BEFORE THE
STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF NEW JERSEY-AMERICAN WATER COMPANY, INC. FOR APPROVAL OF INCREASED TARIFF RATES AND CHARGES FOR WATER AND WASTEWATER SERVICE, CHANGE IN DEPRECIATION RATES, AND OTHER TARIFF MODIFICATIONS	:	**BPU DOCKET NO.:** **PETITION**

TO THE HONORABLE COMMISSIONERS OF THE NEW JERSEY BOARD OF PUBLIC UTILITIES:

New Jersey-American Water Company, Inc. (hereinafter the "Company," "NJAWC," or the "Petitioner"), a public utility corporation of the State of New Jersey, with its principal office at 1025 Laurel Oak Road, Voorhees, New Jersey 08043, hereby petitions this Honorable Board (sometimes hereinafter referred to as "Board" or "BPU") for authority pursuant to N.J.S.A. 48:2-18, N.J.S.A. 48:2-21, N.J.S.A. 48:2-21.1, N.J.A.C. 14:1-5.7, and N.J.A.C. 14:1-5.12 to increase its tariff rates and charges for water and wastewater service, to change its depreciation rates and to implement certain other tariff revisions. In support thereof, Petitioner states as follows:

I. PETITIONER

1. NJAWC is a regulated public utility corporation, engaged in the production, treatment and distribution of water and collection of sewage within its defined service territory within the State of New Jersey. Said service territory includes portions of the following counties: Atlantic, Bergen, Burlington, Camden, Cape May, Essex, Gloucester, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Salem, Somerset, Union, and Warren. Petitioner currently serves approximately 631,000 water and fire service customers and 41,000 sewer service customers.

II. THE CONTEXT OF THIS PETITION

2. Petitioner's current base rates were approved by an Order of this Board dated September 11, 2015 in Docket No. WR15010035. Those base rates were based upon a test year ending July 31, 2015. The test year proposed by the Company in this case is the twelve months ending March 31, 2018, a period which is two and one half years from the test period utilized to set current base rates.

3. By far the primary driver of this case is investment in infrastructure. That investment represents well over 90% of the rate request. Another factor is the continuing declining usage per customer which has the effect of reducing the Company's revenue base, and reducing the Company's ability to earn a fair return, and is continuing year-after-year. A much smaller driver is increased operating and maintenance expense.

4. The Company has added a significant amount of capital and through the end of this proceeding will have added approximately $868 million (over $1,000 per customer), to its water and wastewater systems since the conclusion of the last base rate increase. This can be compared to the total rate base established in that case of $2.39 billion. Petitioner has made these capital improvements in order to allow it to continue to provide safe, adequate and proper service to its customers. The overwhelming majority of this investment is in source of supply, treatment, distribution and collection assets. It is not possible to make investments at this level without recovering a return on and a return of those investments. In order to continue providing improved water and wastewater service, it is essential for Petitioner to invest in new technology, including information technology such as cloud computing, and to ensure that aging plant is replaced in a timely manner.

5. The Company is very supportive of, and is a leader in, promoting efficient water use and water conservation. The continuing implementation of water-saving devices such as low

flow toilets means that water usage per customer is declining. This, of course, is a good thing. However, it also has a cost associated with it. The net effect of reduced usage per customer is an erosion of revenues to the Company. In order for the Company to earn a fair return, it must be provided rate relief which recognizes and accounts for the revenue decline. The continuing trend in declining usage per customer is a now-accepted fact among all segments of the water industry. The Company addresses this issue in this Petition.

6. Mitigating this driver is the Company's extraordinary record in controlling operating and maintenance ("O&M") expenses. In its last rate proceeding the Company demonstrated that the Company's O&M expenses decreased substantially. Total O&M expenses projected for the test year in that case were about $19 million less than those which formed the basis for the immediately prior rate proceeding. Since the last case O&M expenses have remained relatively flat, with only minor increases. By virtue of efficiency implementations, the Company's employees have been able to "do more with less." Employees are working smarter, utilizing technology, and getting more accomplished. Petitioner believes that it should be commended for the efficiencies that it has achieved, and these efficiencies should be recognized in fair and reasonable rate treatment.

7. Petitioner continuously strives to find more efficient and cost-effective ways to operate and maintain its business. As part of that effort, Petitioner strives to maintain its cost structure as efficiently as possible. Petitioner continuously examines operational efficiency and attempts to improve customer service and efficiency of production and field operations. Operating through and with its parent company, the Company has continued to increase its purchasing power and obtain significant discounts on necessary equipment needed to manage and maintain its system. These efficiencies could not be obtained through smaller, separately-owned water systems.

8. Cost efficiencies have enabled the Company to invest in water and wastewater plant and equipment at lower cost to customers. For every $1.00 savings in O&M expenses, the Company may invest approximately $7.00 in utility plant and equipment with no additional cost to customers. The Company has striven to make needed investments without unnecessarily burdening its customers.

9. However, even given these efficiencies, the point has been reached at which rate relief is necessary.

10. The Company's current Foundational DSIC Filing was approved by the Board in Docket No. WR15060724 on September 11, 2015. Since that time the Company has filed three semi-annual DSIC filings and anticipates a fourth filing (the "DSIC Filings").

11. In the current proceeding, the Company proposes to roll in to its pro forma test year revenue the revenue requirement recovery amount from the DSIC Filings. The Company proposes to also roll in to rate base the assets related to the DSIC program, which gave rise to that revenue requirement recovery amount. In addition, Petitioner proposes to reset the DSIC rate to $0, and will be making a new Foundational Filing under separate cover, which it requests to be effective concurrent with the new base rates established in this base rate proceeding.

III. PETITIONER'S PROPOSAL IN THIS CASE

12. In this case Petitioner is proposing to utilize the test year ending March 31, 2018, with post-test year known and measurable adjustments for rate base, O&M expenses, revenues, and capital structure. Petitioner's presentation in this case demonstrates the need for a revenue increase of $129.3 million. This represents a 17.54% increase in revenue over projected pro-forma rate revenue of $737,219,256.

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IV. ACQUISITIONS

13. On April 3, 2017 the Company closed on the acquisition of the former Shorelands Water Company ("Shorelands"). Shorelands has now been integrated into and is part of the Company's system.

14. The integration of the Shorelands system has created overall lower operating pressures in the combined systems, which translates into lower energy consumption, fewer main breaks and overall greater operational savings.

15. The acquisition provides benefits in the following areas: production costs; operational equipment; employees and storage.

16. The acquisition price for Shorelands exceeded the original cost less depreciation of Shorelands. However, the synergy savings which are being derived from the Shorelands acquisition exceed the value of this premium.

17. As a result, the Company has proposed full rate base recognition of the Shorelands purchase price in this case, including an acquisition adjustment.

18. On May 21, 2015, the Company closed on the acquisition of the water and wastewater assets of the Borough of Haddonfield. NJAWC already had service areas immediately adjacent to Haddonfield. By interconnecting the Haddonfield system with the existing NJAWC system through multiple points of connection, the resiliency and water quality in both systems has increased. As a result of these interconnections, redundancy of supply feeding the Haddonfield system, as well as the resiliency of supply of both systems to withstand operational disruption such as main breaks, increased. In addition, integrating the two systems resulted in the elimination of dead-end water mains in the Haddonfield system and in the NJAWC system. Dead-end water mains tend to age faster and are more prone to developing water quality issues.

19. In acquiring the Haddonfield system, NJAWC also acquired Haddonfield's water allocation permit within Critical Area No. 2. NJDEP approved this transfer which allows NJAWC to utilize Haddonfield's allocation throughout a broad area of NJAWC. This right has substantial value.

20. NJAWC paid a premium over original cost less depreciation for the Haddonfield system assets. However, numerous factors, including those mentioned above, support the full inclusion of the purchase price for the Haddonfield assets in rate base.

21. As a result, the Company proposes full rate base recognition of the Haddonfield system assets, including rate base recognition of an acquisition adjustment.

22. Relative to both the Shorelands and Haddonfield acquisitions, the Company proposes to amortize the acquisition adjustments over periods of 40 years. The Company seeks similar rate making treatment for its Roxiticus Water Company acquisition.

V. <u>REVENUE STABILIZATION MECHANISM</u>

23. In this case the Company is proposing a Revenue Stabilization Mechanism ("RSM") designed to maintain the Company's revenues at the level which will be utilized to establish rates in this case. The proposed mechanism will effectively remove errors that are inherent in the process of forecasting test year levels of sales. These forecasting errors are caused by changes in the volume of water sold due to factors beyond the control of the Company or the BPU.

24. Most of the Company's costs are fixed, but its rate structure is primarily based upon volumetric charges. As a result, any factors that affect sales, either positive or negative, will impede the Company's ability to achieve the revenue level used to establish rates in this proceeding. This is important because the level of revenues utilized in the rate case is presumed to be representative of the level of revenues that will be achieved post-rate case.

25. The Company's ability to achieve this level of revenue can be compromised predominantly by summer weather (hot or cool; wet or dry) which can cause revenues to either exceed or fail to meet expected revenues. In addition, the Company's ability to achieve expected revenues is further impeded by the continuing erosion of usage per customer resulting from such things as reduced flow fixtures and more efficient appliances.

26. The RSM will have the effect of increasing revenues in years that yield less than expected revenues, and providing a credit to customers for years in which revenues exceed those expected.

27. From the standpoint of both customers and the Company, the RSM will have the effect of revenue stabilization, to the benefit of each stakeholder.

28. The RSM will also have the added benefit of eliminating the incentive for the Company to sell more water, and as a result will better align the objectives of the Company, its customers, and regulators.

VI. FASB TOPIC 715 AND FAS 158

29. The Financial Accounting Standards Board ("FASB") has issued an Accounting Standards Update for Compensation Retirement Benefits (Topic 715) (the "ASU"). The ASU amends the presentation of the net periodic benefit cost for pension and other post-retirement benefits ("OPEBs"), with an effective date for annual periods beginning after December 15, 2017.

30. The practical effect of the ASU is that it will alter the ability of the Company to capitalize certain pension and OPEB costs. They will be expensed rather than capitalized.

31. The ASU is applicable only for financial reporting purposes.

32. The ASU would have the effect of decreasing net income of the Company.

33. As a result, the Company is proposing that solely for regulatory purposes, it will continue to report pension and OPEB expense, without giving effect to the ASU.

34. The Board will have the Company's books and records open in this proceeding. This incremental expense is not reflected in either the test year or the post-test year period. As a result, it is important that the Company be made whole from the effects of the ASU.

35. On a related item, Shorelands has an unfunded pension obligation pursuant to Financial Accounting Standards ("FAS") 158. This unfunded pension obligation represents benefits earned by Shorelands employees prior to the acquisition by the Company in 2017.

36. The Company proposes in this case to amortize the FAS 158 obligation over a period of 20 years, to allow for recovery of this obligation.

VII. CAPITALIZATION OF ENGINEERED COATING OF STEEL STRUCTURES

37. Steel tanks require periodic, significant investment in the engineered coating systems on such tanks. The service lives of interior and exterior coatings depend upon numerous conditions, but typical high-performance coatings can last in the vicinity of twenty years.

38. Installation of new coating systems on existing tanks typically requires removal of existing coatings to bare metal through abrasive blasting and then installation of a new, engineered, three-coat system that will coat the structural metal and extend its useful life.

39. In this proceeding the Company proposes that Engineered Coating Systems ("ECSs") be fully capitalized, and be depreciated consistent with the service life of the ECS, or twenty years.

40. This proposal is consistent with the regulatory treatment afforded ECSs in many jurisdictions. In every jurisdiction in which an American Water Works Company, Inc. subsidiary operates, ECSs are either capitalized and depreciated or amortized.

41. Currently the Company expenses the cost of ECSs. Capitalization and depreciation over a twenty-year period would have the effect of apportioning ECSs to the users of these ECSs during the lifetime of the ECSs. As other regulatory commissions have done, this Board should approve capitalization of the ECSs. It would provide generational equity.

42. In the pro forma financial statements submitted in this case, the Company has continued to expense ECSs. However, the Company will present schedules supporting recognition of the capitalization of ECSs in its updated pro forma financial statements to be submitted in this case.

43. The Company's proposal is consistent with treasury regulations adopted pursuant to the Internal Revenue Code.

VIII. DEPRECIATION

44. The Company has submitted a complete Depreciation Study in this case.

45. The Company proposes to utilize the depreciation rates proposed by its depreciation witness, John J. Spanos, Senior Vice President of Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming").

46. In prior cases the Company has agreed to incorporate in its depreciation rates, a normalized level of negative net salvage expense.

47. Despite the fact that the normalization method is not appropriate, in order to minimize litigation in this case, the Company has proposed a three-year normalization of negative net salvage.

48. Consistent with a Stipulation and Board Order entered into in Docket No. WR08010020, the Company has been amortizing a Non-Legal Asset Retirement Obligation over a forty (40) year period. However, the Non-Legal Asset Retirement Obligation has now been converted from a regulatory liability to a regulatory asset. The regulatory asset will have a

balance of approximately $125,000,000 at March 31, 2018. This is because actual negative net salvage has exceeded the negative net salvage allowance utilizing the normalization method discussed above. The regulatory asset balance of $125,000,000 should be offset against the then regulatory liability of $36,800,000, resulting in a net regulatory asset of $88,162,000, which the Company proposes to amortize over the remainder of the forty (40) year period established in Docket No. WR08010020. The result will be an annual amortization of $2,922,481.

49. In addition to this amortization, the Company is proposing a number of other miscellaneous amortizations.

IX. CUSTOMER-OWNED LEAD SERVICE REPLACEMENT

50. For public health and safety reasons the Company has embarked on a program to replace customer-owned lead service lines.

51. In Docket No. WF17040402 the Company requested authorization to defer costs incurred to replace these service lines. As of March 31, 2017, the Company has deferred approximately $70,000 and expects this balance to increase to approximately $440,000 by March 31, 2018. This represents the costs associated with the replacement of approximately 115 customer-owned lead service lines.

52. The Company has included the $440,000 in Utility Plant in Service in this proceeding.

53. In this case, the Company proposes that the Board issue an Order to the effect that in the future, for cost of customer-owned lead service line replacements after March 31, 2018, that the Company will be allowed a return of and a return on these investments through its DSIC.

X. CLOUD COMPUTING

54. Cloud computing is the term used to describe off-premises computing solutions. They can include software, platform or infrastructure solutions that are part of a pool of configurable resources made available to individuals and businesses. Cloud computing often allows for a rapid, flexible and efficient deployment of technologies and innovations. It is superior to on-premises solutions.

55. At the meeting of the National Association of Regulatory Utility Commission ("NARUC") a resolution on cloud computing was adopted. The resolution resolved that: "NARUC encourages State regulators to consider whether cloud computing and on-premises solutions should receive similar regulatory accounting treatment, in that both would be eligible to earn a rate of return and would be paid for out of a utility's budget."

56. NJAWC is planning to invest in cloud computing. In this case, NJAWC seeks an Order from this Board that would allow it to capitalize implementation services, internal labor, and other fees (such as those for licenses, maintenance and support) necessary to bring cloud computing into service. The Company proposes that the Order would also authorize NJAWC to amortize the cost of these assets over a five-year period.

XI. REVENUE NORMALIZATION FOR DECLINING USAGE

57. It is now well established that the declining consumption trend among water companies is real and has significant consequences for the Company.

58. The Company will present Gregory P. Roach in this case, who will testify about the long-term and continuing trend toward reduced usage per customer. Mr. Roach's sophisticated analysis demonstrates a continuing annual system-wide decline in usage of 1.54% per year.

59. The Company proposes to normalize revenues in this case, utilizing Mr. Roach's trending analysis.

XII. RATE DESIGN PROPOSAL

60. Petitioner is presenting in this case a fully allocated cost of service study. It was prepared utilizing the base-extra capacity method, as described in the 2012 and prior Water Rates Manuals published by the American Water Works Association.

61. The Company is attempting to moderate increases for public hydrant service. Currently there is a significant under-recovery of the cost to provide public fire service. Nevertheless, the Company proposes an increase to the state-wide rate (Rate Schedule M-1) for public hydrant service of only 2.88% or $1.30 per month, because of sensitivity to these costs borne by local government. For public hydrant rates that are currently less than the state-wide rate, the Company proposes to increase those rates to the proposed state-wide rate or provide an increase of $1.30 per month. All other public hydrant rates that are greater than the proposed state-wide rate will be left unchanged, by virtue of the Company's proposal.

62. Consistent with current recovery methods, the Company proposes to roll in current DSIC surcharges into the monthly fixed charge (customer charge). The Company proposes to increase the customer charge for 5/8 inch meters to $19.00 per month (except for Haddonfield). This will still be significantly below customer cost. In the event that the RSM proposed by the Company in this case is denied, the Company proposes that the fixed charge be set at a level no less than necessary to recover the current proportion of total water revenues recovered as fixed revenues.

63. The Company's rate design proposal is informed by the principal of rate equalization. In future cases, the Company plans to continue rate equalization by closing the gap among volumetric rates for all classes as well as the remaining private and public fire rates.

64. As to wastewater service, the Company proposes to continue its progress toward rate equalization. In this vein, the Company's wastewater rate design proposal equalizes various fixed and volumetric charges, while allocating customer increases to each district that are representative of the level of capital investment since the previous rate case.

XIII. TESTIMONY AND EXHIBITS INCORPORATED HEREIN

65. Attached hereto, and incorporated herein are the following exhibits, along with the schedules and workpapers incorporated therein:

Exhibit	**Witness**	**Area of Responsibility**
Exhibit PT-1.	Robert MacLean	Overview
Exhibit PT-2.	Kevin B. Kirwan	Operations, Staffing Levels, Water and Operational Efficiency Measures, Use of Technology to Facilitate Efficiency and Customer Satisfaction, Performance Measures, Water Quality, Safety, Customer/Community Outreach
Exhibit PT-3.	Donald C. Shields	Utility Plant additions (Committed Construction), Engineered Coating of Steel Structures, Lead Service Line Replacements, Shorelands and Haddonfield Acquisitions, Challenges Resulting from Lower Per Capita Annual Consumption and Higher Peak Seasonal Demands
Exhibit PT-4.	Frank X. Simpson	Summary Statement of Operation and Maintenance Expense, Capital Structure, Comparative Financial Schedules, Balance Sheet and Income Statement for Test Year, APP and LTPP, Depreciation and Amortization Expense, Engineered Coating of Steel Structures, Rate Base

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Exhibit	Witness	Area of Responsibility
Exhibit PT-5.	Dante M. DeStefano	Water, Sewer and Other Operating Revenues and Sales, Tariffs, Purchased Water, Water Diversion, Uncollectibles, Gross Receipts and Franchise Taxes, Water Monitoring Taxes, Rate Case Expense Amortization and BPU/DRC Assessments, Revenue Stabilization Mechanism
Exhibit PT-6.	Scott T. Grace	Management Audit, Property Sales, Rental Expense, Leased Vehicle, Fuel & Maintenance Expense, Postage & Forms, Security, Paving, Audit Fees
Exhibit PT-7.	Charisse L. Cephas	Salary and Wages, Group Insurance, Pension Expense, OPEB Expense, 401K, Defined Contribution Plan, Other Benefits, Payroll Taxes, Charitable Contributions and Lobbying Expense, and Service Company Expenses
Exhibit PT-8.	David L. Weber	Other O&M Expense, Property Taxes, and Federal Income Taxes, Consolidated FIT, and Deferred Federal Income Taxes.
Exhibit PT-9.	Gary L. Akmentins	Power, Chemicals, Waste Disposal - Water Operation, Contract Service-Sewer, Sewage Treatment and Disposal, IOTG, Phone and Cell Phone
Exhibit PT-10.	Gregory P. Roach	Residential and Commercial Customer Usage Trending Analysis, Support for Test Year Revenues Expense Normalization and for Implementation of Revenue Stabilization Mechanism
Exhibit PT-11.	Thomas Shroba	Company’s Non-Revenue Water Program and Its Results
Exhibit PT-12.	Kevin Keane	Operational Benefits of Shorelands Acquisition

Exhibit	**Witness**	**Area of Responsibility**
Exhibit PT-13.	David Forcinito	Operational Benefits of Haddonfield Acquisition
Exhibit PT-14.	Paul R. Herbert	Cost of Service Study and Rate Design
Exhibit PT-15.	Harold M. Walker	Lead Lag Study/Cash Working Capital
Exhibit PT-16.	Paul R. Moul	Capital Structure, Return on Equity
Exhibit PT-17.	Patrick L. Baryenbruch	Service Company Study
Exhibit PT-18.	John J. Spanos	Depreciation Study, Cost of Removal
Exhibit PT-19.	Robert V. Mustich	Performance Compensation
Exhibit PT-20.	Stephanie Cuthbert	Valuation of Haddonfield

Exhibit P-1	Proposed Tariff containing rates to be effective October 17, 2017.
Exhibit P-2	Schedule Nos. 1 through 61, containing schedules supporting this Petition.

XIV. MISCELLANEOUS

66. The Company submits herewith, and incorporates as a part hereof, all documents and exhibits required to accompany such a Petition pursuant to the Board's rules of practice as set forth in N.J.A.C. 14:1-5.12.

67. The Company has proposed various tariff modifications reflected in Exhibit P-1.

68. Notice of this filing and two copies of this Petition are being served upon the Division of Rate Counsel of the State of New Jersey by personal service made on the date of the filing of this Petition. Notice of this filing and two copies of this Petition are being served upon

the Office of the Department of Law and Public Safety by personal service. Both offices will be notified of the time and place of hearing promptly after advice in that regard has been received from the Office of Administrative Law.

69. Notice of this filing and the effect thereof will be served by mail upon the Boards of Chosen Freeholders and County Executive Officers of those counties in the Company's service territory, as well as upon the Clerks of the respective municipalities within the Company's service territory. Such notice will be given at least twenty (20) days prior to the date set for hearing and shall include and specify the time and place of said hearing. The counties and municipalities upon whom service of said notice will be made are shown in NJAWC's tariff.

70. Customers will be notified of this filing, and the effect thereof, together with the time and place of hearing by publication at least twenty (20) days prior to the date set for hearing in newspapers published and circulated within the Company's service territory.

71. Proof of Service of the Notices referred to herein will be served upon the parties and filed with the Board and Office of Administrative Law.

72. The reasons for the proposed increase in rates requested by the Company are as follows:

A. to establish an income level that will permit the Company to finance essential and continuing plant investment;

B. to permit the Company to earn a fair and adequate rate of return on its net investment in used and useful property;

C. to establish rates which will be sufficient to enable the Company, under efficient and economical operation, to maintain and support its financial integrity and to raise such funds as may be necessary for the proper discharge of its public duties;

D. to provide earnings sufficient to attract investors and provide sufficient cash flow to fund the Company's operations; and

F. to enable the Company to continue to provide safe, adequate and proper service to its customers.

73. The rates proposed by the Company are asserted to be just and reasonable.

WHEREFORE, the Company respectfully requests that the Board of Public Utilities find, determine and rule as follows:

A. that the rates presently in effect are unjust and unreasonable;

B. that the proposed rates submitted with this Petition are just and reasonable;

C. that the proposed tariff revisions requested herein and herewith are necessary and reasonable; and

D. that the Company may have such other further relief as requested herein and as the Board may deem reasonable and proper under the circumstances presented to it in this case.

COZEN O'CONNOR
Attorneys for New Jersey-American Water Company, Inc.

By: Ira G. Megdal
Ira G. Megdal

DATED: September 15, 2017

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VERIFICATION

Frank X. Simpson, of full age, being duly sworn, according to law, deposes and says:

1. I am the Senior Director, Rates and Regulation, of New Jersey-American Water Company, Inc., and am authorized to make this Verification on behalf of this company.

2. I have read the contents of the foregoing Petition and hereby verify that the statements therein contained are true and accurate to the best of my knowledge and belief.

Frank X Simpson

Frank X. Simpson, Senior Director, Rates and Regulation

Sworn to and subscribed before
me this 15th day of September, 2017

Ira G. Megdal

Ira G. Megdal
Attorney-at-Law
State of New Jersey