

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

**IN THE MATTER OF THE PETITION OF)
UNITED WATER NEW JERSEY INC. FOR) BPU DKT. NO. WR09120987
APPROVAL OF AN INCREASE IN RATES FOR) OAL DKT. NO. PUCRL01200-2010N
WATER SERVICE AND OTHER TARIFF)
CHANGES)**

**DIRECT TESTIMONY OF BRIAN KALCIC
ON BEHALF OF THE
NEW JERSEY DEPARTMENT OF THE PUBLIC ADVOCATE
DIVISION OF RATE COUNSEL**

**STEFANIE A. BRAND, ESQ.
ACTING PUBLIC ADVOCATE OF NEW JERSEY
AND DIRECTOR, DIVISION OF RATE COUNSEL**

**31 CLINTON STREET, 11TH FLOOR
P.O. BOX 46005
NEWARK, NEW JERSEY 07101**

**Phone: 973-648-2690
Email: njratepayer@rpa.state.nj.us**

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TABLE OF CONTENTS

	<u>Page</u>
I. QUALIFICATIONS AND OVERVIEW.....	1
II. CLASS COST OF SERVICE STUDY.....	2
III. CLASS REVENUE ALLOCATION / RATE DESIGN	5

SCHEDULES BK-1 THROUGH BK-4

APPENDIX – Qualifications of Brian Kalcic

I. QUALIFICATIONS AND OVERVIEW

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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 New Jersey Department of the Public Advocate, Division of Rate Counsel (“Rate Counsel”).

Q. What is the subject of your testimony?

A. Rate Counsel requested that I review the rate structure proposals submitted on behalf of United Water New Jersey Inc. (“UWNJ” or “Company”) and develop an appropriate rate design that would recover Rate Counsel witness Robert J. Henkes’ recommended revenue requirement of \$177.848 million, which includes Mr. Henkes’ recommended increase of \$1.044 million.

Q. How is your testimony organized?

A. My direct testimony is organized as follows. Section I of my testimony contains my qualifications and an overview of my testimony. Sections II reviews the Company’s cost-

1 of-service study. Finally, Section III presents my recommended class revenue allocation
2 and rate design.

3

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

5 A. Based upon my review of the Company's existing rate structure, I recommend that your
6 Honor and the New Jersey Board of Public Utilities ("Board" or "BPU") order UWNJ to
7 implement the Rate Counsel's recommended class revenue allocation and rate design,
8 which reflect non-uniform adjustments to the Company's existing class revenues and
9 individual tariff charges.

10

11

12

II. CLASS COST OF SERVICE STUDY

13 **Q. Mr. Kalcic, please describe the Company's present rate structure.**

14 A. UWNJ currently provides service to seven (7) separate rate classes: 1) General Metered
15 Service ("GMS"); 2) Service to Other Water Supply Systems ("Resale"); 3) Private Fire
16 Protection Service; 4) Public Fire Protection Service; 5) Building Construction Service; 6)
17 Homeowner's Association Water Service ("HAW")¹; and 7) General Flat Rate Water
18 Service.²

¹ HAW service applies only to water supplied to the common areas of homeowner associations, and may be metered or unmetered.

² General Flat Rate Water Service is applicable only to customers in the former United Water Vernon Hills rate area that are unmetered.

1 GMS customers pay both a facilities (i.e., fixed) charge and a flat-rate consumption charge.
2 Resale customers pay only a flat-rate consumption charge. Private and Public Fire
3 Protection customers pay a fixed hydrant, inch foot and/or connection charge, as applicable.

4
5 **Q. Is UWNJ proposing to implement any new rate schedules in this proceeding?**

6 A. No, it is not.

7
8 **Q. Did the Company submit a cost-of-service study (“COSS”) in this proceeding in
9 support of its proposed rate design?**

10 A. Yes. The Company’s COSS is sponsored by Mr. Charles E. Loy and presented in Exhibit
11 P-9.

12
13 **Q. Are all of UWNJ’s rate classes included in its COSS?**

14 A. No, the study includes only the GMS, Resale, Private Fire Protection and Public Fire
15 Protection classes.

16
17 **Q. What does the Company’s COSS indicate with respect to class revenue responsibility?**

18 A. The COSS shows that the Private Fire class is contributing revenues in excess of its
19 allocated cost of service at UWNJ’s claimed revenue requirement level.³ All of the
20 remaining classes are shown to be under-contributing, i.e., the cost study shows that each

³ In particular, in order to move to cost of service in this proceeding, the Private Fire class would require a *decrease* of approximately 93%.

1 class would require an increase above the system average level of 21.3% in order to move
2 to cost-based rates in this proceeding.⁴

3
4 **Q. Did the Company utilize the results of its COSS as a guide in developing its proposed**
5 **revenue allocation in this proceeding?**

6 A. To a limited extent, yes. As shown in Schedule BK-1, Mr. Loy proposes to assign no
7 increase to the over-contributing Private Fire class. On the other hand, while the Public
8 Fire class should receive an increase of approximately 27% (based on the Company's
9 COSS), Mr. Loy proposes to limit the increase to the Public Fire class to 4% (i.e., the
10 statutory cap on increases in municipal budgets), in recognition of the "financial and budget
11 stresses the current economic climate" has imposed on municipalities. Finally, Mr. Loy
12 proposes to assign all remaining classes a residual increase of approximately 24% (i.e.,
13 slightly greater than the Company's requested system average increase of 21.3%), even
14 though the cost based increase applicable to the Resale class far exceeds that of the GMS
15 class.

16
17 **Q. Have you utilized the Company's class cost of service results as a guide when**
18 **preparing your recommended class revenue allocation and rate design?**

19 A. Yes, I have. My recommended revenue allocation and rate design proposals are discussed
20 in the next section of my testimony.

⁴ The under-contributing classes include: GMS (required increase of 28%), Public Fire (27%), and Resale (158%).

1 A. Yes, I have. Schedule BK-3 presents my recommended rate design and proof of revenue.

2

3 **Q. Please discuss Schedule BK-3.**

4 A. As shown in Schedule BK-3, present class rate revenue is derived in column 3 from the
5 class billing determinants and present rates shown in columns 1 and 2, respectively. My
6 recommended class billing determinants reflect the pro forma revenue adjustments shown
7 in Mr. Henkes' Schedule RJH-9, and produce total pro forma operating revenues at present
8 rates of approximately \$176.8 million, as shown on line 45 of Schedule BK-3.

9 My recommended rates are shown in column 4. Column 5 shows the annual class
10 revenue produced by my recommended rates. Finally, column 6 shows my recommended
11 percentage increases to individual tariff components and class revenue levels.

12

13 **Q. How did you determine your recommended adjustments to the individual GMS tariff**
14 **components shown on lines 2-16 of Schedule BK-3?**

15 A. The cost-of-service evidence in this case suggests that the Company's fixed or customer
16 charges are below cost of service. Therefore, in order to implement the target GMS
17 increase of 0.63% shown in Schedule BK-2, I increased the Company's current customer
18 charges by 2.0 times the system average or 1.2%, and assigned the residual increase to the
19 GMS consumption charge.

20

21 **Q. Please discuss how you developed your recommended rates for the Private Fire class.**

22 A. As shown on lines 26-36 of Schedule BK-3, I assigned no increase to all Private Fire tariff
23 charges, except for the private service hydrant charge applicable to customers in the

1 Company's former United Water Hampton ("UWH") rate area. I recommend that the
2 UWH hydrant rate (line 36) be consolidated with the Company's statewide hydrant charge
3 in this case, which results in a recommended UWH hydrant increase of 20.4%.

4
5 **Q. How did you develop your recommended rates for the Public Fire class shown on lines**
6 **38-41 of Schedule BK-3?**

7 A. I applied a uniform increase of 0.63% to all existing Public Fire charges.

8
9 **Q. Does your recommended rate design incorporate any increase to the Company's**
10 **current miscellaneous service fees contained in Rate Schedule No. 6 – Miscellaneous**
11 **Services?**

12 A. No. The Company is proposing to maintain its current fees, and I agree that no change in
13 the Company's current miscellaneous service fees is warranted at this time.

14
15 **Q. Is the Company proposing any new service fee(s) in this case?**

16 A. Yes. UWNJ is proposing to implement a Late Payment Fee of 1.5% per month on the
17 unpaid balances of applicable non-residential customers, no sooner than 25 days after the
18 bill is rendered.

19 **Q. Has UWNJ imputed any revenue to the Late Payment Fee in its filed case?**

20 A. I don't believe so. However, Rate Counsel is awaiting a discovery response that would
21 clarify: a) the amount of revenue (if any) that the Company expects to receive from its
22 proposed Late Payment Fee; and b) whether such revenue has been reflected in the filing.

Direct Testimony of Brian Kalcic

1 Pending the receipt of outstanding discovery, Rate Counsel reserves the right to
2 amend its recommended rate design to reflect Late Payment Fee revenues.

3 **Q. Have you prepared a summary of your recommended GMS tariff charges?**

4 A. Yes, in Schedule BK-4. Under my recommended rate design, all of UWNJ's existing GMS
5 customer charges would increase by 1.2%, while the GMS consumption charge would
6 increase by 0.5%.

7

8 **Q. Does this conclude your direct testimony at this time?**

9 A. Yes.

SCHEDULES BK-1 THROUGH BK-4

UNITED WATER NEW JERSEY INC.
 Company Proposed Allocation of its
 Requested Increase in Total Revenue

Line	Class	Present Revenue (1)	Proposed Increase		
			Amount (2)	Percent (3)	Relative (4)
1	General Metered	\$ 150,682,905	\$ 36,446,752	24.2%	113
2	Resale	\$ 4,200,882	\$ 1,009,957	24.0%	113
3	Private Fire Prot.	\$ 14,067,316	\$ 4,791	0.0%	0
4	Public Fire Prot.	\$ 8,180,635	\$ 327,229	4.0%	19
5	Unmetered Sales	\$ 70,356	\$ 17,020	24.2%	113
6	Intercompany Sales	\$ 5,724	\$ 1,321	23.1%	108
7	Subtotal	\$ 177,207,818	\$ 37,807,070	21.3%	100
8	Other Revenue	\$ 385,112	\$ -	0.0%	
9	Total Revenues	\$ 177,592,930	\$ 37,807,070	21.3%	
			\$ 37,819,305	Target	
			\$ (12,235)	Rounding	

Source: Exhibit P-4

UNITED WATER NEW JERSEY INC.
Rate Counsel Allocation of its
Recommended Increase in Total Revenue

<u>Line</u>	<u>Class</u>	<u>Present</u> <u>Revenue</u> (1)	<u>Recommended Increase</u>		
			<u>Amount</u> (2)	<u>Percent</u> (3)	<u>Relative</u> (4)
1	General Metered	\$ 150,055,922	\$ 941,967	0.6%	106
2	Resale	\$ 4,200,883	\$ 50,019	1.2%	201
3	Private Fire Prot.	\$ 13,921,162	\$ 1,741	0.0%	2
4	Public Fire Prot.	\$ 8,164,379	\$ 50,722	0.6%	105
5	Unmetered Sales	\$ 70,356	\$ 441	0.6%	106
6	Intercompany Sales	\$ <u>5,723</u>	\$ <u>68</u>	1.2%	200
7	Subtotal	\$ 176,418,426	\$ 1,044,957	0.6%	100
8	Other Revenue	\$ <u>385,112</u>	\$ <u>-</u>	0.0%	
9	Total Revenues	\$ 176,803,538	\$ 1,044,957	0.6%	
			\$ 1,043,985	Target	
			\$ 972	Rounding	

Source:

Sch. RJH-9

Sch. BK-3

UNITED WATER NEW JERSEY INC.
Rate Counsel Recommended Rates and Proof of Revenue

Line	Description	Billing Determinants (1)	Present		Recommended		Percent Increase (6)
			Rates (2)	Revenue (3)	Rates (4)	Revenue (5)	
1	Unmetered Building Rate	464	151.63	\$ 70,356	152.58	\$ 70,797	0.6%
Metered Sales							
2	Fixed Charges						
3	5/8"	1,997,376	5.68	\$ 11,345,096	5.75	\$ 11,484,912	1.2%
4	3/4"	104,868	8.09	848,382	8.19	858,869	1.2%
5	1"	118,416	13.49	1,597,432	13.65	1,616,378	1.2%
6	1 1/2"	33,468	26.95	901,963	27.27	912,672	1.2%
7	2"	30,456	43.15	1,314,176	43.66	1,329,709	1.2%
8	3"	9,072	80.91	734,016	81.87	742,725	1.2%
9	4"	4,140	134.85	558,279	136.45	564,903	1.2%
10	6"	2,484	269.68	669,885	272.87	677,809	1.2%
11	8"	72	431.51	31,069	436.62	31,437	1.2%
12	10"	-	620.29	-	627.63	-	1.2%
13	Flat (VH)	732	27.65	20,240	27.98	20,481	1.2%
14	Subtotal	2,301,084		\$ 18,020,537		\$ 18,239,895	1.2%
15	HAW Rate	12,516	0.87	\$ 10,889	0.87	\$ 10,889	0.0%
16	General Metered Usage	40,144,889	3.2887	\$ 132,024,496	3.3067	\$ 132,747,104	0.5%
17	Total Metered Sales			\$ 150,055,922		\$ 150,997,889	0.6%
Resale							
18	Resale - Other	2,104,674	1.7863	\$ 3,759,579	1.8074	\$ 3,803,988	1.2%
19	Minimum Billing	200,648		\$ 412,144		\$ 417,022	1.2%
20	Resale- Intercompany	1,838	2.8262	5,195	2.8596	5,256	1.2%
21	3/4"	12	6.95	83	7.03	84	1.2%
22	2"	12	37.08	445	37.52	450	1.2%
23	Subtotal Intercompany			\$ 5,723		\$ 5,791	1.2%
24	Raw Water	59,510	0.4900	\$ 29,160	0.5023	\$ 29,892	2.5%
25	Total Resale			\$ 4,206,606		\$ 4,256,692	1.2%
Private Fire Service							
26	1 1/2"	916	16.14	\$ 14,784	16.14	\$ 14,784	0.0%
27	2"	3,432	28.82	98,907	28.82	98,907	0.0%
28	3"	3,015	80.78	243,565	80.78	243,565	0.0%
29	4"	23,115	128.15	2,962,202	128.15	2,962,202	0.0%
30	6"	21,322	264.30	5,635,509	264.30	5,635,509	0.0%
31	8"	8,985	469.87	4,221,574	469.87	4,221,574	0.0%
32	10"	423	734.16	310,309	734.16	310,309	0.0%
33	12"	12	1,057.19	12,266	1,057.19	12,266	0.0%
34	Subtotal			\$ 13,499,116		\$ 13,499,116	0.0%
35	Hydrant	7,284	56.77	\$ 413,513	56.77	\$ 413,513	0.0%
36	Hydrant (UWH)	181	47.15	8,534	56.77	10,275	20.4%
37	Total Private Fire Service			\$ 13,921,162		\$ 13,922,904	0.0%
Public Fire Service							
38	Hydrant	177,098	16.04	\$ 2,840,652	16.14	\$ 2,858,362	0.6%
39		780	40.38	31,496	40.63	31,691	0.6%
40	Inch Feet	101,820,171	0.05155	\$ 5,248,830	0.05187	\$ 5,281,412	0.6%
41	HAW	23,460	1.85	\$ 43,401	1.86	\$ 43,636	0.5%
42	Total Public Fire Service			\$ 8,164,379		\$ 8,215,101	0.6%
43	Total Revenue from Sales			\$ 176,418,426		\$ 177,463,383	0.6%
44	Miscellaneous Revenue			385,112		385,112	0.0%
45	TOTAL OPERATING REVENUE			\$ 176,803,538		\$ 177,848,495	0.6%

Target \$ 177,847,523
Rounding \$ 972

UNITED WATER NEW JERSEY INC.
Comparison of General Metered Service
Present and Recommended Rates

Line	Monthly Facilities Charge	Present Rate (1)	Recommended Rate (2)	Increase	
				Amount (3)	% (4)
1	5/8"	\$5.68	\$5.75	\$0.07	1.2%
2	3/4"	\$8.09	\$8.19	\$0.10	1.2%
3	1"	\$13.49	\$13.65	\$0.16	1.2%
4	1 1/2"	\$26.95	\$27.27	\$0.32	1.2%
5	2"	\$43.15	\$43.66	\$0.51	1.2%
6	3"	\$80.91	\$81.87	\$0.96	1.2%
7	4"	\$134.85	\$136.45	\$1.60	1.2%
8	6"	\$269.68	\$272.87	\$3.19	1.2%
9	8"	\$431.51	\$436.62	\$5.11	1.2%
10	10"	\$620.29	\$627.63	\$7.34	1.2%
11	12"	\$27.65	\$27.98	\$0.33	1.2%
	<u>Consumption Charge</u>				
12	Per 1,000 G.	\$4.3967	\$4.4207	\$0.0241	0.5%

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 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 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.