BK-2. Staff’s individual class revenue increases, shown in lines 1-6 of Schedule BK-2, are designed to move classes closer to cost of service, as measured by the Company’s class cost of service study, subject to the condition that: 1) no rate class receive a base rate decrease in this proceeding; and 2) no class, with the exception of Rate LV-QFCP, receive an increase greater than 1.5 (or 150%) of Staff’s recommended system average increase.
Q. Please explain how you determined Staff’s recommended class increases shown in column 3 of Schedule BK-2.

A. Staff’s recommended class increases were developed via the following steps. First, I set the Rate LV-QFCP increase at the level needed to move the class to full cost of service (i.e., so as to provide a class rate of return equal to Staff’s overall recommended rate of return of 7.15%). Second, I assigned no increase to the MVG class, in recognition of the fact that MVG customers currently provide a present rate of return in excess of 10.0%. Third, I assigned the LVG class a maximum increase of 1.5 times the system average or 7.6%, since LVG customers currently provide the lowest present rate of return of any class on Delmarva’s system (excluding Rate LV-QFCP). Fourth, I assigned the Residential class a system average increase, since residential customers provide a present rate of return that is just slightly below the system average. Fifth, I assigned the General Service and Lighting classes the residual increase (i.e., 4.5%) needed to implement Staff’s overall recommended revenue requirement.

Q. Mr. Kalcic, what are the present and recommended class rates of return that result from Staff’s recommended revenue allocation?

A. Table 2 below provides a summary of class rates of return at present and Staff recommended revenue levels.

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4 See Exhibit__(DEP-1), Schedule 1 at line 4.
Table 2

<table>
<thead>
<tr>
<th>Customer Class</th>
<th>Present Rate of Return</th>
<th>Recommended Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>5.81%</td>
<td>6.74%</td>
</tr>
<tr>
<td>General Service</td>
<td>7.57%</td>
<td>8.41%</td>
</tr>
<tr>
<td>Medium Volume General</td>
<td>10.45%</td>
<td>10.45%</td>
</tr>
<tr>
<td>Large Volume General</td>
<td>3.64%</td>
<td>4.73%</td>
</tr>
<tr>
<td>QFCP</td>
<td>-15.96%</td>
<td>7.15%</td>
</tr>
<tr>
<td>Lighting</td>
<td>6.97%</td>
<td>8.00%</td>
</tr>
<tr>
<td>Total Company</td>
<td>6.23%</td>
<td>7.15%</td>
</tr>
</tbody>
</table>

Source: Delmarva’s COSS adjusted for Staff’s revenue levels.

Q. Mr. Kalcic, have you designed a set of rates to implement Staff’s recommended class revenue allocation shown in Schedule BK-2?

A. Yes, I have. Staff’s recommended rate design is discussed in the following section of my testimony.
IV. STAFF RATE DESIGN

Q. Mr. Kalcic, does Staff recommend any changes to the Company’s rate structure?

A. With the exception of Rate LV-QFCP (where Staff’s recommends implementing a new demand charge), it does not. Staff’s recommended rate design and proof of revenue for the Company’s firm delivery service classes are shown in Schedule BK-3.

Q. Please describe your recommended rate design for the Residential class shown on Schedule BK-3, page 1 of 7.

A. Staff assigned an 8.75% increase to the residential customer charge, consistent with the cost-based customer charge increase suggested by Delmarva’s COSS. The residual increase of 3.42% (necessary to implement Staff’s overall recommended Residential increase) was applied on an across-the-board basis to the Company’s existing volumetric charges.

Q. Please describe your recommended rate design for Rates GG and GVFT shown on Schedule BK-3, page 2 of 7.

A. Staff assigned an overall increase of 6.90% to General Service customer charges, consistent with the overall cost-based customer charge increase suggested by Delmarva’s COSS. At the same time, Staff’s rate design implements a $75.00 per...
month differential in the customer charges applicable to Rate GG and Rate GVFT customers, as proposed by Delmarva.

The residual increase of 3.89% (necessary to implement Staff’s overall General Service increase) was applied on an across-the-board basis to the Company’s existing volumetric charges.

Q. Please describe your recommended rate design for Rates MVG and MVFT shown on Schedule BK-3, page 3 of 7.

A. Since Staff is recommending no increase to the MVG class, Staff’s rate design is limited to implementing the Company’s proposed $75.00 per month differential in the customer charges applicable to Rate MVG and Rate MVFT customers, on a revenue neutral basis. In other words, Staff’s recommended rate design contains no change in Delmarva’s existing MVG/MVFT demand or commodity charges.

Q. How did you derive Staff’s recommended rates for Rates LVG and LVFT shown on Schedule BK-3, page 4 of 7?

A. Since the Company’s only remaining LVG customer will be migrating to Rate LVFT over the course of this proceeding (and therefore subject to the higher LVFT customer charge), Delmarva proposes to implement an across-the-board increase to all LVG/LVFT tariff charges, so as to mitigate the rate impact experienced by the migrating LVG customer.
Staff’s recommended rate design mirrors that of the Company. First, I assigned Staff’s recommended class increase of 7.59% to the LVFT customer charge. However, since the remaining LVG customer will be subject to the higher LVFT charge of $1,064.61 per month, the effective increase in LVG/LVFT customer charge is slightly higher, i.e., approximately 8.6%. Second, I assigned the (resulting) residual increase of 7.5% to all remaining LVG/LVFT charges.

Q. Please describe Staff’s recommended rate design for the Gas Lighting class shown on Schedule BK-3, page 5 of 7.

A. Since there is only one rate element applicable to lighting customers, I implemented Staff’s recommended class increase of 4.5% by assigning that increase to the customer charge.

Q. How did you develop Staff’s recommended rates for the LVG-QFCP class shown on Schedule BK-3, page 6 of 7?

A. At the present time, Rate LVG-QFCP consists solely of a customer charge of $3,166.67 per month. Like the Company, Staff recommends employing a customer and demand charge to recover the LVG-QFCP class’ revenue requirement. In particular, Staff’s recommended rate design: a) sets the LVG-QFCP customer charge at $1,064.61 per month (which is the same level as Staff’s
recommended LVFT customer charge); and b) recovers the balance of the class’ revenue requirement in the new demand charge.

Q. What is shown on Schedule BK-3, page 7 of 7?

A. Page 7 of Schedule BK-3 contains Staff’s recommended rate design for the MVIT and LVIT classes. At the present time, MVIT and LVIT customers pay the corresponding customer charges applicable to MVFT and LVFT customers, respectively. Accordingly, Staff’s recommended MVIT and LVIT rate design consists solely of updating Delmarva’s current interruptible tariff charges to reflect Staff’s recommended MVFT and LVFT customer charges.

Q. Mr. Kalcic, are any of the interruptible delivery revenues shown on Schedule BK-3, page 7 of 7 applied toward the recovery of Staff’s overall recommended revenue requirement in this proceeding?

A. No. As previously discussed in Section II, no portion of the margins contributed by interruptible customers is available to offset Delmarva’s base rate revenue requirement at this time.
V. PROPOSED TARIFF REVISIONS

Q. Mr. Kalcic, do you have any preliminary comments on the Company’s proposed tariff revisions?

A. Yes, I do. First, I would note that the primary revisions to the Company’s proposed tariff pertain to Delmarva’s proposals to: 1) implement a Utility Facility Relocation Rider (Rider UFRC); and 2) modify its existing policy with respect to main extensions. Second, I find that most of the remaining revisions to the Company’s tariff are generally non-substantive in nature, except for those related to Delmarva’s proposed revisions to penalties for unauthorized (usage) overruns.

Q. Which of the above topics (that involve substantive changes to Delmarva’s tariff) do you wish to address at this time?

A. I will limit my comments to Delmarva’s proposal to revise its unauthorized overrun penalties. Staff’s recommendations with respect to Delmarva’s proposed Rider UFRC and main extension policies are presented in the testimony of Staff witnesses Malika Davis and Michael McGarry, respectively.

Q. Mr. Kalcic, what is an “unauthorized overrun”?

A. An unauthorized overrun is defined as any quantity of gas taken for service on any day of the month in excess of 110% of the maximum daily quantity specified in a customer’s service contract (i.e., Contract MDQ). Similarly, the associated overrun
deliveries are defined as “unauthorized overrun volumes” for the day on which the overrun occurred.

Q. To what class(es) do overrun penalties apply?
A. Overrun penalties apply to all rate classes that require a contract as a condition of service. Therefore, overrun penalties are applicable to: 1) all sales customers take service under Rates MVG or LVG; and 2) all transportation service customers.

Q. Does the Company’s tariff permit “authorized overruns”?
A. Yes. In those instances where a customer has requested and received advance authorization from the Company, that customer may use in excess of 110% of the Contract MDQ without an overrun penalty.\(^5\)

Q. Please describe the Company’s proposed changes to its overrun penalties.
A. As shown in Table 3 below, the Company is proposing to increase its unauthorized overrun penalties from $20.00 to $50.00 per Mcf during non-Operational Flow Order (OFO) periods, and from $35.00 to $60.00 per Mcf during any period in which an OFO is in effect.

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\(^5\) Advance notification is required in order for Delmarva to determine whether or not a requested overrun is feasible, i.e., will not cause any operational/system delivery issues.
Table 3

<table>
<thead>
<tr>
<th>System Conditions</th>
<th>Current Penalty ($/Mcf)</th>
<th>Proposed Penalty ($/Mcf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Operational Flow Order</td>
<td>$20.00</td>
<td>$50.00</td>
</tr>
<tr>
<td>With Operational Flow Order</td>
<td>$35.00</td>
<td>$60.00</td>
</tr>
</tbody>
</table>

Source: Delmarva’s proposed tariff.

Q. Why is Delmarva proposing to revise its overrun penalties at this time?
A. In response to PSC-RD-17, Delmarva states that its existing overrun penalties are at the low end of the range of penalties charged by gas utilities in neighboring states. In particular, the Company notes that its existing penalties are much lower than the $50.00 per Mcf penalty approved for Chesapeake Utilities Corporation (Chesapeake). In order to bring its overrun penalties in line with the “benchmark” penalty levels used by neighboring utilities, Delmarva proposes to adjust its overrun penalties to the levels shown in Table 3.

Q. Do you agree with Delmarva’s proposed revisions to its overrun penalties?
A. In part. I agree that Delmarva’s proposed $50.00 per Mcf overrun penalty is reasonable, in as much as Chesapeake currently charges that amount for unauthorized overruns in either non-OFO or OFO periods. However, the Company’s proposed $60.00 per Mcf penalty for unauthorized overruns in OFO periods is not supported by the Company’s benchmark analysis. In other words,
none of the gas utilities used in the Company’s benchmark analysis charges a penalty for unauthorized overruns in excess of $50.00 per Mcf.

Q. What do you recommend?
A. I recommend that the Commission approve a $50.00 per Mcf penalty for unauthorized overruns during Delmarva’s OFO periods.

Q. Does this conclude your direct testimony?
A. Yes.
SCHEDULES BK-1 THROUGH BK-3
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, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Texas, and also before the Bonneville Power Administration.