

BEFORE THE STATE OF NEW JERSEY

BOARD OF PUBLIC UTILITIES

**I/M/O THE PETITION OF PUBLIC)
SERVICE ELECTRIC AND GAS COMPANY)
FOR APPROVAL OF A SOLAR ENERGY) BPU DKT. NO. EO07040278
PROGRAM AND AN ASSOCIATED COST)
RECOVERY MECHANISM)**

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

**RONALD K. CHEN
PUBLIC ADVOCATE OF NEW JERSEY**

**KIMBERLY K. HOLMES, ESQ.
ACTING DIRECTOR, DIVISION OF RATE COUNSEL**

Division of Rate Counsel
31 Clinton Street, 11th Floor
P. O. Box 46005
Newark, New Jersey 07101

FILED: SEPTEMBER 21, 2007

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

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

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.

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

10 A. I am testifying on behalf of the New Jersey Department of the Public Advocate,
11 Division of Rate Counsel (“Rate Counsel”).

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

14 A. Rate Counsel requested that I review the rate design aspects of the Solar Energy
15 Program (“Program”) cost recovery mechanism proposed by Public Service Electric
16 and Gas Company (“PSE&G” or “Company”), and sponsor specific modifications
17 to that mechanism, where appropriate.

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

20 A. Yes. While my testimony discusses the propriety of PSE&G’s proposed cost
21 recovery mechanism, I would like to state for the record that such discussion should
22 *not* be interpreted as an endorsement of PSE&G’s Solar Energy Program proposal,
23 or as a recommendation by Rate Counsel that the New Jersey Board of Public
24 Utilities (“Board” or “BPU”) grant the Company’s petition in whole or in part.¹

26 **Q. Please summarize your recommendation.**

27 A. Based upon my analysis of the Company’s filing and interrogatory responses, I
28 recommend that, if the Board should decide to approve a solar program by PSE&G
29 in some format, then the Board should direct the Company to modify its proposed
30 cost recovery mechanism so that Program costs would be recovered from all
31 ratepayers on a uniform \$/kWh basis.

¹ Instead, see the direct testimony of Rate Counsel witness David E. Dismukes, Ph.D. for Rate Counsel’s position with respect to various Solar Energy Program policy issues.

1
2 **Cost Recovery Mechanism Rate Design**
3

4 **Q. Mr. Kalcic, how is the Company proposing to recover the costs associated with**
5 **its Solar Energy Program ?**

6 A. PSE&G proposes to recover all of its claimed Program costs through the Energy
7 Efficiency and Renewable Energy Program component of its electric Societal
8 Benefits Charge ("SBC").
9

10 **Q. Would PSE&G's claimed Program costs be deducted from the Company's**
11 **required payments to the BPU's Office of Clean Energy ("OCE"), as indicated**
12 **on pages 23-24 of the Company's Petition?**

13 A. No. PSE&G has modified its original proposal in this area, and now proposes to
14 treat its claimed Program costs as incremental to the Company's BPU-mandated
15 funding requirement for Clean Energy Program ("CEP") initiatives.
16

17 **Q. Why did PSE&G modify its original proposal?**

18 A. In response to RCR-RE-10, PSE&G explains that the Company had never intended
19 to impact the CEP rebate commitments already in place through 2008 and did not
20 want its solar program to compete for funding with the BPU's other CEP initiatives.
21 In addition, PSE&G indicates that it expects the Board to issue an order in 2007 that
22 will end the current practice of allowing utilities to net their CEP costs against
23 required payments to the State.
24

25 **Q. How would this modification to PSE&G's original proposal impact**
26 **ratepayers?**

27 A. Under the Company's original proposal, ratepayers would have experienced no net
28 increase in the SBC or their monthly bills. As modified, the Company's ratepayers
29 would see a net increase in the SBC and their monthly bills once PSE&G begins
30 implementing its proposed Program.
31

32 **Q. Did PSE&G consider any other type of cost recovery mechanism besides the**
33 **SBC?**

1 A. Apparently. PSE&G indicates that if there are future phases to the Program, the
2 Company “will pursue other cost recovery mechanisms outside the SBC, including
3 base rates, a new clause, or another innovative method, with the intention of
4 allowing the Program to increase in scale.”²
5

6 **Q. Why did the Company choose the SBC over such alternative cost recovery**
7 **mechanisms?**

8 A. In response to RCR-RE-12, PSE&G discusses certain tradeoffs that are associated
9 with each approach. For example, the Company notes that the SBC is the current
10 method approved by the Board for the recovery of the costs associated with the
11 OCE’s solar program. However, the Company states that the use of the SBC “has
12 raised concerns regarding the allocation of the costs, especially to large users.”

13 PSE&G argues that the recovery of Program costs in base rates raises a
14 concern over the “timeliness of recovery,” given the fact that base rates are not
15 adjusted on a frequent basis. Finally, PSE&G states that the “use of another clause
16 for recovery could be essentially identical to recovery through the SBC, just under
17 another name.”

18 Given the above issues, the Company selected the SBC as its proposed cost
19 recovery mechanism for this phase of the Program.
20

21 **Q. How are the costs that are recovered through the Energy Efficiency and**
22 **Renewable Energy Program component of the SBC allocated to PSE&G’s rate**
23 **classes?**

24 A. Such costs are allocated on the basis of total class kWh usage at the generator (i.e.,
25 before losses). As a result, the Company’s actual SBC charge for these types of
26 costs varies according to delivery voltage level.³
27

28 **Q. How does PSE&G’s proposal differ from a straight energy allocation of**
29 **Program costs?**

² See page 2 of Mr. Schirra’s direct testimony.

³ SBC levels now vary inversely with delivery voltage, such that those classes served at the lowest voltage level (i.e., secondary) would have the highest SBC. See Schedule GWS-5 for an example SBC calculation.

1 A. Under that type of allocation, the surcharge would be computed on the basis of total
2 energy usage at the meter (i.e., after losses), resulting in a single \$/kWh surcharge
3 applicable to all customers.
4

5 **Q. Would it be possible to utilize the SBC as the cost recovery mechanism for the**
6 **Program, while using total energy usage at the meter to allocate such costs to**
7 **rate classes?**

8 A. Yes, it would.
9

10 **Q. Would it be reasonable to allocate Program costs to rate classes on the basis of**
11 **energy usage at the meter (i.e., after losses)?**

12 A. Yes.
13

14 **Q. Why?**

15 A. The fundamental premise of PSE&G's petition is that the Program will benefit
16 ratepayers by reducing the SREC-related compliance costs of all load serving
17 entities ("LSEs") in the Company's service territory. However, the demand for
18 SRECs is driven by New Jersey's Renewable Portfolio Standards ("RPS")
19 legislation, which requires that an LSE's *retail electricity sales* (i.e., after losses)
20 include a minimum percentage of solar electric generation.

21 In other words, PSE&G's ratepayers will benefit (if at all) from the Program
22 in direct proportion to the amount of energy used at the meter – not according to the
23 amount of energy used at the generator. As such, I find that it would be appropriate
24 to recover Program costs in proportion to benefits received, or on a uniform \$/kWh
25 basis from all rate classes.
26

27 **Q. Mr. Kalcic, what is your specific recommendation to the Board in this area?**

28 A. If the BPU approves the Company's Program and allows the associated costs to be
29 recovered from ratepayers, I recommend that the Board direct PSE&G to modify its
30 proposed SBC cost recovery mechanism so that costs are recovered from all
31 ratepayers on a uniform \$/kWh basis.
32

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

34 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 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, Texas, and also before the Bonneville Power Administration.