

STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE IRENE JONES

I/M/O THE PETITION OF SUEZ WATER
ARLINGTON HILLS, INC. FOR
APPROVAL OF AN INCREASE IN RATES
FOR WASTEWATER SERVICE AND
OTHER TARIFF CHANGES

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BPU DOCKET No. WR16060510
OAL DOCKET No. PUC-09261-2016

DIRECT TESTIMONY

BRIAN KALCIC

ON BEHALF OF THE DIVISION OF RATE COUNSEL

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Direct Testimony of Brian Kalcic

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

2 A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, 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 New Jersey Division of Rate Counsel (“Rate
11 Counsel”).

12

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

14 A. Rate Counsel requested that I review the rate structure proposals submitted on
15 behalf of SUEZ Water Arlington Hills Inc. (“SUEZ” or the “Company”) and
16 develop an appropriate rate design to recover Rate Counsel witness Dante
17 Mugrace’s recommended revenue requirement in this proceeding.

18

19 **Q. How is your testimony organized?**

20 A. Section I of my testimony reviews the Company’s current rate structure and
21 proposed class revenue allocation. Section II presents Rate Counsel’s
22 recommended class revenue allocation and rate design.

1

2 **Q. Please summarize your recommendations.**

3 A. Based upon my review of the Company's filing and discovery responses, I
4 recommend that Your Honor and the New Jersey Board of Public Utilities ("Board"
5 or "BPU"):

- 6 • adopt the Company's proposal to phase in any rate increase over four years,
7 with the following modifications by Rate Counsel; Rate Counsel's
8 recommended four-year revenue requirement phase-in provides for annual
9 Year 1 through Year 4 increases of 25.3%, 23.5%, 23.1% and 5.0%,
10 respectively; and
- 11 • approve Rate Counsel's recommended rate design for phase-in Years 1-4,
12 which incorporates uniform increases to the all tariff charges (within a given
13 year).
14
15

16 **I. SUEZ Rate Structure & Class Revenue Allocation**

17

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

19 A. SUEZ currently provides service to two customer classes via separate rate
20 schedules. Rate Schedule No. 1 ("RS1") is available to Residential and
21 Homeowner's Association customers. Rate Schedule No. 2 ("RS2") is available to
22 Commercial customers. RS1 contains a fixed facilities (i.e., service) charge, which
23 varies by meter size, and a flat-rate consumption charge. RS2 also contains a
24 schedule of fixed facilities charges, which are significantly greater than their
25 corresponding RS1 service charges, and a flat-rate consumption charge that is
26 identical to the RS1 consumption charge.

27

1 **Q. Is SUEZ proposing any changes to its existing rate structure in this**
2 **proceeding?**

3 A. No, it is not.
4

5 **Q. Did the Company submit a cost-of-service study (“COSS”) in this proceeding?**

6 A. No, it did not.
7

8 **Q. How then does SUEZ propose to recover its requested revenue increase in this**
9 **proceeding?**

10 A. Absent a COSS, the Company is proposing to implement a cumulative, across-the-
11 board increase of 118.3% to all rate classes. The Company’s proposed class
12 revenue allocation is summarized in Schedule BK-1.
13

14 **Q. Do you agree that SUEZ’s proposed revenue allocation is appropriate?**

15 A. Yes. Absent cost-of-service evidence, I find that a uniform increase to all rate
16 classes is both reasonable and equitable in this proceeding.
17

18 **Q. Is SUEZ proposing to phase-in its overall requested increase in this**
19 **proceeding?**

20 A. Yes. As shown in Exhibit P-4, Schedule 1B, SUEZ is proposing to implement its
21 overall proposed increase of 118.3% over four years. Under the Company’s

1 proposal, annual increases over the course of the phase-in would vary from a high of
2 25.3% (Year 1) to a low of 14.6% (Year 4).

3

4 **Q. Do you agree with the Company that a rate phase-in is appropriate in this**
5 **case?**

6 A. Yes. Without a phase-in, SUEZ's customers would be subject to severe rate shock
7 at the conclusion of this case. To mitigate such rate shock, Rate Counsel is also
8 proposing a rate phase-in for this proceeding. The details of Rate Counsel's
9 proposal are discussed in the following section of my testimony.

10

11 **II. Rate Counsel Class Revenue Allocation & Rate Design**

12

13 **Q. Mr. Kalcic, what is your recommendation with respect to the allocation of Rate**
14 **Counsel's recommended revenue adjustment in this proceeding??**

15 A. Mr. Mugrace is recommending an overall revenue increase of \$1.139 million or
16 100.1%.¹ Consistent with the above discussion, I recommend that SUEZ's rate
17 classes receive an across-the-board increase of 100.1% (prior to Rate Counsel's
18 proposed phase-in), as shown in Schedule BK-2.

19

20 **Q. Have you developed a phase-in proposal to implement Rate Counsel's overall**
21 **recommended increase?**

¹ See the Direct Testimony of Dante Mugrace, at Schedule DM-1.

1 A. Yes, I have. Since Rate Counsel's overall recommended increase exceeds 100%, I
2 find that a four-year phase-in period, as suggested by SUEZ, remains reasonable and
3 appropriate in this proceeding. Schedule BK-3 presents my recommended rate
4 design and proof of revenue for Years 1-4 of Rate Counsel's proposed phase-in.

5

6 **Q. How did you determine the level of present revenue, by rate class, shown in**
7 **column 3 of Schedule BK-3?**

8 A. The present revenues shown in column 3 correspond to Mr. Mugrace's
9 recommended level of pro forma rate revenues of \$1.137 million, as detailed in
10 Schedule DM-4.

11

12 **Q. What is the total annual revenue increase in each year of Rate Counsel's**
13 **recommended phase-in?**

14 A. As shown on line 20 of Schedule BK-3, Rate Counsel's recommended year-over-
15 year revenue increases are as follows: a) \$287,520 in Year 1; b) \$335,367 in Year 2;
16 c) \$407,315 in Year 3; and d) \$108,633 in Year 4.

17

18 **Q. How did you determine the level of Rate Counsel's annual revenue increases?**

19 A. For Years 1-3, I set the annual dollar increase at the level such that the resulting
20 *percentage* increase in rates would not exceed the corresponding annual percentage
21 increase shown in SUEZ's filed Public Notice in Exhibit P-7. For Year 4, I set the

1 increase at the residual necessary to implement Rate Counsel's overall increase of
2 \$1.139 million.

3

4 **Q. How do Rate Counsel's annual revenue increases over Years 1-3 of its phase-in**
5 **compare to SUEZ's proposed annual increases shown on line 40 of Exhibit P-4,**
6 **Schedule 1B?**

7 A. In each year, Rate Counsel's recommended annual revenue increases are smaller
8 than SUEZ's proposed increases.

9

10 **Q. Why is that?**

11 A. Rate Counsel's pro forma level of present rate revenues is \$1.137 million, which is
12 approximately \$49,000 less than the Company's filed revenue level. As a result,
13 Rate Counsel's recommended annual *percentage* increases over Years 1-3 of the
14 phase-in, which are identical to those shown in Exhibit P-4, Schedule 1B, produce
15 smaller revenue increases than under SUEZ's proposal.

16

17 **Q. Please discuss your recommended rate design for Years 1-4 of Rate Counsel's**
18 **recommended phase-in.**

19 A. As shown in Schedule BK-3, I recommend an across-the-board increase to all rate
20 classes and tariff charges within each year of the phase-in. For example, Rate
21 Counsel's recommended Year 1 rates are shown in column 4 of Schedule BK-3. As

Direct Testimony of Brian Kalcic

1 shown in column 6, all rates would receive a uniform Year 1 increase of 25.3%
2 under Rate Counsel's proposal.

3 Rate Counsel's recommended rates for Years 2-4 of the phase-in are shown
4 in columns 7, 10, and 13 of Schedule BK-3, respectively. In each year, all tariff
5 charges are assigned a uniform increase equal to the *overall* percentage increase in
6 revenue for that year of the phase-in.

7

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

9 A. Yes.

SCHEDULES BK-1 THROUGH BK-3

SUEZ Water Arlington Hills Inc.
 Company Proposed Allocation of its
 Requested Increase in Total Revenue

<u>Line</u>	<u>Class</u>	Present Revenue (1)	Proposed Increase		
			Amount (2)	Percent (3)	Relative (4)
1	Residential	\$ 702,948	\$ 831,887	118.3%	100
2	Commercial	\$ 483,758	\$ 572,501	118.3%	100
3	Subtotal	\$ 1,186,706	\$ 1,404,388	118.3%	100
	<u>Other Revenue</u>				
4	Misc. Service Revenue	\$ -	\$ -	0.0%	
5	Unbilled Revenue	\$ -	\$ -	0.0%	
6	Subtotal	\$ -	\$ -	0.0%	
7	Total Revenues	\$ 1,186,706	\$ 1,404,388	118.3%	
			\$ 1,404,395 Target		
			\$ (7) Rounding		

Source: Exhibit P-4
Sch. 1

SUEZ Water Arlington Hills Inc.
 Rate Counsel Allocation of its
 Recommended Increase in Total Revenue

<u>Line</u>	<u>Class</u>	Present Revenue (1)	Recommended Increase		
			Amount (2)	Percent (3)	Relative (4)
1	Residential	\$ 651,263	\$ 652,110	100.13%	100
2	Commercial	\$ 486,061	\$ 486,724	100.14%	100
3	Subtotal	\$ 1,137,324	\$ 1,138,834	100.13%	100
	<u>Other Revenue</u>				
4	Misc. Service Revenue	\$ -	\$ -	0.00%	
5	Unbilled Revenue	\$ -	\$ -	0.00%	
6	Subtotal	\$ -	\$ -	0.00%	
7	Total Revenues	\$ 1,137,324	\$ 1,138,834	100.13%	
			\$ 1,138,852 Target		
			\$ (18) Rounding		

Source: Schedule Schedule
 DM-4 BK-3

SUEZ Water Arlington Hills Inc.
Rate Counsel Recommended Rate Design and Proof of Revenue
Basis: \$1.139 million Increase Over Four (4) Years

Line	Description	Billing Determinants		Present			Recommended - Phase 1			Recommended - Phase 2			Recommended - Phase 3			Recommended - Phase 4		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)		
Residential																		
	Fixed Charges																	
1	5/8"	7,788	\$32.39	\$ 252,253	\$40.58	\$ 316,037	25.29%	\$50.13	\$ 390,412	23.53%	\$61.73	\$ 480,753	23.14%	\$64.82	\$ 504,818	5.01%		
2	3/4"	0	\$48.60	-	\$60.89	-	25.29%	\$75.22	-	23.53%	\$92.63	-	23.15%	\$97.27	-	5.01%		
3	1"	0	\$80.99	-	\$101.46	-	25.27%	\$125.34	-	23.54%	\$154.34	-	23.14%	\$162.08	-	5.01%		
4	1 1/2"	12	\$161.97	1,944	\$202.92	2,435	25.28%	\$250.69	3,008	23.54%	\$308.70	3,704	23.14%	\$324.17	3,890	5.01%		
5	2"	48	\$259.16	12,440	\$324.68	15,585	25.28%	\$401.11	19,253	23.54%	\$493.93	23,709	23.14%	\$518.69	24,897	5.01%		
6	3"	108	\$485.93	52,480	\$608.77	65,747	25.28%	\$752.07	81,224	23.54%	\$926.10	100,019	23.14%	\$972.52	105,032	5.01%		
7	Subtotal			\$ 319,117		\$ 399,804	25.28%		\$ 493,897	23.53%		\$ 608,185	23.14%		\$ 638,637	5.01%		
8	Water Registered (mgl)	29,553	\$11.239	\$ 332,146	\$14.080	\$ 416,106	25.28%	\$17.394	\$ 514,045	23.54%	\$21.419	\$ 632,996	23.14%	\$22.493	\$ 664,736	5.01%		
9	Total Residential			\$ 651,263		\$ 815,910	25.28%		\$ 1,007,942	23.54%		\$ 1,241,181	23.14%		\$ 1,303,373	5.01%		
Commercial																		
	Fixed Charges																	
10	5/8"	168	\$286.98	\$ 48,213	\$359.53	\$ 60,401	25.28%	\$444.16	\$ 74,619	23.54%	\$546.94	\$ 91,886	23.1%	\$574.36	\$ 96,492	5.01%		
11	3/4"	12	\$430.49	5,166	\$539.32	6,472	25.28%	\$666.28	7,995	23.54%	\$820.46	9,846	23.1%	\$861.59	10,339	5.01%		
12	1"	24	\$717.47	17,219	\$898.85	21,572	25.28%	\$1,110.44	26,651	23.54%	\$1,367.40	32,818	23.1%	\$1,435.94	34,463	5.01%		
13	1 1/2"	24	\$1,434.94	34,439	\$1,797.69	43,145	25.28%	\$2,220.87	53,301	23.54%	\$2,734.78	65,635	23.1%	\$2,871.87	68,925	5.01%		
14	2"	60	\$2,295.89	137,753	\$2,876.29	172,577	25.28%	\$3,553.37	213,202	23.54%	\$4,375.62	262,537	23.1%	\$4,594.95	275,697	5.01%		
15	3"	12	\$4,304.76	51,657	\$5,393.00	64,716	25.28%	\$6,662.51	\$ 79,950	23.54%	\$8,204.21	\$ 98,451	23.1%	\$8,615.46	\$ 103,386	5.01%		
16	Subtotal			\$ 294,447		\$ 368,883			\$ 455,718	23.54%		\$ 561,171	23.1%		\$ 589,302	5.01%		
17	Water Registered (mgl)	17,049	\$11.239	\$ 191,614	\$14.080	\$ 240,050	25.28%	\$17.394	\$ 296,550	23.54%	\$21.419	\$ 365,173	23.1%	\$22.493	\$ 383,483	5.01%		
18	Total Commercial			\$ 486,061		\$ 608,933	25.28%		\$ 752,268	23.54%		\$ 926,344	23.1%		\$ 972,785	5.01%		
19	TOTAL REVENUE			\$ 1,137,324		\$ 1,424,843	25.28%		\$ 1,760,210	23.54%		\$ 2,167,525	23.1%		\$ 2,276,158	5.01%		
20	Increase over Prior Year					\$ 287,520			\$ 335,367			\$ 407,315			\$ 108,633			

Target Rounding \$ 2,276,176 \$ (18)

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.