BEFORE THE STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW

I/M/O THE PETITION OF PUBLIC SERVICE	**)**
ELECTRIC & GAS COMPANY FOR APPROVAL	**) BPU DKT NO.GR01050328**
OF AN INCREASE IN GAS RATES AND FOR	**) OAL DKT NO. PUC-5052-01**
CHARGES IN THE TARIFF FOR GAS SERVICE	**)**

I/M/O THE PETITION OF PUBLIC SERVICE	**)**
ELECTRIC & GAS CO FOR AUTHORITY	**) BPU DKT NO. GR01050297**
TO REVISE ITS GAS PROPERTY	**) OAL DKT NO. PUC-5016-01**
DEPRECIATION RATES	**)**

DIRECT TESTIMONY OF BRIAN KALCIC
ON BEHALF OF
THE NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE

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August 23, 2001

<u>Direct Testimony of Brian Kalcic</u>

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 New Jersey Division of the Ratepayer Advocate (“Ratepayer Advocate").

Q. What is the subject of your testimony?

A. I have been retained by the Ratepayer Advocate to evaluate the class cost-of-service study and rate design proposals sponsored by Public Service Electric and Gas Company (“PSE&G” or “Company”), and to derive an appropriate rate design that reflects the Ratepayer Advocate’s recommended revenue adjustment in this proceeding.

In addition, I will address several topics raised in the direct testimony of Company witness Gerald W. Schirra including:

a) Minimum Term Requirements for residential customers,
b) the recovery of uncollectibles in the Societal Benefits Charge (“SBC”),
c) Third Party Supplier (“TPS”) security requirements,
d) the Margin Adjustment Clause (“MAC”), and
e) the offering of Optional Metering Services.

Q. Please summarize your recommendations.

A. Based upon my analysis of the Company's base rate filing and existing rate structure, I recommend that the New Jersey Board of Public Utilities ("Board" or "BPU"):

- approve the Ratepayer Advocate's recommended class revenue distribution and rate design which reflects an overall decrease of $8.045 million in base revenues;

- reject the Company's proposed minimum one year term of service for residential customers who return to the Company for commodity service;

- limit any SBC recovery of uncollectibles to those associated with Board-approved social programs;

- refrain from adopting any changes to TPS security requirements in this base rate proceeding;

- modify the Company's proposed MAC to include additional margins, to reflect one-way interest and to provide a symmetrical treatment of margin retention in the case of customer switching between Rate LVG and Rate TSG-NF; and

- refrain from approving any charges for new metering services and/or options that would only be available from PSE&G.

The specific details associated with my rate structure recommendations are discussed below.

Cost of Service Study

Q. Mr. Kalcic, what type of cost-of-service analysis did the Company submit in this proceeding?

A. Mr. Schirra prepared a fully allocated cost-of-service study ("COSS") reflecting weather normalized costs and billing determinants for the twelve (12) months ending June 30, 2001. As explained by Mr. Schirra, the COSS is presented as a gas delivery business analysis only, and is consistent with the Company's proposal to transfer its gas supply functions to an unregulated affiliate in BPU Docket No. GM00080564 (i.e., the Gas Contracts case).

The COSS itself is conducted in two stages. In the first stage, a cost based revenue requirement is determined for: a) the firm delivery classes (i.e., Rates RSG, GSG, LVG, SLG and TSG-F); and b) the Company's Competitive Appliance Service business. In the second stage, an adjusted cost-based revenue requirement is developed for Rates RSG, GSG, LVG and SLG only. These adjusted revenue requirements reflect an offset to the base rate revenue requirement that is provided by PSE&G's Competitive Appliance Service activities. In addition, it is these second stage class revenue requirement levels that are used as a guide in the Company's rate design.

Q. Are the rate classes that appear in the Company's COSS the same as those contained in PSE&G's current tariff?

A. No. As part of this proceeding, the Company is proposing to consolidate certain rate schedules. In particular, all former FT customers would take service under one of four proposed rates: RSG, GSG, LVG or SLG. In addition, PSE&G is proposing to combine its Rate ISG customers with its current Rate TSG-NF class.

Q. Does the Ratepayer Advocate oppose the Company's rate consolidation proposals?

A. No.

Q. Mr. Kalcic, you indicate that PSE&G's COSS is consistent with the Company's position in its Gas Contracts proceeding. Would the COSS need to be revised in the event that the Company's request to transfer all gas supply functions to an unregulated affiliate is denied and/or withdrawn?

A. No. As explained in the Company's response to RAR-RD-22, the COSS is developed to reflect the claimed costs associated with PSE&G's delivery / distribution business only. To the extent that balancing and/or commodity costs are impacted by the events that transpire in the Gas Contracts proceeding, such impacts would be separately identified and assigned directly to rate classes outside the context of the COSS, i.e., on a commodity and/or balancing therm basis.

Q. Have you reviewed the COSS methodology employed by the Company in this proceeding?

A. Yes, I have.

Q. Based upon your review, do you recommend that any changes be incorporated in the Company's cost methodology at this time?

A. No.

Q. Have you utilized PSE&G's COSS results as a guide in allocating Mr. Henkes' recommended revenue adjustment to rate classes?

A. Yes, I have. However, as discussed in the testimony of other Ratepayer Advocate witnesses, the Ratepayer Advocate believes that the Company's proposed rate increase is unjustified, and that a base rate decrease is warranted. Therefore, my acceptance of the Company's COSS results should not be interpreted as my agreeing with PSE&G's proposed <u>apportionment</u> of its claimed increase to rate classes. Indeed, as discussed in a later portion of my testimony, the Company's proposed class revenue distribution was <u>not</u> utilized to derive the Ratepayer Advocate's recommended decreases to individual rate classes.

Minimum Term Requirements

Q. What is the Company's position with respect to the minimum term requirements for customers who return from Third Party Suppliers ("TPS") to BGSS-RSG commodity service?

A. The Company is proposing to establish a minimum one year term of service for residential customers who return to PSE&G's system for commodity service.[1]

Q. Why does PSE&G believe a one year term of service is necessary for residential customers?

A. Mr. Schirra cites two arguments in support of the Company's position: 1) PSE&G claims that the minimum term is needed for the Company's BGSS supplier to arrange for / manage firm pipeline and storage capacity to serve returning customers; and 2) the minimum term is necessary to prevent "gaming", i.e., a situation where a residential customer returns to BGSS supply for just the winter months when the levelized BGSS price would be expected to be below actual cost, only to leave the system when the BGSS price moves above actual cost. Mr. Schirra notes that such gaming would not impact the Company directly, but instead would shift supply costs from shopping to non-shopping delivery customers.

Q. With respect to the Company's first argument, has PSE&G presented any analysis that quantifies the amount of (new) upstream pipeline capacity and/or storage that might be needed to serve returning residential customers under various scenarios?

A. No. Instead, the Company simply seems to posit a worst case scenario, where significant new pipeline capacity is required to serve returning

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1 An exception to the one year term would be made for customers who desire to transfer to a different TPS within one month of returning to PSE&G.

customers. In many cases, however, there may be little or no impact on system capacity requirements from returning customers.[2]

Q. Does the possibility of gaming, in and of itself, justify a minimum one year term of service for returning residential customers?

A. In my opinion, no. First, given the relatively small amount of therms that are typically used by residential customers, it is unclear whether significant amounts of gaming by residential customers is even likely.

Second, the Company's proposed solution to a hypothetical gaming problem would have a detrimental effect on the development of a competitive market for gas supply. Rather than helping to create a viable competitive market, a minimum one year stay requirement would remove potential customers from the marketplace for lengthy periods, thereby placing an unnecessary "hurdle" in the path of competition. Given this anti-competitive outcome, I believe it is more appropriate to adopt a "wait and see" approach to gaming rather than to implement a specific anti-gaming measure at this time.

Q. What is your recommendation with respect to the Company's proposed minimum term requirement for returning residential customers?

A. In order to facilitate customer choice, I recommend that the Board reject the Company's one year minimum term proposal. Residential customers who return to BGSS service should be able to return to TPS service upon giving required notice. I also recommend that the Board refrain from imposing any other "anti-gaming" measures at this time, and instead continue to monitor switching activity in order to establish the extent of gaming, if any, on the part of residential customers.

2 For example, a TPS may have originally accepted an assignment of PSE&G pipeline capacity which could subsequently be released back to the Company.

SBC and Uncollectibles

Q. Mr. Kalcic, what is the Company's position with respect to the inclusion of uncollectibles in the SBC?

A. The Company is proposing to remove all the costs associated with uncollectibles from base rates and to recover them in the SBC. The Company argues, in part, that this approach would ensure that PSE&G only recovers the actual cost of uncollectibles, and that any reduction in uncollectible expense associated with the expansion of low income assistance programs (via the Universal Service Fund) would be passed through to ratepayers.

Q. Is the Company's proposal consistent with the provisions of the Electric Discount and Energy Competition Act ("EDECA" or "Act")?

A. No. Counsel informs me that the Act explicitly limits SBC recovery of uncollectibles to those associated with Board-approved social programs. Also, I understand that the Board acknowledged this position in its Final Decision and Order in BPU Docket Nos. GX99030121 and GO99030124 (i.e., PSE&G's Unbundling Proceeding).

Q. What is your recommendation with respect to the inclusion of uncollectibles in the SBC?

A. Consistent with the provisions of the Act, I recommend that any SBC recovery of uncollectibles be limited to those associated with Board-approved social programs.

Q. How is the Ratepayer Advocate's position on uncollectibles reflected in your recommended rate design?

A. Absent any information on how much (if any) of PSE&G's test-year uncollectible expense is associated with Board-approved social programs, I have removed all uncollectible expense from the SBC and recovered these costs in base rates. Again, this approach is consistent with the Board's Unbundling Order.

TPS Security Requirements

Q. Mr. Kalcic, what is the Company's proposal with respect to the level of TPS security requirements?

A. The Company is proposing to increase the security requirement from $70 to $140 times the TPS's Daily Requirements (expressed in dekatherms). In addition, the charge for non Critical Period under-deliveries would be increased from $10 per dekatherm to two times the actual daily price of gas.

Mr. Schirra states that these increases are necessary because current gas costs are significantly higher than those which were in existence when the existing security deposit provisions were implemented.

Q. What is the Ratepayer Advocate's position with respect to changes in TPS security requirements?

A. The risk associated with increasing security requirements is that alternate suppliers may pull out of the marketplace, thereby slowing the transition to a competitive market. In other words, artificially high security requirements are anti-competitive. While it may be appropriate to adjust TPS security requirements from original levels, the Board must insure that any such adjustment is cost justified rather than anti-competitive.

Counsel informs me that TPS security requirements are the proper subject of BPU Docket Nos. EX94120585Y, EO97070457, EO97070460, EO97070463 and EO97070466. As such, the Ratepayer Advocate recommends that the Board refrain from adopting any changes to TPS security requirements in this base rate proceeding, and instead examine this issue in the context of the record established in the above referenced dockets.

Margin Adjustment Clause

Q. Please summarize the Company's Margin Adjustment Clause proposal.

A. PSE&G is proposing to establish the Margin Adjustment Clause (“MAC”) to credit the net revenues associated with TSG-NF customers to Rates RSG, GSG, LVG, TSG-F and SLG.[3] Currently, Rate TSG-NF provides for interruptible transportation service that is available to customers with installed alternate fuel capability using a minimum of 150 therms per hour. Under PSE&G’s proposal, all net revenues credited through the MAC would be subject to deferred accounting treatment, i.e., the MAC would be reset annually to reflect (newly) forecasted TSG-NF revenues and to amortize any over- or under-collected balance.

Q. How are TSG-NF revenues currently treated?

A. Per the BPU's Order in PSE&G's Gas Unbundling Proceeding, all FT Rate Schedules currently include a <u>fixed</u> credit (i.e., offset) for TSG-NF margins that is reflected in each class’s base delivery rates.[4]

Q. Mr. Kalcic, why are TSG-NF net revenues properly credited to firm delivery customers?

A. As Mr. Schirra explains, TSG-NF delivery service customers are interruptible with alternate fuel capability. As such, the price for TSG-NF service is based upon value-of-service rather than cost-of-service considerations. On the other hand, the plant and expenses associated with TSG-NF service are included in the revenue requirement used to develop firm delivery rates. Therefore, it is only proper that the margins earned from TSG-NF service be used to offset the charges paid by the Company’s firm delivery customers.

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3 Net revenues are defined as total revenues less commodity charges, TEFA, SUT and SBC revenues.

4 In other words, without the fixed credit for TSG-NF margins, the base delivery charges in PSE&G’s current tariff applicable to firm customers would be higher.

Q. Are there any situations in which the Company is proposing to retain some and/or all of the net revenue associated with specific TSG-NF customers, rather than flow such revenue through to the MAC?

A. Yes. Mr. Schirra explains that PSE&G would propose to retain TSG-NF margins in two limited circumstances. First, the Company would retain the net revenues of any customer formerly served under Rate LVG who switches to Rate TSG-NF <u>after the effective date of new rates resulting from this proceeding</u>. This treatment would remain in place until the effective dates of new rates in the Company's <u>next</u> base rate case.

Second, PSE&G proposes to retain a portion of the revenues associated with any new TSG-NF customer whose service commences on or after the end of the test year (or associated with additional investment needed to serve existing customers after the end of the test year). The margin amount retained by PSE&G would equal 20 percent of the cost of new facilities required to serve such customers, net of any direct customer contribution toward those costs. This treatment would also remain in place until PSE&G's next base rate proceeding.

Q. Do you have any general comments on the Company's MAC proposal?

A. Yes. First, it is not clear why the MAC should be limited to only TSG-NF margins. As discussed below, there are certain other margins currently passed back to ratepayers via the Company’s LGAC mechanism which I recommend be transferred into the proposed MAC.

Second, the Company is proposing two-way interest on MAC deferred balances. However, the Company fails to provide any argument in support of this treatment. The Ratepayer Advocate recommends instead that deferred MAC balances receive one-way interest treatment.

Third, upon reviewing the Company’s proposal with respect to margin retention in the case where a customer switches rate schedules, it is apparent that a modification to the conditions under which PSE&G would retain margins is necessary to protect ratepayers.

Q. With respect to your first point, what specific LGAC margins are you referring to?

A. Currently, the net revenues associated with larger firm transportation and cogeneration customers (e.g., Rates TSG-F and CIG) are returned to ratepayers via an offset to the Company's Non-Gulf Coast cost of gas.

Rate TSG-F provides firm transporation service to customers who use at least 150 therms per hour. Rate CIG provides interruptible delivery service to Qualifying Facilities with generating capacity between 1.5 and 20 megawatts. In addition, some of the Company's cogeneration customers receive service under special contracts.

Q. Are these LGAC margins subject to deferred accounting treatment?

A. Yes.

Q. Are the plant and expenses associated with providing service to the above firm transportation and cogeneration customers included in the revenue requirement used to develop firm delivery rates, like the previously discussed TSG-NF class?

A. Yes, they are.

Q. Is there any valid reason why the net revenues derived from firm transportation and cogeneration customers should not flow back to firm ratepayers?

A. No. In fact, to the extent that firm ratepayers purchase gas from the Company, the current LGAC margin treatment does return such margins to firm distribution ratepayers.

Q. Mr. Kalcic, why then do you recommend that the above LGAC margins be incorporated in the proposed MAC mechanism?

A. For three reasons. First, the LGAC is not an appropriate mechanism to return the applicable margins to firm delivery customers. The LGAC applies only to customers who purchase gas from the Company. As a competitive commodity market develops, one can expect that the intended connection between the LGAC and those customers who should receive the benefit of the applicable margins to become more and more attenuated.

Second, it is not appropriate to use base rate margins to credit commodity costs. This type of crediting mechanism can only distort commodity prices, and would be particularly inappropriate during the transition to a competitive commodity market.

Third, I believe that the existing LGAC margin sharing mechanism is a product of past settlements and is poorly documented (if at all) in the Company's current tariff. Consolidating all delivery-related margins within the proposed MAC would standardize the treatment of all these margins and assist with clarifying the accounting treatment of such margins in the Company's tariff.

Q. Mr. Kalcic, what would be the impact on the shopping credits of PSE&G's firm delivery customers from shifting these additional margins from the LGAC to the MAC?

A. All else equal, the above shift would result in a greater Non-Gulf Coast cost of gas component in the Company's BGSS rate, and therefore higher shopping credits for those customers who purchase BGSS supply.

Q. Is this result appropriate?

A. Yes. As previously mentioned, the plant and expenses associated with providing service to firm transportation and cogeneration customers are included in the revenue requirement used to develop firm <u>delivery</u> rates. As such, it is entirely appropriate that the base rate margins obtained from these customers be used to offset the base rates of firm delivery customers -- not the Non-Gulf Coast cost component of BGSS.

Q. Mr. Kalcic, how would interest be calculated under the Company's MAC deferred accounting proposal?

A. PSE&G is proposing the same type of two-way interest that would apply to the SBC.

Q. Does Mr. Schirra provide any argument in support of this interest treatment?

A. No. I believe Mr. Schirra's direct testimony is completely silent on the topic of two-way interest.

Q. Where in the filing does the Company's two-way interest proposal appear?

A. The Company's proposal is shown on the proposed MAC tariff sheet, i.e., Original Sheet No. 42 of Exhibit P-1, Schedule 2.

Q. And this is the same two-way interest that is applicable to the SBC?

A. Yes, it is.

Q. In what proceeding was the two-way SBC interest treatment approved?

A. It is my understanding that two-way interest was included as part of the settlement in the Company's Gas Unbundling Proceeding.

Q. Do the margins from Rates TSG-F and CIG that are included in the LGAC also receive two-way interest treatment?

A. No. It is my further understanding that all LGAC under- or over-recovered balances receive one-way interest at a rate different from the SBC rate.

Q. How would you reconcile the different approaches to calculating interest if your proposal to shift LGAC margins to the MAC is approved by the Board?

A. As previously mentioned, the Company's Gas Unbundling Proceeding removed TSG-NF margins from the LGAC and established a fixed distribution credit. Until that time, TSG-NF margins were credited to the LGAC like the margins from Rates TSG-F and CIG. However, since TSG-NF margins were not subject to reconciliation in the Gas Unbundling Proceeding, Counsel informs me that the Board Order in BPU Docket Nos. GX99030121 and GO99030124 cannot be considered controlling with respect to the interest treatment of former LGAC margins.

Given that the LGAC would be the implicit origin of deferred MAC balances, I recommend that the proposed MAC reflect one-way interest treatment.

Q. Mr. Kalcic, do you recommend any other modifications to the Company's MAC proposal?

A. Yes. The Company's proposal to retain 100% of the net revenues of any customer formerly served under Rate LVG who switches to Rate TSG-NF after the effective date of new rates is acceptable, as far as it goes. However, should a current Rate TSG-NF customer switch back to firm service on Rate LVG following the effective date of new rates in this proceeding, I recommend that the customer's net revenues remain in the MAC rather than flow to the Company's bottom line.

In other words, to be equitable to both the Company and ratepayers, customer switching after the effective date of new rates in this proceeding should receive symmetrical treatment with respect to margin retention. In the case of the current Rate LVG customer who switches to Rate TSG-NF, the Company proposes to retain 100% of the customer's margin since it would otherwise lose all margins after the switch. My recommendation simply seeks to eliminate the potential for lost ratepayer margins should a Rate TSG-NF customer move back to Rate LVG.

Class Revenue Distribution / Rate Design

Q. Mr. Kalcic, how does PSE&G propose to recover its requested base revenue increase of $172.553 million from ratepayers?

A. Schedule BK-1 summarizes the Company's proposed class revenue distribution. On a total revenue basis, Schedule BK-1, page 1 of 2 shows that increases to the firm delivery classes would range from 2.4% for Rate LVG to 11.70% for Rate SLG. (These figures assume that all customers receive BGSS commodity service from the Company.) The overall average firm increase on a total revenue basis is 7.8% (per line 5 of Schedule BK-1, page 1 of 2).

Schedule BK-1, page 2 of 2, shows PSE&G's proposed revenue distribution on a delivery revenue basis, i.e., after removing all commodity and balancing revenues. On this basis, PSE&G's firm classes would receive increases for delivery service ranging from 14.51% for Rate LVG to 33.68% for Rate RSG. These results may be compared to the overall average firm increase of 29.02% shown on line 5.

Q. How did PSE&G arrive at the proposed revenue distribution shown in Schedule BK-1?

A. As discussed by Mr. Schirra on pages 51 and 52 of his direct testimony, the Company used its COSS results in its proposed rate design, but in a manner which recognized customer impacts considerations. Specifically, the Company chose to move rate classes toward the cost-of-service levels shown in its cost study, but subject to the constraint that each class's increase in delivery service rates would be no less than one-half of the system average increase of 29.02%, and no more that one and one-half times the system average increase. In addition, the Company determined that no class should receive an increase of more than one and one-half times the overall system average firm increase of 7.8% on a total revenue basis. Applying this methodology, the

Company is generally proposing delivery rate increases ranging from 14.51% to 33.68%.[5]

Q. Have you utilized the proposed relative class increases shown in Schedule BK-1 to apportion the Ratepayer Advocate's recommended revenue adjustment in this proceeding?

A. No. Since Mr. Henkes is recommending an overall decrease in base revenues, my recommended revenue distribution differs from that proposed by the Company.

Q. What is your recommended class revenue distribution?

A. I recommend that the Ratepayer Advocate's recommended decrease be distributed to rate classes as shown in column 2 of Schedule BK-2.

Q. How did you derive the recommended decreases to rate classes shown in column 2 of Schedule BK-2?

A. My recommended allocation was completed in two steps. First, I allocated Mr. Henkes' recommended base rate decrease of $8.045 million, plus the offsets of $3.066 shown on lines 12 and 13 of Schedule BK-2, in a manner similar to the Company's approach. Specifically, I limited the decrease in delivery rates to any class to no more than 1.5 times the system average decrease in delivery revenues of 1.98% (i.e., $11.1 million divided by $560.885 million), and no less than 0.5 times the system average decrease. Consistent with the Company's COSS results, I allocated a 2.97% decrease (i.e., 1.5 times 1.98%) to the LVS class, a 1.0% decrease (i.e., 0.5 times 1.98%) to the

[5] The sole exception is the Company's proposed 10.73% increase for the TSG-NF class. As explained in the Company's response to data request RAR-RD-20, this is a result of the Company's proposal to combine the TSG-NF class with the ISG class, which currently pays higher rates than the TSG-NF class. The Company applied a 14.51% increase to the current TSG-NF class on a stand alone basis, and then utilized the resulting rate design for the combined classes. The end result of this approach is that the ISG customers would receive a rate decrease under the Company's proposed rate design. Under the Company's proposal, the other firm rate classes would be assigned responsibility for the rate decrease given to the former ISG customers. I have avoided this result by initially applying my recommended rate design methodology to the combined TSG-NF and ISG classes.

SLG class, and the residual decrease of 1.77% to the RSG and GSG classes.

My second step was to allocate $20.072 in TSG-F and CIG margins (per line 14 of Schedule BK-2) which would move from the LGAC to the Company's delivery rates under my MAC proposal. I allocated these revenues to the firm delivery service classes on a per-therm basis.

Q. Mr. Kalcic, do the margins shown on line 14 of Schedule BK-2 represent the total amount of net base rate revenue that would flow from the LGAC to the MAC under your proposal?

A. No. It is my understanding that the margins obtained from Cogeneration Contract customers are also credited to the LGAC. Since Cogeneration Contract rates cannot be adjusted in this proceeding, the margins from such customers are not reflected in the Company's proof of revenue. Consequently, line 14 of Schedule BK-2, of necessity, understates the total margins that should be transferred to the MAC from the LGAC in PSE&G's compliance filing.

Q. Would you please summarize your recommended revenue distribution?

A. As shown in Schedule BK-2, my recommended rate decreases range from 3.15% for the SLG (municipal street lighting) class to 8.86% for the TSG-F (firm transportation) class. The LVG and TSG-F rate classes receive the largest percentage decreases (8.60% and 8.86%, respectively). These higher decreases are due, for the most part, to Ratepayer Advocate's recommended reallocation of margins from the LGAC to the Company's delivery rates.

In addition, I note that I have assigned no decrease to interruptible TSG-NF and CIG/CEG customers since delivery rates for these classes are based on value-of-service considerations.

Q. Have you designed a set of rates to implement your recommended revenue distribution?

A. Yes. Schedule BK-3 shows my recommended rate design and proof of revenue.

Q. Please discuss Schedule BK-3.

A. Schedule BK-3 follows the general format of Schedule GWS-16. All customers are assumed to take BGSS commodity service at the commodity prices shown in Schedule GWS-16. Also, as the billing determinants underlying Mr. Henkes' pro forma margin revenue adjustment of $819,000 were not readily available, I have made no changes to the Company's billing determinants at this time.[6]

For each individual rate schedule, present rate revenue is derived in column 3 from the class billing determinants and present rates shown in columns 1 and 2, respectively. The Ratepayer Advocate's recommended rates (without SUT) are shown in column 5. Column 6 shows the annual class revenues produced by my recommended rates. Columns 7 and 8 show the Ratepayer Advocate's recommended change in revenue and the resulting percentage increase, respectively. Finally, column 9 shows my recommended tariff charges including SUT.

Q. Please explain how you derived the values for the SBC and the margin adjustment charge shown in Schedule BK-3.

A. My recommended SBC is derived on Schedule BK-3, page 10 of 11. As discussed earlier, to derive the SBC I removed all uncollectible expense from the calculation as shown on line 1, column 7. The resulting SBC is 0.4905 cents per therm (excluding SUT), per line 13, column 6.

Schedule BK-3, page 11 of 11 shows the derivation of my recommended margin adjustment charge. The total margin of $39.083

[6] Formal billing determinants are expected to be available after the Company provides its "12 and 0" update, at which time I will update Schedule BK-3. However, as the additional margins associated with the Ratepayer Advocate's pro forma adjustment are only 0.2% of the Company's originally filed firm delivery revenues, the update to Schedule BK-3 is not likely to produce a material change in my recommended rates.

million shown on line 7, column 6, represents the net revenues from Rates TSG-F, TSG-NF and CIG to be flowed back to customers on a therm basis under my recommended rate design. The Ratepayer Advocate's margin adjustment charge of 1.5090 cents per therm (excluding SUT) is shown on line 7, column 5.

Q. Are the current levels of service and balancing charges unchanged in your recommended rate design?

A. Yes. I implemented my recommended class revenue distribution by modifying only the Company's proposed SBC, margin adjustment charge and distributions charges. All other charges remain at current levels.

Q. Mr. Kalcic, have you provided a summary of your recommended Rate RSG delivery charges?

A. Yes. Schedule BK-4 provides a comparison of present and recommended delivery charges for Rate RSG customers.

<u>Optional Metering Services</u>

Q. What new metering services is the Company proposing to offer customers?

A. Sections 8.5.1 and 8.5.2 of the Company's proposed Standard Terms and Conditions shown in Exhibit P-1, Schedule 2, include new charges for certain optional metering services, i.e., the availability of Gas Data Pulse information and Interval Gas Meters. All new services would reflect both initial set-up charges and on-going monthly charges, the exact amounts varying with the type of service and/or equipment requested by the customer.

Q. Does the Company impute any new revenue to these proposed charges in this filing?

A. No. Any incremental revenue and/or cost generated by optional metering services are assumed to occur outside the test year. (See the Company's response to RAR-RD-34.)

Q. Mr. Kalcic, is metering a potentially competitive service?

A. Yes, it is.

Q. As filed, would the Company's proposed tariff language allow a customer to purchase the suggested optional metering services from a TPS?

A. No.

Q. Has the Board made a final determination with respect to how metering, including meter reading, maintenance and data management, should be unbundled to allow for expanded customer choice in these areas?

A. No. It is my understanding that the Board's Order in Docket No. EX99090676 directed the parties to continue to address competitive metering issues through the CAS Working Group. Also, if no consensus emerged from such discussions, I believe that a proceeding to address all unresolved customer account services issues was to be initiated on or before January 1, 2002. I further understand that although certain issues have been resolved by the working group, other issues, including metering competition, remain in dispute and will be litigated.

Q. Given the incomplete status with respect to the unbundling of potentially competitive customer account services, including metering, do you recommend that the Board approve the new metering charges and optional services contained in Sections 8.5.1 and 8.5.2 of the Company's proposed Standard Terms and Conditions at this time?

A. No. Until such time as the unbundling of competitive account services is complete, it would be prudent for the Board to refrain from approving charges for <u>new</u> metering services and/or options that would only be available from PSE&G. Allowing PSE&G to offer such optional services now may simply serve to grant the Company an unfair "head start" in the race to supply customers with (what may soon be) a competitive service.

Q. As an alternative, would it reasonable for the Board to approve Sections 8.5.1 and 8.5.2 of the Company's proposed Standard Terms and Conditions if the relevant tariff language were changed to allow a TPS to provide the same optional metering equipment and services, if so requested by a customer?

A. I believe so. If non-utility providers are allowed to compete in this area, the market, rather than PSE&G, will determine the charge for special metering equipment and services.

Reconnection Charge

Q. What increase is the Company proposing to its reconnection charge?

A. The Company proposes to increase its reconnection charge from $20 to $75 or 275%.

Q. What is the basis for the Company's requested increase?

A. In his direct testimony, Mr. Schirra indicates that the actual cost to the Company per shut off for non-payment ("SONP") is $79.40, and that the Company's requested increase is intended to move the current reconnection charge towards cost.[7]

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7 In Schedule GWS-18, PSE&G further calculates that based on the actual number of services reconnected (which is considerably smaller than the number of SONPs), the cost per unit rises to $133.21. This number is clearly irrelevant as setting the reconnection charge at $133.21 would improperly allocate the shut-off cost of customers who are <u>never</u> reconnected to those who do reestablish service.

Q. Mr. Kalcic, do you believe it is appropriate to increase the Company's reconnection charge 275% in this proceeding?

A. No. I believe a 275% increase, even if cost justified, would be excessive. Moreover, given the higher expected incidence of SONPs among payment-troubled customers, the customer impacts that would be generated by the Company's proposed reconnection charge increase would be particularly inappropriate.

Q. What is your recommendation in this area?

A. In light of the overall decrease in base revenues recommended by the Ratepayer Advocate, I recommend that the current reconnection charge remain unchanged.

While this approach would not move the reconnection charge toward the Company's claimed cost benchmark in this proceeding, I note that any unrecovered reconnection costs would be recouped in my recommended base rates. Further, as discussed in the testimony of Ratepayer Advocate witness Roger D. Colton, implementation of a Universal Service Fund and the Universal Service programs contemplated in the EDECA should be expected to reduce the number of customer shut-offs. Thus, to the extent that PSE&G's Universal Service programs are appropriately structured and expanded in the future, the number of SONPs experienced by the Company may be expected to decline from test year levels.

Q. Does this conclude your direct testimony?

A. Yes.

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. The courses that he taught included 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 joined 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 which offers business and regulatory services.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, Texas, and the Bonneville Power Administration.

BEFORE THE
STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
OFFICE OF ADMINISTRATIVE LAW

IN THE MATTER OF THE PETITION OF)
PUBLIC SERVICE ELECTRIC AND GAS) BPU Docket No. GR01050328
COMPANY FOR APPROVAL OF AN INCREASE) OAL Docket No.
PUC________
IN GAS RATES AND FOR CHANGES IN THE)
TARIFF FOR GAS SERVICE)

Schedules Accompanying
the Direct Testimony
of
BRIAN KALCIC

On Behalf of the New Jersey
Division of the Ratepayer Advocate

August 23, 2001