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. WR1709____

DIRECT TESTIMONY OF

DANTE M. DeSTEFANO

Exhibit PT-5

NJAWC WATER COMPANY, INC.

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NJAWC WATER COMPANY, INC.

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

A. My name is Dante M. DeStefano, and my business address is 1025 Laurel Oak Road, Voorhees, New Jersey 08043.

2. Q. By whom are you employed and in what capacity?

A. I am employed by American Water Service Company (hereinafter referred to as the "Service Company") as Director of Rates & Regulatory Operations.

3. Q. What are your responsibilities in this position, and what entities do you address in this testimony?

A. My duties consist of preparing and assisting in regulatory filings and related activities for the Eastern Division of American Water (the "Division"), which includes New Jersey-American Water Company, Inc. ("NJAWC" or the "Company"). My responsibilities include preparing work papers and exhibits, and providing testimony in support of rate applications and other regulatory filings and addressing rate and tariff related matters. NJAWC is the largest Board of Public Utilities ("Board") regulated water and wastewater services provider in the State of New Jersey. The Company's recent acquisitions of the water and wastewater systems of the Borough of Haddonfield and of Shorelands Water Company are included in pro forma amounts.

Finally, along with my regulatory duties, I also have responsibilities for NJAWC in the areas of business planning and financial reporting.

4. Q. Please describe your educational background.

A. I am a 2006 graduate of Rutgers University-Camden with a Bachelor of Science Degree, completing a dual-major in Accounting and Management with a minor in Marketing. I am a licensed Certified Public Accountant in the State of New Jersey, obtaining certification in February 2007.

5. Q. Please outline your business experience.

A. From December 2005 to June 2007 I was employed by Bowman & Company LLP as a Staff Accountant. From July 2007 to February 2008 I held the position of Senior Accountant. At Bowman & Company, I participated in, and later supervised, audits of various municipalities, authorities, non-profits, and school districts. I began my employment with the Service Company's Shared Services Center in February 2008 as a Senior Accountant in the General Accounting department. With the Shared Services Center, my duties included account reconciliations, adjusting journal entries, participating in the month-end close process, and completing quarterly and annual financial statements and disclosures for various subsidiaries. I entered into the Financial Analyst II position with NJAWC in September 2010. In January 2013, I was promoted to the role of Financial Analyst III for the Service Company. In June 2014 I was promoted to Manager of Rates and Regulation, with responsibility for the Northeast Division of American Water. In October 2016 I was promoted to Director of Rates and Regulatory Operations for the Northeast Division (now Eastern Division) of American Water.

6. Q. Have you previously submitted testimony before regulatory bodies?

A. Yes. I have filed testimony and exhibits in support of the Company's Purchased Water Adjustment Clause ("PWAC") and the Purchased Wastewater (Sewerage) Treatment Adjustment Clause ("PSTAC") under BPU Docket Numbers WR11030131, WR12050390, WR12111019, WR13111038, WR14111278, WR15111289, and WR16111065. I participated in the NJAWC base rate filings under BPU Docket Numbers WR11070460 and WR15010035, where I submitted testimony, workpapers, and exhibits covering various expense, tax, and revenue items. I also supplied testimony in New York State Public Service Commission Case 16-W-0259 on behalf of New York American Water's request for changes in rates, covering topics such as pro-forma revenues, rate design, property taxes, and various expenses.

7. Q. What is your area of responsibility in this proceeding?

A. I have prepared, or caused to be prepared, for NJAWC certain exhibits and schedules, which reflect its accounting and financial condition and which support NJAWC's petition for increased rates.

The exhibits and schedules are supported with my direct testimony in the following areas and are all located within Exhibit P-2: Statement of Operating Revenue - Schedules 5-8; Water Diversion expense – Schedule 19; Uncollectible expense – Schedule 39; Purchased Water expense -Schedule 44; Gross Receipts and Franchise Tax and Surtax - Schedules 53 and 54, respectively; BPU/DRC Assessments –

Schedule 55; and Water Monitoring Tax - Schedule 56. I am also supporting Exhibit P-1, the Company's proposed tariff overall. To review a "tracked changes" (blacklined) version of the Company's proposed tariff changes from its current, Board-approved tariff, please see the response SIR-9. Exhibit P-1 includes a proposed Rider B, "Revenue Stabilization Mechanism" ("RSM"), which is discussed further in my testimony below. I am also supporting Schedule DMD-1 – Analysis of Operation of RSM related to Rider B.

8. Q. How has the Company treated the recovery of its purchased water costs and sewage treatment and disposal costs and the associated revenues in this base rate case proceeding?

A. The Company has excluded all purchased water costs and those purchased sewage treatment and disposal costs incurred and paid to third party regional wastewater treatment entities, as well as the revenues generated through the application of the associated Purchased Water Adjustment Clause ("PWAC") and Purchased Sewerage Treatment Adjustment Clause ("PSTAC") rate schedules. All of the Company's projected purchased water and aforementioned wastewater treatment and disposal costs are recovered through the PWAC and PSTAC mechanisms, respectively. Accordingly, the Base Rate Case filed herein reflects: (1) total pro forma revenues predicated on the application of all tariff rate schedules, with the exception of the PWAC and PSTAC Rate Schedules, to all projected billing units, and (2) the total cost of providing water and sewer service, with the exception of those costs just described.

9. Q. Mr. DeStefano, has the Company included certain third party sewage treatment and disposal costs and purchased water costs on Exhibit P-2, Schedules 44 and 45, respectively, herein? Please explain these costs.

A. No, as to Schedule 44 – Purchased Water. While Schedule 44 reflects Base Year costs of $36.056 million, pro forma expense is $0 for the reasons discussed in the responses to the preceding question. Schedule 45 solely reflects sewage treatment and disposal costs that will be incurred by the Company's wastewater treatment facilities in the former Applied wastewater systems, as well as the Pottersville and Jensen's Deep Run systems. The Applied, Pottersville, and Jensen's Deep Run systems are full treatment facilities, not collection facilities like Ocean City, Lakewood, Elk, Adelphia and Haddonfield.

10. Q. Why are these costs included in this base rate filing rather than in the Company's PWAC and PSTAC filings?

A. Sewage treatment and disposal costs associated with the Company's treatment facilities are incurred in-house via our ownership and operation of the wastewater treatment plants, as compared to a collection facility, where we transport the sewage to a regional authority (*e.g.*, Ocean County Utilities Authority) as is currently done in connection with the Company's Ocean City, Lakewood, Adelphia and Haddonfield wastewater collection operations. Accordingly, these costs are not eligible to be recovered through the PSTAC. As Haddonfield sewage treatment and disposal is performed by the Camden County Municipal Utilities Authority, and charges are billed directly to the customer and not charged to the Company, no

Haddonfield wastewater treatment and disposal costs are in the pro forma totals, except for instances where certain customers, via Borough of Haddonfield ordinance, are not to receive sewer charges. Company Witness Akmentins supports Schedule 45, Sewage Treatment and Disposal Costs, in his direct testimony, Exhibit PT-9.

11. Q. Mr. DeStefano, prior to beginning your discussion of Exhibit P-2, Schedules 5 to 8, please outline the overall structure of these Schedules and explain how the Districts (*i.e.* Service Areas ("SA")) delineated therein relate to the numerous Rate Schedules ("R.S.") currently contained in the Company's tariff.

A. In 1996, at the conclusion of its rate case, BPU Docket No. WR95040165, the Company achieved statewide Single Tariff Pricing for all customers who were provided with General Metered Service and Public Fire Protection Service. A rate plan was also developed with a purpose of achieving Single Tariff Pricing for Private Fire Protection Service over several future rate cases. The Private Fire Service rate schedules subject to that plan were equalized in 2007 at the conclusion of the Company's rate case, BPU Docket No. WR06030257. The Company acquired a number of water systems since Single Tariff Pricing was implemented in 1996, which, through rate phase-ins approved by the Board over time, have either been incorporated into the Company's statewide rate schedules or are nearing realization of such. In the instant case, the Company's rate proposals continue that process for General Metered Service water operations. For the sewer treatment facilities - not the sewer collection facilities - the Company made significant

progress in moving toward a statewide rate structure in BPU Docket No. WR15010035. I will discuss the Company's proposal to further moving toward a statewide rate structure in detail later in my testimony.

In the Company's proposed tariff filed herein as Exhibit P-1, on Sheet No. 21, "Area Served-Water Service", the Company's Statewide Tariff Area is identified as SA-1, while the Somerset/Mercer & Union/Middlesex Districts are identified as SA-2, the Mount Holly District as SA-3, the Harrison District as SA-1A, the Pennsgrove District as SA-1B, the former Shorelands Water Company District as SA-1C, the former Applied water service areas as SA-1D, and the Haddonfield District as SA-1E. Sheet No. 26 details the applicable Water Service Rate Schedules. While we recognize that these Service Area and system designations are administratively burdensome and a potential source of confusion to customers and employees alike, until full Single Tariff Pricing is once again achieved through the application of appropriately designed rate phase-in plans, these designations will continue to be necessary. Similar to Sheet No. 21 for Water Service, Sheet No. 79, 'Area Served–Wastewater Service' details the systems, and Sheet No. 80 details the Rate Schedules applicable to the Company's provision of Wastewater Service.

12. Q. Mr. DeStefano, will you please explain in detail Schedule 5 of Exhibit P-2, "Statement of Operating Revenues – Water and Sewer Service Under Present and Proposed Rates utilizing a March 31, 2017 Base Year, a March 31, 2018 Test Year and a September 30, 2018 Post Test Year."

NJAWC WATER COMPANY, INC.

A. Exhibit P-2, Schedule 5 consists of four pages. Page 1 is a summary of the detail provided in Pages 2 through 4, all of which reflect the Company's Statement of Operating Revenues Under Present and Proposed Rates for the Company in total, and summarized by general service classifications (*e.g.*, General Metered Service, Private Fire Service, etc.). The summary categories provided on Page 1 are as follows: "Total Water Service Revenues", which is the Company's total operating revenues from all water service including water service related Other Operating Revenues and the Distribution System Improvement Charge ("DSIC"); "Total Sewer Service Revenues" which summarizes the Company's provision of sewer service (and associated Other Operating Revenues), the locations of which are detailed on Page 4. As shown on line 24 of Page 1, total Base Rate (excluding PWAC & PSTAC, including DSIC) Operating Revenues for the Company are $684,710,931 under Present Rates and $814,037,815 under Proposed Rates.

Pages 2 - 4 of Exhibit P-2, Schedule 5 are the detailed Statements of Operating Revenues for specific service classifications as follows: Page 2 contains Metered Water Service (General, Optional Industrial Wholesale ("OIW"), and Sales for Resale), associated Other Water Operating Revenues, and DSIC for all service areas; Page 3 lists Fire Protection Water Service, Private and Public for all service areas; and Page 4 lists Sewer Service (Metered and Flat Rate) and associated Other Sewer Operating Revenues for all service areas.

The column headings on each of the four pages of Exhibit P-2, Schedule 5 are identical; therefore, the explanation that follows for each column applies equally to the summary pages and each of the specific service classification detail pages. Column (1) reflects the actual revenues, including billed (Base Rates and PWAC/PSTAC) and unbilled, recorded on the Company's books by service classifications for the twelve months ended March 31, 2017 (Base Year). For the Company in total, actual booked revenues were $740,576,889 for that period (Schedule 5, Column (1), Line 24, Page 1). For any Base Year amounts in this case, including Column (1) on Schedule 5, the Shorelands District's operations are included, although the acquisition of the water system occurred as of April 3, 2017. Column (1) does include $53,964,041 of actual PWAC and PSTAC revenues resulting from the PWAC and PSTAC rates that were in effect during the Base Year. That amount is eliminated in Col. 2 since, as stated previously, pro forma revenues beginning in Column 3 and thereafter reflect Base Rate revenues only.

13. Q. Mr. DeStefano, please continue with your explanation of Exhibit P-2, Schedule 5, regarding the pro forma revenues set out in Column (3).

A. Column (3) represents the starting point in the development of the Company's total pro forma present rate revenue level. It reflects normalized "full reflection" revenues. "Full reflection" means the amounts in Column (3) are predicated on the application of present Base Rates, effective September 21, 2015 (inclusive of the estimated DSIC revenues contained in the Company's 4th semi-annual DSIC filing, to be filed in October 2017, as well as Haddonfield Water (page 2) and Haddonfield

Sewer (page 4), based on the rates set by the Borough of Haddonfield effective January 1, 2014, and Shorelands Water based on the rates set in BPU Docket No. WR14080905) to the following for Water Service: (i) the actual number of bills as determined by the bill analyses for the twelve months ended March 31, 2017 (Base Year), and (ii) normalized or actual consumption data, as detailed later in this testimony. Also included in Column (3) are pro forma revenues predicated on the application of present Base Rates to annualized bill and sales data associated with OIW and all Sales for Resale Service offerings: Commodity-Demand, Service to Other Systems, Off-Peak Demand, Manasquan Service, and Regular Sales For Resale (Resale Service at General Metered Service rates and Peaking Service rates where applicable).

Column (4) reflects pro forma adjustments made to annualize the revenue impact of customer growth experienced during the Base Year – the twelve months ended March 31, 2017.

Column (6) reflects pro forma adjustments to project annualized revenues for normal customer growth anticipated to occur from the end of the Base Year through the end of the Test Year (March 31, 2018).

Column (7) reflects pro forma adjustments to project annualized revenues for normal customer growth anticipated to occur for the 6-month period from the end of the Test Year through the end of the Post Test Year (September 30, 2018).

The pro forma present rate revenue customer growth adjustments for the Base Year, Test Year and Post-Test Year included in Columns 4, 6, and 7 of Schedule 5 are detailed on Exhibit P-2, Schedules 6, 7 and 8. These adjustments, as well as adjustments to normalize or annualize consumption, will be discussed in detail later in my testimony.

Workpapers in support of all of the Company's pro forma revenues are provided in SIRs 14, 15, 16 and 17.

SEWER SERVICE: PRO FORMA REVENUES

14. Q. What is the basis for pro forma normalized present rate revenue as shown in Column (3), Exhibit P-2, Schedule 5, Page 4, for the Adelphia, Lakewood/Elk, and Ocean City sewer operations?

A. Pro forma present rate revenue for Adelphia Sewer reflects the annualization of normalized water sales based upon a five-year average of the annual average usage per customer experienced for each calendar year 2012 through 2016 applied to the average number of customers for the Base Year, the twelve months ended March 31, 2017. Please refer to the Summary of Bill Analysis provided in response to SIR-14, Workpaper 5S, Page 1 of 6, and Workpaper 5T, Page 1 of 6.

Pro forma present rate revenue for Lakewood and Elk Township Sewer reflects the annualization of normalized Winter Quarter water sales based upon a five-year average of the average usage per customer experienced for each Winter Quarter 2013 through 2017 (Base Year ended March 31, 2017 for Elk), applied to the

average number of customers during the Winter Quarter 2017. Winter Quarter usage is determined based on the sum of water meter readings taken in January, February and March. The Winter Quarter usage as developed above was adjusted to include incremental additional billable usage associated with the minimum monthly usage constant of 2,000 gallons. Please refer to the Summary of Bill Analysis for all Lakewood/Elk customers provided in response to SIR-14, Workpaper 5S, Page 2 of 6, and Workpaper 5T, Page 2 of 6.

Ocean City Sewer present rate revenue reflects normalized water sales based upon a five-year average of the average usage per customer experienced for each Summer Quarter 2012 through 2016 applied to the average number of customers during the 2016 Summer Quarter. Summer Quarter water consumption (sum of the water meter readings taken in July, August and September) is the basis upon which the Annual Sewer Service Charge, representing approximately 90% of each customer's sewer bill (including PSTAC), is determined. The Sewer Usage Charge portion of Ocean City Sewer's tariff schedule, which is applied to the customer's current period usage and produces the remaining approximately 10% of annual revenues, reflects normalized water sales based upon a five-year average of the annual average usage per customer experienced 2012 through 2016 applied to the average number of customers for the 2016 Summer Quarter. Please refer to the Summary of Bill Analysis for all Ocean City customers provided in response to SIR-14, Workpaper 5S, Page 3 of 6, and Workpaper 5T, Page 3 of 6.

15. Q. What is the basis for pro forma normalized present rate revenue as found in Column (3), Exhibit P-2, Schedule 5, Page 4, for the Applied, Jensen's, and Pottersville (i.e., Statewide Sewer) sewer service systems?

A. Pro forma present rate revenue for Statewide Sewer volumetric customers reflects the annualization of normalized water sales based upon a three-year average of the average usage per customer experienced for each Winter Quarter 2015 through 2017, applied to the average number of customers during the Winter Quarter 2017. Pro forma revenues for the flat rate billed customers are predicated upon the application of the present flat rates to those customers. The Winter Quarter usage as developed above was adjusted to include incremental additional billable usage associated with the minimum monthly usage constant of 2,000 gallons. For Lynwood Farms and Statewide Flat Rate sewer, Base Year usage and customer counts, respectively, were used to calculate present rate revenues. Please refer to the Summary of Bill Analysis for all Statewide Sewer customers provided in response to SIR-14, Workpaper 5S, Page 4 of 6, and Workpaper 5T, Page 4 of 6.

Lastly, Page 6 of Workpaper 5S is the Bill Analysis for Other Contract Sewer Services provided within the Applied sewer service area, which is delineated on Schedule 5, Page 4, line 12, "Other Contract Services". Please see Workpaper 5T, Page 6 of 6 for the detailed support of the pro-forma present rate revenues.

16. Q. What is the basis for pro forma normalized present rate revenue as found in Column (3), of Exhibit P-2, Schedule 5, Page 4, for the Borough of Haddonfield's Sewer system?

A. Pro forma present rate revenues for the Borough of Haddonfield's Sewer system utilize a two-year average of the 12 months ended May 2016 and May 2017 usage, allocated to the effective block sizes/rates. The block sizes/rates shown are consistent with Haddonfield's rate structure in effect as of January 1, 2014, with the blocks converted from quarterly to monthly billing levels, and rounded up to the nearest 100 gallons (*i.e.*, in the customer's favor). Please refer to the Summary of Bill Analysis for Haddonfield customers provided in response to SIR-14, Workpaper 5S, Page 5 of 6.

17. Q. Is the Company proposing any changes to wastewater tariffs regarding how the customer bill is calculated?

A. Yes. The Company is proposing to transition from meter size-based fixed charges to a base fixed charge for R.S. 3-A, Adelphia sewer. The proposed fixed charge of $8.54 per customer per month is a 50% increase over the current 5/8" fixed service charge in effect for R.S. 3-A. This transition, in conjunction with a decrease in proposed volumetric rate for the Rate Schedule, results in an increase of 1.49% for a customer using 4,000 gallons per month, yet has the effect of moving significantly toward equalization of sewer rates.

The Company is also proposing to introduce a fixed service charge for R.S. 11-A, Haddonfield sewer. Currently, this rate schedule charges customers for volumetric sewer equal to metered water usage for the applicable billing period, allocated across up to three billing rate blocks. The Company proposes to implement a base fixed charge of $5.50 per customer per month, while adjusting the three block rates applicable to the Rate Schedule. When including the current Camden County Utilities Authority quarterly charge of $88 per EDU for disposal service, the proposed impact to Haddonfield sewer customers is an increase of 12.64% per residential customer using 6,000 gallons per month. The base fixed service charge is needed to recover fixed costs in providing service and make necessary movement toward equalized statewide sewer rates.

18. Q. How were the proposed revenue increases for sewer service apportioned in this case?

A. As noted in Company Witness Herbert's testimony, the present rate revenues of $19,984,099 for all sewer service areas are below the cost of service by approximately $7,327,314. The Company is proposing that approximately half of this revenue requirement shortfall, or $3,663,657, be recovered from GMS water customers, bringing the total proposed revenue increase for sewer service to approximately $3.66 million. The Company is proposing this increase be allocated to the sewer tariff rate groups with two primary factors in mind: Make progress toward consolidated sewer rate schedules, and allocate increases which mirror the level of capital improvements placed in-service since the Company's last base rate

case. The Company has equalized the volumetric charges for Lakewood Sewer and Adelphia Sewer and made progress toward equalizing the fixed charges for Lakewood, Elk, Haddonfield, and Adelphia Sewer. As mentioned, the level of rate impact to each tariff group mirrors the capital improvements – that is, those sewer systems who received more capital improvements have higher proposed rate impacts. Please refer to the Summary of Bill Analysis provided in response to SIR-14, Workpaper 5S, Pages 1 through 5 of 6 for the detail of this rate structure proposal.

19. Q. Mr. DeStefano, are work papers supporting the Schedules 5 through 8 of Exhibit P-2, for which you are responsible, available?

A. Yes. As previously described, workpapers have been supplied to the parties in response to SIRs 14 through 17.

WATER SERVICE: PRO FORMA REVENUES

20. Q. Please describe what is meant by "normalized consumption data" and why it is utilized in the development of pro forma revenues.

A. For NJAWC and its predecessor companies, prior to approximately 1992, pro forma metered service revenue was calculated based solely upon a single historical period of consumption, *i.e.* the Base Year. Because consumption can fluctuate significantly from year to year, a decision was made to normalize consumption data in an effort to more accurately project the water sales level upon which pro forma revenues in the rate case proceeding are to be developed.

While many factors can influence customer usage patterns and consumption levels over time, the single most significant factor that can influence usage on a year-to-year basis is weather.

Clearly, a relationship exists between consumption for Residential and Commercial customers as a class and variations in weather conditions, particularly with respect to temperature and rainfall patterns during spring and summer months. In addition to variations in weather patterns, other factors that can influence customer usage include the more wide-spread utilization of more water efficient fixtures and appliances, conservation ethic of customers, the Company's conservation programs, ease of customer access to weather forecasts via smartphones and other technology, and the cost of water service itself, i.e. price elasticity.

When setting rates, the objective should be to develop pro forma operating revenue predicated upon the level of water consumption that best represents what can reasonably be expected to occur during the period that the rates established by the proceeding will be in effect. Use of consumption data from any single randomly chosen twelve-month period, or from stale or very limited data is unlikely to be reflective of that water consumption because of the influence of the above described factors on consumption.

Accordingly, in order to develop pro forma revenue in this proceeding, consumption has been normalized for the Residential and Commercial customer classes. For the Company's Statewide Service Tariff (R.S. A-1), SA-2/SA-3/SA-1A

Tariff (R.S. A-3), Manville/SA-1D Tariff (R.S. A-5), and Pennsgrove Tariff (R.S. A-10), the Company has normalized consumption for residential customers, as well as commercial customers for R.S. A-1 and A-3, based on a customer water usage trends analysis prepared by Company Witness Roach and presented in Exhibit PT-10. I describe below the basis upon which I've normalized usage for Residential and Commercial customers in the Company's remaining Rate Schedules as well as for the Industrial, Other Public Authorities and Sales For Resale customer classes, which Exhibit PT-10 does not address.

21. Q. Mr. DeStefano, please describe in detail the basis of the normalized consumption used to develop pro forma revenues in this proceeding.

A. As noted above, R.S. A-1 Residential and Commercial, R.S. A-3 Residential and Commercial, R.S. A-5 Residential, R.S. A-8 Residential, and R.S. A-10 Residential usage per customer is based on a customer water usage trend analysis prepared by Company Witness Roach, who separately analyzes Base customer usage and Non-Base or Seasonal usage. The result of his analysis for NJAWC is summarized in Schedule GPR-1 to his Exhibit PT-10. A trendline of Base usage is developed with the trendline representing the change in usage per customer over time. Schedule GPR-1 depicts the Base Trend Usage at March 31, 2018. Company Witness Roach also depicts the total trend, inclusive of the Non-Base or Seasonal Usage per customer per year. Total Usage per customer per year is the sum of the Base Trend and Non-Base or Seasonal Usage, and for R.S. A-1 Residential at March 31, 2018 the total is 70,728 gallons per customer per year. Table GPR-1A in Company

Witness Roach's testimony also summarizes the annual usage decline per customer for each of these classes and R.S.'s. For example, R.S. A-1 Residential is 912 gallons per customer per year. Since rates are being set in this proceeding for a future rate period, it is imperative to capture usage per customer for that time period. I've utilized the annual customer usage declines provided in Table GPR-1A to project normalized usage per customer at July 31, 2019, which is an estimate of the first year rates will be effective from this proceeding. For R.S. A-1, Residential Total Usage per Customer per Schedule GPR-1 is 70,728 gallons per year for the 12 months ending March 31, 2018 and is declining at 912 gallons per year. At July 31, 2019 total usage is 69,512 per customer per year, based on reflecting a further 16 months (or 1.333 years) of the 912 gallons of annual decline. Please see SIR-14, Workpaper 5B, Pages 1 through 5, for the supporting calculations.

22. Q. Mr. DeStefano, please continue with your description of the basis of normalized consumption used to develop pro forma revenues in this proceeding.

A. Residential and Commercial Rate Schedules not noted above were normalized as follows: For Residential usage on R.S. A-11 and Commercial usage on R.S.'s A-5, A-8, A-10, A-11, A-14, a 5-year average of 2012-2016 usage was utilized. For Residential and Commercial usage on R.S. A-15, a two- year average of 12 months ending May 2016 and May 2017 usage was utilized. The Residential usage per customer amounts were then declined at a conservative 1% per year to the 12 months ended July 31, 2019. The Commercial usage per customer amounts are not

adjusted for a decline. Please see SIR-14, Workpaper 5B, Pages 3-8, for the supporting calculations.

The Base Year usage has been utilized as the basis for pro forma revenue for sales to the Industrial (excluding OIW) and Other Public Authorities customer classes, as these classes do not have significant variability from year to year. Additionally, annualized and normalized (or contractual if applicable) water sales levels were used to develop the pro forma revenues for the Sales For Resale customer class. For the Haddonfield District, a two-year average of 12 months ending May 2016 and May 2017 usage was utilized.

23. Q. Directing your attention to Exhibit P-2, Schedule 5, please explain Column (2) "Base Year Pro Forma Normalization/Annualization Adjustments."

A. This column arithmetically is the difference between Columns (3) and (1). These adjustments show that the level of sales (and/or the type of water service) provided during the Base Year is not representative of the pro forma period. As previously discussed, please refer to the workpapers provided in SIR 14, which provide the calculations of normalized usage per customer for the Residential and Commercial classes and detailed pro forma Sales For Resale customer usage. Column (1) shows actual revenue recorded on the Company's books for the Base Year, the twelve-month period ending March 31, 2017. Column (3), "Base Year Pro Forma Normalized/Annualized Revenues" under present Base Rates however, does reflect normalized consumption data utilizing the methodologies described above. In

addition, Column (2) reflects the impact of eliminating changes in accrued utility revenue, removal of PWAC and PSTAC revenues recorded during the Base Year, and inclusion of DSIC revenues consistent with the anticipated 4th semi-annual DSIC filing to be submitted by 10/15/2017.

24. Q. Mr. DeStefano, are there other adjustments to the Base Year included in Column (2) different from those you have just described?

A. Yes. I've reflected normalized and annualized bill and sales data associated with the Sales for Resale customer class.

25. Q. Prior to your discussion of the Sales for Resale class, please describe OIW service and its associated Rate Schedule.

A. OIW service has specific minimum usage and load factor requirements and as such, has its own rate schedule reflecting those requirements. In accordance with R.S. "F", these customers must use at least 9,350,000 gallons per month and have load factors not in excess of 1.2 times their monthly consumption on an average daily basis. Pro forma revenue is based on a five-year average of 2012-2016 usage, and the bill analysis summarizes the fixed service charge and pro forma usage detailed between non-exempt and exempt customers. Exempt customers are public utility corporations that are entitled to statutory relief pursuant to N.J.S.A. 54:30A-50, *et. seq.* from the payment of rates that include Gross Receipts and Franchise Taxes, that is, they are customers who receive the Company's Tariff Exempt rates. NJAWC does not have to collect these taxes or pay these taxes to the State of New

Jersey based upon revenues received from Exempt customers. Pro forma OIW revenues in this case include sales to six (6) customers provided OIW service.

26. Q. Please explain the various water service offerings available to the "Sales For Resale" customer class.

A. Currently, NJAWC provides service to this class through eight separate service offerings: General Metered Service (referred to as "Regular Sales For Resale") which service may also be subject to the Company's "Peaking Service-R.S. "H"; Commodity-Demand Service ("CD"); Off Peak Demand Service ("OP"); Service to Other Systems ("SOS"); Manasquan Service ("Manasquan"); Manasquan-Keyport Service ("Keyport"); and Emergency Backup Bulk Sales for Aberdeen ("Aberdeen").

27. Q. Please describe each Sales For Resale service offering.

A. Regular Sales For Resale service has always been available as a sales for resale service offering. The rate for such service is based on the NJAWC's General Metered Rates Schedules (R.S. A-2 (SA-1) and A-4 (SA-2)). The water charge rate applicable to the Regular Sales For Resale service presently is approximately $.05 per 1,000 gallons less than the General Metered Service volumetric rate because a tax, commonly referred to at the Water Monitoring Tax, and the cost of the Company's low income payment assistance programs, are not applicable to water sales for resale customers. Pro forma revenues in this proceeding includes sales to nine customers provided Regular Sales For Resale service (SIR -14, Workpaper 5,

pages 12 and 14), all of which were taking service during the Base Year. Seven of the nine customers have a contract for service that contains an Annual Purchase Requirement ("APR"). The purchases of three of these nine customers, under the terms of its contract, may in part be subject to the Company's Peaking Service rate. In fact, a portion of these customers' pro forma purchases have been reflected at Peaking Service rates in this case. Emergency Backup Bulk Sales for Aberdeen (R.S. "I") functions similarly to the Regular Sales For Resale; However, since the Aberdeen contract was acquired in the Shorelands acquisition, the effective present rates are different. Please see SIR-14, Workpaper 5, pages 12 and 14.

Manasquan Service (R.S. "E") was established for service effective July 1, 1990. Manasquan Service is available to Sales For Resale customers who have executed Manasquan Reservoir Water Supply System Water Purchase Contracts with the New Jersey Water Supply Authority (for the raw water) and include those customers (1) whose purchases of water and rates of flow are in accordance with the provisions of Appendix A of the Manasquan Service Rate Schedule; or (2) who have executed a Water Resale and Treatment Agreement ("Agreement") with NJAWC (for transporting the raw water and for treatment and distribution services). The requirements for the provision of Manasquan Service under either Appendix A or the Agreement are structured around an Annual Purchase Period ("APP") that is comprised of the twelve-month period beginning July 1 of one year and ending June 30 of the following year and also includes an Annual Purchase Requirement ("APR"), which is a minimum quantity of water made available by the Company on

a take-or-pay basis. Pro forma revenues include sales to five Manasquan Service customers. The Manasquan Service – Keyport (R.S. "J") operates similarly to the above R.S. "E": However, since the Keyport contract was acquired in the Shorelands acquisition, the effective present rates vary from R.S. "E".

Commodity-Demand Service (R.S. "C") was first established in NJAWC's BPU Docket No. WR98010015 (1999), wherein the BPU approved the establishment of the rate schedule and the form of contract applicable to this service offering. Commodity-Demand Service basically consists of a Purchaser's selecting a Nominated Demand, which is a take-or-pay rate of flow NJAWC must have continuously available at any and all times throughout a daily period. Commodity-Demand Service is provided on a year-round basis. Pro forma Commodity-Demand revenue reflects service to 22 contractual customers, all of which were purchasing water during the Base Year.

Off-Peak Demand Service (R.S. "D") is a service offering that for some meets their needs better than traditional Commodity-Demand Service. The principal difference between Commodity-Demand Service and Off Peak Demand Service is that the time period during which the Nominated Demand is effective is different. In Off-Peak Demand Service contracts, water is made available by the Company only during the Company's Off-Peak service period consisting of the 212 days (7 months) between October 1 of one year and April 30 of the following year. Base Year Off-Peak Demand revenue included service to four customers.

Service to Other Systems ("SOS") (R.S. "G") is a contractual Sales For Resale service that requires each purveyor to establish a minimum purchase requirement in million gallons per day ("MGD"). Pro forma SOS revenue includes sales to five customers.

28. Q. How were the pro forma revenues developed for the Sales For Resale customer class?

A. Pro forma revenues are predicated on the application of present rates to annualized and normalized bill and sales data associated with customers under each of the service offerings and are detailed below.

Pro forma sales from the provision of Manasquan Service and Keyport are based upon the APR of each customer with the exception of the Borough of Lake Como ("Lake Como"). Pro forma sales for Lake Como are predicated upon actual sales from the Base Year ended March 31, 2017. Lake Como, unlike the other Manasquan Service customers, relies entirely on NJAWC year-round for its water supply. Therefore, this Borough routinely exceeds the maximum monthly limitations and the APR provided for in its contract with the Company. Consistent with the contract, Lake Como's purchases within the contract's Uninterruptible Service limitations are priced at the Uninterruptible Manasquan Service rate and purchases in excess of the contract limitations are priced at NJAWC's Regular Sales For Resale Service rate per R.S. A-2. The rates applicable to Manasquan Service

are contained on R.S. "E" of the NJAWC tariff. See also SIR-14, Workpaper 5, page 13 and 13a.

Pro forma sales from the provision of Commodity-Demand Service are predicated upon annualizing each purchaser's contractual Nominated Demand. Virtually all Commodity-Demand Service customers have executed the optional addendum to the Commodity-Demand contract. In accordance with the addendum, the Company assumes responsibility for delivering a rate of flow consistent with the purchaser's Nominated Demand. This ensures that purchasers who have executed the addendum do not inadvertently exceed their Nominated Demands. Accordingly, for pro forma revenue purposes, the monthly Demand rate has been applied to each purchaser's Nominated Demand and then annualized, while the Commodity rate has been applied to the annualized Nominated Demand volume of water. The rates applicable to Commodity-Demand Service are contained on R.S. "C" of NJAWC's tariff. See also SIR-14, Workpaper 5, pages 10 through 10c.

Pro forma sales from the provision of Off-Peak Service are predicated upon annualizing (for the 7 months or 212 days of the Off-Peak service period) each purchaser's contractual Off-Peak Demand. Like the Commodity-Demand agreement, an optional addendum, if executed by the purchaser, places responsibility on the Company for controlling the rate of flow to the purchaser. This ensures that the purchaser's Off-Peak Demand is not inadvertently exceeded. For pro forma revenue purposes, the monthly Off-Peak Demand rate has been

applied to each purchaser's contractual Off-Peak Demand and annualized for the seven-month Off-Peak service period, while the Commodity rate has been applied to the Off-Peak Demand volume of water annualized for the 212-day Off-Peak service period. Purchases outside the Off-Peak period are non-guaranteed, as-available only and are not included in pro forma revenue. The rates applicable to Off Peak Demand Service are contained on R.S. "D" of NJAWC's tariff. See also SIR-14, Workpaper 5, page 11.

Pro forma sales from the provision of SOS service are based on a five-year average of 2012-2016 consumption and a comparison of that usage to the contract minimums. To determine pro forma revenues, I utilized the higher of the five-year average or the contractual minimum. The rates applicable to SOS Service are contained on R.S. "G" of NJAWC's tariff. See also SIR-14, Workpaper 5, page 12.

Pro forma sales from the provision of Regular Sales For Resale Service and Emergency Backup Bulk Service are predicated upon either: (1) the contractual APR, for those customers in this group who purchase under Regular Sales For Resale Service contracts (Livingston Township, Moorestown Borough, East Hanover Township, and Elk Township MUA); or (2) the five-year average of actual annual sales from 2012 to 2016 for purchasers whose (i) contract does not contain an APR (Hopewell, Rahway, City of Orange), (ii) routinely exceed their APR's (Essex Fells, Aberdeen), or (iii) who rely on the Company for 100% of their supply requirements (Middle Township Water District #2, Winfield Park). The rates

applicable to Regular Sales For Resale Service are contained on R.S. A-2 (SA-1) or A-4 (SA-2) of NJAWC's tariff, as well as R.S. H for usage subject to Peaking Charge, and the rates for Emergency Backup Bulk Service are contained in R.S. I. See SIR-14, Workpaper 5, pages 12 (SA-2) and 14 (SA-1 and SA-1C).

29. Q. Please explain how you have incorporated DSIC revenues into the pro forma present rate revenues on Exhibit P-2, Schedule 5.

A. Per the Company's Foundational DSIC filing, Docket WR15060724 approved by Board Order on September 11, 2015, the Revenue Requirement Recovery Amount equals $32,570,922, which is equal to the 5% cap on water revenues available to the Company. The Company anticipates reaching this 5% revenue cap with its 4th semi-annual filing, to be submitted by October 15, 2017. The DSIC charge is billed to customers as a fixed charge based on the meter size servicing the customer. The estimated rates for the 4th DSIC filing have been added to the base rate meter charges, where applicable. This has the effect of allocating the DSIC revenues across the Metered Service Revenue customer classifications on Exhibit P-2, Schedule 5, page 2. As there is a variance in estimated meter counts in the 4th DSIC filing and as utilized for pro forma present rate revenues, the difference in allocated DSIC revenues across the metered service classifications and the revenue requirement of $32,570,922 has been reconciled on line 41 of Exhibit P-2, Schedule 5, page 2, in order to apply only the appropriate revenue requirement to pro forma present rate revenues. Please refer to SIR-14, Workpaper 5, pages 1 to 14, to view

the DSIC-included meter charges used in calculating the pro forma present rate revenues.

30. Q. Is the Company proposing any other recommendations in this filing regarding DSIC?

A. Yes. The Company is recommending that the present DSIC revenues be approved as part of this base rate proceeding and rolled into base rates, consistent with N.J.A.C. 14:9-10.4 (6). This allows the Company to reset its DSIC rates (NJAWC Tariff R.S. "K") to $0 when this base rate filing is effective. The Company will submit a Foundational Filing separately from this base rate filing, and recommends concurrent approval of base rates and the Foundational Filing, per N.J.A.C. 14:9-10.4 (6)(c).

31. Q. How is the Company proposing to treat the assets that generated that Revenue Requirement Recovery Amount of $32,570,922 in this rate case?

A. The assets related to the DSIC program have been rolled into Total Water pro forma rate base, on Exhibit P-2, Schedule 58.

32. Q. Have you included any other adjustments in pro forma water sales and revenues as compared to the actual Base Year level?

A. Yes. The Company has three current customers who qualify for service under the Company's Economic Development Tariff (Rider A) and have been receiving discounted volumetric water pursuant to this Rider. The customers' pro forma usage and discount rate are detailed on SIR-14, Workpaper 5D, page 1 of 1.

33. Q. Please continue your discussion of Exhibit P-2, Schedule 5, starting with Column (4).

A. Column (4), entitled "Base Year Customer Growth", reflects the annualization of revenue for those customers added during the twelve months ended 3/31/2017, the period of the bill analysis (Base Year). Column (5) on Exhibit P-2, Schedule 5 therefore (sum of Cols. 3 and 4) includes the sum total of the normalized and annualized revenue of each and every customer that received service during the Base Year.

Column (6), entitled "Test Year Customer Growth", reflects the additional annual revenue that will be generated from estimated normal customer growth projected to occur through the end of the Test Year, March 31, 2018.

Column (7), entitled "Post Test Year Customer Growth and Extraordinary Adjustments", reflects the additional annual revenue that will be generated from estimated customer growth projected to occur during the six-month period between the end of the Test Year, March 31, 2018, and the end of the Post Test Year, September 30, 2018. Column (8) on Exhibit P-2, Schedule 5 therefore includes the sum total of the normalized and annualized revenue of each and every customer projected to be receiving service at the end of the Post Test Year, September 30, 2018. The detail of these water and sewer service growth adjustments, as well as the growth adjustments for private and for public fire protection service, are found on Schedules 6, 7 and 8, respectively, of Exhibit P-2.

Columns (8) and (9) of Exhibit P-2, Schedule 5, therefore, represent total pro forma present rate revenues and total present rate revenue adjustments, respectively, delineated by service classification.

Finally, Columns (10), (11) and (12) of Exhibit P-2, Schedule 5 represent total pro forma proposed rate revenues, the total proposed rate revenue adjustments and the proposed increases, respectively, delineated by service classification. These revenues are supported by the Company's proposed tariff, which I'm sponsoring, and which has been filed as Exhibit P-1 in this case. The rate design underlying the proposed water and fire service rates in this case are discussed by Company Witness Herbert in Exhibit PT-14.

34. Q. Please explain Exhibit P-2, Schedule 6, "Customer Increase Adjustment - Sales to General (water and sewer service) Customers".

A. Schedule 6 summarizes, along with details in Notes 3, 4 and 5 to the Schedule, the basis and mechanics utilized to develop the customer increase adjustment for sales to water and sewer service customers. Specifically, Schedule 6 develops the customer growth revenue adjustments which are added to pro forma present rate revenue as developed by the bill analyses. Growth in the number of customers is calculated for the following periods: the Base Year (twelve months ended March 31, 2017); and thereafter, for the twelve months through the end of the Test Year, March 31, 2018; and again thereafter for the six months through the end of the Post Test Year period, September 30, 2018.

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The Base Year, Test Year, and Post Test Year customer growth revenue adjustments are calculated using the normalized average annual revenue per customer for "Residential" and "Other" customer categories. Column (3) of Schedule 6 reflects the normalized average annual revenue per customer, by customer category, and is calculated by dividing normalized, full reflection present rate revenues (Column (1)) by the average number of customers (Column (2)). Pro forma normalized full reflection present rate revenue (Col. (1)) is described in the responses to questions 14, 15, 16, and 17, above.

Base Year customer growth revenue (Column (5)) is calculated by multiplying the difference in the actual number of customers at the end of the March 31, 2017 (Base Year end), and March 31, 2016, that is, the actual customer growth count experienced during the Base Year bill analysis period, which difference is provided in Column (4), by the normalized average annual revenue per customer (Column (3)). This approach is designed to include in pro forma revenues the annualized revenues from all customers added during the Base Year. In other words, the Base Year growth adjustment is utilized to annualize revenues from customers added during the bill analysis period. Column (5), therefore, reflects the total of this growth adjustment and is labeled "Base Year Additional Revenue." A Base Year growth adjustment is not applicable for Lakewood Sewer or the Statewide Volumetric Sewer group since the customer bill counts utilized in the Bill Analyses reflect actual customers for the Winter Quarter ended March 31, 2017.

Also included in the customer growth adjustment is the projected Test Year increase in "Residential" and "Other" customers (Column (6)) added through the end of the Test Year, March 31, 2018. The projected customer growth for this twelve month period (4/1/17–3/31/18) is multiplied by the previously calculated normalized average annual revenue per customer for the "Residential" and "Other" categories (Column (3)). Column (7), therefore, reflects the total Test Year revenue growth adjustment and is labeled "Test Year Normal Additional Revenue." The projection of the number of customers to be added during this period (Col. (6)) is based on the annual increase in the average number of customers for the year ending December 31, 2016 over the year ending December 31, 2014.

For sewer service, Test Year customer growth reflects the actual growth in the annual average number of customers between the following: the year ending December 31, 2016 over the year ending December 31, 2014 for Adelphia and Statewide Sewer Fixed; the Summer Quarter 2016 to Summer Quarter 2014 for Ocean City; the year ending May 31, 2017 to May 31, 2015 for Haddonfield; the Winter Quarter 2017 to Winter Quarter 2015 for Lakewood and Statewide Sewer Volumetric; and the Winter Quarter 2017 to Winter Quarter 2016 for Elk.

Additionally, included in my customer growth adjustment is the projected Post Test Year increase in "Residential" and "Other" customers (Column (8)) added through the end of the Post Test Year, September 30, 2018. Projected customer growth for this six- month period March 31, 2018 – September 30, 2018, is multiplied by the

previously calculated normalized average annual revenue per customer for the "Residential" and "Other" categories (Column (3)). Column (9), it therefore, reflects the total Post Test Year revenue growth adjustment and is labeled "Post Test Year Normal Additional Revenue." Projected customer growth for this six-month period is based on approximately 6/12ths of the amounts projected for the Test Year.

FIRE SERVICE PROTECTION PRO FORMA REVENUE

35. Q. Please explain Exhibit P-2, Schedule 7, "Customer Increase Adjustment - Private Fire Protection Service."

A. Schedule 7 consists of thirteen (13) pages. Pages 1 to 6 of 13 provide calculations under present rates supporting pro forma private fire protection service revenues by applicable tariff for the Base Year, Test Year, and for the Post Test Year.

Base Year present rate revenue for private fire protection service was calculated by multiplying the actual number of service connections in service and billable at March 31, 2017, by present rates. Pro forma Test Year revenue under present rates was calculated on the same basis utilizing the projected number of connections at the end of the Test Year, March 31, 2018. The projected number of connections at end of the Test Year is generally based on utilizing the actual historical growth in the number of connections experienced during the Base Year (*i.e.*, March 31, 2016 to March 31, 2017), added to the actual counts at the end of the Base Year. In certain instances, the actual Base Year growth experience was adjusted prior to

calculating projected Test Year growth to eliminate one-time non-recurring growth, positive or negative, in connections and private hydrants. The calculated growth adjustments are fully detailed in footnotes on Schedule 7 as well as in its supporting workpaper provided in response to SIR-16. Growth for the six-month Post Test Year period is based on 6/12ths of the annual growth projected for the Test Year.

Pages 8 to 13 of Schedule 7 reflect the projected Post Test Year customer counts priced under proposed rates and compares that revenue to the revenue for these same customers under present rates (brought forward from pages 1–7).

36. Q. Please explain Exhibit P-2, Schedule 8, "Customer Increase Adjustment - Public Fire Protection Service."

A. Schedule 8 consists of four pages. Pages 1 and 2 provide calculations under present rates supporting pro forma public fire protection service revenues by applicable tariff for the Base Year, Test Year, and for the Post Test Year. Base Year present rate revenue for public fire protection service was calculated by multiplying the actual number of hydrants in service and billable at March 31, 2017, by present rates. The increase in hydrants through the end of the Test Year and Post Test Year period is based on the same methodology that I've used for private fire protection, with certain exceptions which are fully described on footnotes on Schedule 8, as well on its supporting workpapers provided in response to SIR-17. Pages 3 and 4 of schedule 8 reflect the projected Post Test Year customer counts priced under

proposed rates and compares that revenue to the revenue for these same customers under present rates (brought forward from pages 1 - 2).

REVENUE STABILIZATION MECHANISM

37. Q. What is the purpose of the Company's proposed Revenue Stabilization Mechanism?

A. The Company's proposed revenue stabilization mechanism ("RSM") is designed to maintain the Company's revenues at the level the BPU establishes to set rates in this case going forward. The mechanism effectively removes the errors that are inherent in the process of forecasting the test year level of sales. As noted below, these forecasting errors are caused by the changes in volume of water sold due to factors beyond the control of the Company or the BPU (*i.e.*, the BPU has no mechanism in traditional ratemaking to take this into account). The intent of this mechanism is to better match the expected test year revenues with actual revenues over time.

38. Q. Why is the RSM needed?

A. Since most of NJAWC's costs are fixed, yet its rate structure is based, largely, on volumetric charges, any factors that affect sales, either positive or negative, will necessarily drive a wedge between the revenue level the BPU establishes in this case and the actual level experienced in the rate effective period. Under traditional regulation it is assumed that the BPU establishes sales volumes that, on average, do a fair job predicting actual sales going forward. (The term *fair* refers to an

estimated level of sales that, on average, neither overestimates nor underestimates the actual level of sales over time). The reason this is important is that if test year forecasts are an unbiased estimate of future sales, the Company would only need to file a rate case if its costs increase and not for the *sole* purpose of updating its sales forecast. For reasons that are further explained below, it is becoming difficult, if not impossible, to project a level of test year sales that is unbiased in this way. By allowing NJAWC to collect the revenue established by the BPU in a general rate case, an RSM will provide NJAWC with revenue stability for ongoing programs and investments to maintain and improve efficiency and service reliability and removes a disincentive for NJAWC to promote end use efficiency.

39. Q. Would the RSM better align the interests of NJAWC, its customers, and the state of New Jersey?

A. Yes. An RSM makes NJAWC indifferent to selling less water, recognizes that normal weather is a condition that will likely never be achieved, and effectively reduces the adverse impacts of weather variability for both the Company and its customers. Implementation of this alternative regulatory mechanism will remove a disincentive to promote water efficiency and will support revenues for continued water efficiency investments. Management decision-making can focus on making least-cost investments to deliver reliable water services to customers even when such investments reduce sales. It provides the appropriate regulatory framework to work collaboratively toward promoting water and energy efficiency and

conservation. The result is a better alignment of customer and shareholder interests to provide for more economically and environmentally efficient resource decisions.

40. Q. What other benefits would the RSM provide?

A. By allowing for periodic adjustments (credits and surcharges) in between rate cases, the RSM should reduce rate case frequency. The RSM also would result in rate increases for customers, when necessary, on a more gradual basis. In this environment of declining sales, a company suffers revenue erosion in between rate cases under the current ratemaking structure that will prompt the filing of more frequent rate cases. With the implementation of an RSM, the Company will not need to file a rate case simply to recover revenue shortfalls. So customers should benefit from both a reduction in contested issues in rate cases, a reduction in the frequency of rate cases based on persistent revenue shortfalls, and as a result, reduced rate case expense. Furthermore, if abnormally hot and dry weather caused the Company to experience abnormally high sales, the RSM will credit back to customers the revenue in excess of the authorized amount (less the higher production costs associated with the higher sales volumes). For example, had the proposed RSM been in place for 2016, customers would have received a one-time credit of $38.52 each on April 1, 2017. This is calculated as the total over-recovery per Schedule DMD-1 for 2016, divided by the applicable customer count as of March 31, 2017 of 608,050 per SIR-15, page 1.

41. Q. What is the effect of a reliance on unknown future sales volumes?

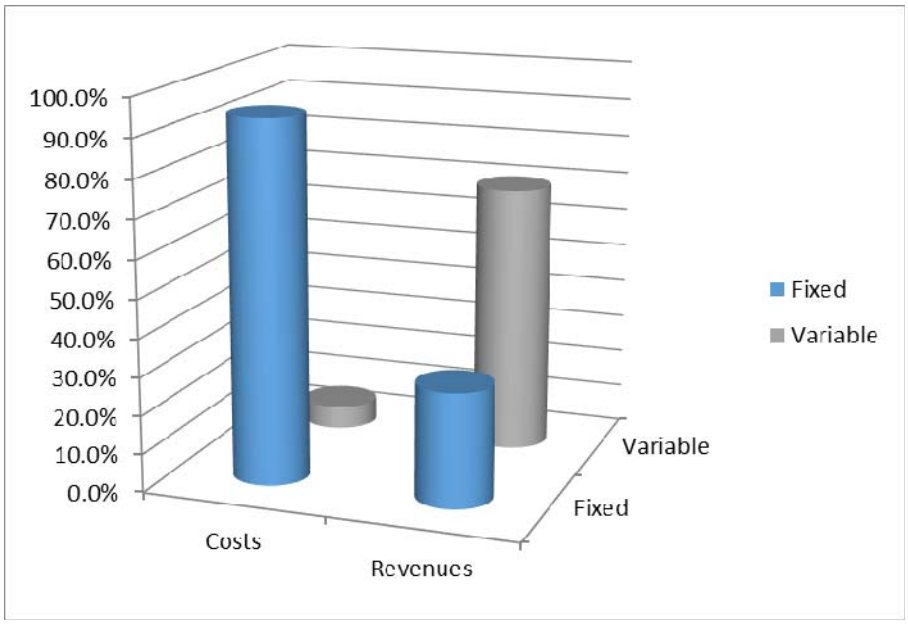
A. Company Witness Roach's testimony explains in detail that NJAWC's usage from existing residential customers is declining by 1.54% percent per year and that this trend will continue for many years; certainly well beyond the future test year in this case. This trend is well established in the water industry, and in BPU Docket No. WR11070460, Division of Rate Counsel Witness Howard Woods noted on page 7 of his testimony that, "With respect to changes in residential use, I believe there is a clear trend toward lower per customer use." Because this effect on sales is occurring, we also know that after this rate case is finalized, any forecast of sales based on the historical period is already incorrect, and it will be higher than the actual sales experienced in a normal year. Since sales are the primary driver of revenues, this reduces actual revenues and constrains the utility's ability to make investments in its facilities and improvements in its operations. Given that much of NJAWC's costs are in fixed assets in source of supply, treatment, and transmission and distribution facilities that do not vary with volumes, any mismatch in revenues as a result of a variance in billing determinants will create unnecessary pressure on the ability of the utility to invest in a timely manner. The need to fund these significant, non-revenue producing investments and fund improvements in its operations doesn't vary with usage. The facilities needed to provide water service to customer's premises are necessary whether that customer uses a small or large amount of water per month.

42. Q. What is the relationship between NJAWC's costs and revenues?

A. Chart 1 below shows, rather starkly, that most of NJAWC's costs to provide water service are fixed, while most of its revenues are variable. The below charts show the relationship between fixed and variable costs and revenues for water customers based upon BPU Docket No. WR15010035.

CHART 1

Fixed v. Variable Costs and Revenues for Water



Approximately 94 percent of NJAWC's water system costs are fixed and only 6 percent of the Company's costs are variable. In contrast, only approximately 30 percent of the revenues are fixed (including fire protection), while approximately 70 percent of the revenues are variable. NJAWC, therefore, relies very heavily on variable (or volumetric) revenues for collecting fixed costs.

43. Q. Why do these facts create a public policy concern?

A. The effect of this rate design creates what is called the *throughput incentive*. That is, the more water customers use, the more revenue the Company collects and the

better its financial performance. Yet, at the same time public policy, as well as Company policy, is aimed at promoting more efficient use of the water resources of the state. Any actions taken by the Company or the government (local, state, or Federal), no matter how beneficial to society, create a disconnect between the public policy goal of more efficient use of water resources and the Company's legitimate financial objectives. Despite this clear policy of favoring efficiency and conservation, NJAWC is penalized if it promotes the more efficient use of resources, as its sales will lag, and its financial performance will deteriorate.

44. Q. Does the Company propose any other strategy for addressing the policy concern regarding cost recovery?

A. Yes. The Company's current DSIC surcharge is recovered as fixed revenue, based on the meter size of the customer. When the estimated DSIC rates effective December 1, 2017 are combined with the Company's current base rate fixed service charge, the 5/8" monthly fixed charge is $16.91 per customer. As the DSIC surcharge properly reflects fixed revenue recovery of fixed costs of service, The Company is proposing a 5/8" base fixed service charge of $19.00/month for all water rate schedules (except Haddonfield) that includes the DSIC charge, plus recovery of additional fixed costs of service in base rates not included in the last rate case's final rate design. In the event an RSM mechanism is not authorized in this proceeding, the Company proposes the base water fixed service charge be set at a level that recovers no less than the current proportion of total water revenues recovered as fixed revenues.

45. Q. Are NJAWC's sales volumes variable?

A. Yes. Both weather and declining usage per customer cause NJAWC's sales volumes and revenues to vary from approved levels. As explained in the Direct Testimony of Company Witness Roach, the variability in weather and customer usage patterns has had a substantial effect on NJAWC's actual sales volumes and therefore revenues.

46. Q. Please explain how weather variability affects NJAWC.

A. As a general rule, customers use more water during hot, dry weather (primarily in the summer months) and less during cool, wet weather. A rate design that relies heavily on sales volumes to recover costs results in greater revenues for the utility and increased costs to customers when the weather is hot and dry and less revenues to the utility and lower costs to customers when the weather is wet and cool. In short, a water utility's revenue is significantly influenced by the randomness of weather, which is outside the utility's control and bears only a limited relationship to the cost of providing water service.

47. Q. How does declining usage per customer affect NJAWC?

A. Notwithstanding weather variability, NJAWC customers are using less water per customer than they have in the past. As Company Witness Roach's Direct Testimony demonstrates, NJAWC has seen a continued and persistent trend of declining usage per customer. Residential usage per customer is steadily declining by approximately 1.54% percent annually (please refer to the Direct Testimony of

Company Witness Roach for more details). Company Witness Roach explains that NJAWC's experience is consistent with a national trend of declining water usage per customer. Reduced water sales and the resulting reduction in revenues are having a significant adverse financial impact on NJAWC. In fact, NJAWC has not recovered the revenues established by the BPU in its rate cases in 8 of the last 10 calendar years, (see Schedule GPR-6 attached to Company Witness Roach's testimony). The reductions in water sales are therefore a significant concern because they are a source of fiscal stress for the Company and are a potential disincentive to further investment.

48. Q. Does NJAWC's proposed RSM address these public policy concerns?

A. Yes, it does. The RSM will afford NJAWC a realistic opportunity to collect the revenue necessary to recover the level of revenues established by the BPU in this case, independent of sales volume.

49. Q. Is there evidence of a widespread concern by public utility regulatory Commissions with traditional water and wastewater utility rate design that would be alleviated by the RSM?

A. Yes. At its November 2013 annual meeting, NARUC adopted a resolution that supports consideration of alternative recovery mechanisms for water and wastewater utilities. The NARUC resolution states, in part:

> WHEREAS, Traditional cost of service ratemaking, which has worked reasonably well in the past for water and wastewater utilities, no longer adequately addresses the challenges of today and tomorrow. Revenue, driven by declining use per customer, is flat to decreasing,

while the nature of investment (rate base) has shifted largely from plant needed for serving new customers to non-revenue producing infrastructure replacement and compliance with new drinking water standards; and

WHEREAS, The traditional cost of service model is not well adapted to a no/low growth, high investment utility environment and is unlikely to encourage the necessary future investment in infrastructure replacement; and

WHEREAS, Compared to the water and wastewater industry, the electric and natural gas delivery industries have in place a larger number and a greater variety of alternative regulation policies, such as multiyear rate plans and rate stabilization programs, and those set forth in the 2005 Resolution; and

WHEREAS, The U.S. water industry is the most capital intensive sector of regulated utilities and faces critical investment needs that are expected to total $335 billion to $1 trillion over the next quarter century, as noted in the American Society of Civil Engineers 2013 Report Card for America's Infrastructure… NARUC's resolution expressly supports alternative recovery mechanisms for water and wastewater utilities that address the above concerns.

The NARUC resolution goes on to state that

WHEREAS, Alternative regulatory mechanisms can enhance the efficiency and effectiveness of water and wastewater utility regulation by reducing regulatory costs, increasing rates for customers, when necessary, on a more gradual basis; and providing the predictability and regulatory certainty that supports the attraction of debt and equity capital at reasonable costs and maintains that access at all times.

50. Q. What is the effect of this resolution?

A. The NARUC's resolution encourages utility regulatory commissions to adopt alternative rate mechanisms as a means to remove the disincentives to capital investment from the ratemaking process (*e.g.*, RSM) and provide regulatory incentives to capital investment (*e.g.*, DISC) as a way of supporting the ongoing

need to attract debt and equity capital at reasonable costs. NARUC also recognizes that alternative regulatory mechanisms can improve the ratemaking process by reducing regulatory costs and increasing rates, when needed, on a more gradual basis.

51. Q. Are revenue stabilization mechanisms such as the proposed RSM recognized in the regulatory community as an effective means of addressing the shortcomings of volumetric rate design?

A. Yes. An RSM is a rate mechanism that has been adopted in many states as a way to eliminate the "throughput incentive" to water and energy efficiency initiatives and investment.[1] Clauses similar to the RSM proposed here have been successfully used for some time for water utilities in New York and California, and have been more recently adopted for water utilities in Connecticut, Nevada, Maine and Illinois. In addition, RSMs have been approved for gas utilities in 21 states and an additional 4 states have mechanisms pending, according to the December 2015 report from the American Gas Association entitled "Innovative Rates, Non-Volumetric Rates, and Tracking Mechanisms: Current List." The Report also states that Weather Normalization Adjustments have been authorized in 24 states, including New Jersey. A December 2014 report by the Institute for Electric

[1] A 2013 study by the Brattle Group entitled "Alternative Regulation and Ratemaking Approaches for Water Companies: Supporting the Capital Investment Needs of the 21st Century," prepared for the National Association of Water Companies, (September 30, 2013) found that 27 states for electricity and 30 states for natural gas delivery, and 5 states for water have this kind of mechanism.

Innovation lists 31 states and the District of Columbia that have an approved fixed cost recovery mechanism for electric utilities.

52. Q. Do any other American Water affiliates operate with an RSM and, if so, how do they work?

A. Yes, New York-American Water Company's first Revenue Adjustment Clause ("RAC") was established in October 1988. The RAC reconciles metered revenues, fuel, power and chemicals between what was established and what was actually experienced. The difference is then surcharged or credited within the following rate year. The first California-American Water Company Revenue Adjustment Mechanism and Modified Cost Balancing Account ("WRAM/MCBA") was implemented in the fourth quarter of 2008. The WRAM/MCBA reconciles the volumetric consumption revenues, purchased water, power costs and pumping taxes between what was authorized and actuals. Illinois-American received approval of the Volume Balancing Adjustment Rider ("VBA") in December 2016. The VBA reconciles volumetric consumption revenues, power, chemicals and waste disposal, and the difference is surcharged or credited within the remaining calendar months (April-December) after the tariff rate becomes effective. The VBA reconciles water and wastewater activity.

53. Q. How does the proposed RSM differ from NJAWC's current ratemaking structure?

A. Although NJAWC's current ratemaking structure sets prices based on costs and a fixed level of expected revenues, the utility's revenues actually flow up or down as the water sales volume changes between rate cases. In contrast, once the revenue requirement is set, the RSM allows the price to synchronize as the sales volume changes in between rate cases.

54. Q. Why is an RSM necessary when declining usage can be factored into the rate case sales forecast?

A. Because sales volume continues to decline in each subsequent year after the conclusion of a rate case, so unless the Company files annual rate cases, there remains a risk of under-recovery of its revenues due to outdated billing determinants. The RSM stabilizes revenues - and hence rates - between base rate cases. Furthermore, revenue is based on a forecast of normal weather conditions, which implicitly includes such factors as temperature and rainfall. Sales, however can increase from that level in a hot, dry year or decrease significantly in a cool, wet year. Any deviation from the normalized usage forecast can be captured by the RSM, both positive and negative.

55. Q. Please describe the components of the proposed RSM and how the RSM would operate if the BPU approved it.

A. The BPU would first set the Company's established revenue level in this case, i.e., the amount of revenue necessary for the Company to recover its reasonable cost of providing service to its customers (the "established revenue"). The RSM would

compare the established revenue and actual billed metered revenues for the customer classes of residential, commercial, other public authorities (OPA) and industrial (excluding OIW) for water, and defer/accrue the difference, less the applicable change in production costs on a monthly basis. Production costs would include power, chemicals, and water waste disposal. The annual amounts of metered revenues and the annual amount of expenses for all production costs would be prorated to monthly amounts. The Company would propose the proration be set using the Company's last three years of system delivery in order to obtain a reasonable monthly amount of established revenues and production costs. These monthly amounts would be reset in the next base rate case proceeding.

56. Q. Why does the RSM consider revenues net of production costs?

A. Production costs are included in the calculation because they vary with sales volumes. Delivering more water costs more and delivering less water costs less. Netting production costs will ensure that customers pay only those production costs associated with the actual amount of water delivered. Although purchased water expense is also a variable production cost, the Company's PWAC mechanism captures and reconciles these production costs separately from base rate case considerations. Therefore, purchased water expenses are excluded from the reconciliation.

57. Q. Please describe the specific accounting treatment for the Company's RSM.

A. Each month the Company would compare the actual billed metered revenues for the applicable customer classes to the amount of established revenues for the applicable classes. NJAWC would also compare the actual production cost expenses to the authorized amount of production costs associated with the applicable customer classes. If the actual revenues fall short of the established revenues, the difference in the revenue less the production costs would be deferred to a regulatory asset. If the actual revenues were more than the authorized revenues, the difference in the revenue less the production costs would be deferred to a regulatory liability. Generally speaking, if the Company has additional revenues due to an increase in water sales, the Company will defer the additional revenue, less the additional cost to produce the water, to a regulatory liability. Whereas if water sales are lower, then the Company has a shortfall in revenues due to a decrease in water sales, and the Company will accrue the shortfall in revenues less the savings in production costs from producing less water, to a regulatory asset.

58. Q. Does the proposed RSM have a reconciliation mechanism?

A. Yes, the Company proposes that a reconciliation occur on an annual basis at the end of each calendar year. The Company would file the first reconciliation by January 31 and BPU Staff would have 60 days to review and approve the RSM filing following the end of the calendar year in which the BPU decides this rate case. The first filing will reconcile the revenues for the period when rates become effective through December 31 of that year. Each subsequent filing will be filed as described above but will reconcile the revenues for the entire preceding calendar year. The

Company proposes that any credit be issued as soon as administratively possible and the credit would be determined based on the number of customers. The reason the Company would propose a one-time credit that is equal to all customers covered by the RSM is that it benefits the low users at a greater percentage than high users: therefore, those that conserve water would be rewarded with a higher percentage benefit than those that use more water. The Company is proposing that any surcharge be based on a volumetric amount and should be targeted to recover the shortfall within the reconciliation filing's current calendar year or from April 1 through December 31. This aligns the RSM billing with the annual change in PWAC/PSTAC rates, which are also consistently effective April 1. The reason the Company would propose a volumetric surcharge is to ensure that the low usage customers would continue to benefit from their conservation because the volumetric rate would be equal for the entire Company. Therefore, if you conserve, you will save more money not only in paying the current bill but also if a surcharge is applied to collect any shortfall in revenues less production costs.

59. Q. How does the Company propose to treat customer growth through acquisitions?

A. The Company believes that there are three options for the treatment of growth through acquisitions. The first is to exclude the acquisition revenue and production costs from the RSM until they can be recognized in the Company's next rate case with the resetting of RSM levels. The second option is to determine in the acquisition petition filing to the BPU an amount of revenue and production costs

that would be added to the rate case amounts to determine updated total amounts. The third is to determine in the acquisition approval case an amount of revenue and production costs on a standalone basis for the acquired system that would be reconciled separately until the next base rate case. Proration would occur for any timeframe that does not coincide with the rate year with the same method as described above. The Company recommends the second option, especially in the case of an acquisition which is included directly onto an existing Service Area tariff and operating district, as it is the easiest for the Company administratively. In addition, this option would provide the Company a stable, mutually agreed-upon level of revenues, no matter the age of the billing determinants and resulting tariff rates agreed upon in the previous rate setting approval for the acquisition.

60. Q. Does the Company propose separate treatment for organic growth from existing customers?

A. Organic growth can be defined as the addition of customers to the Company's current operating districts, within the existing borders of those districts. The Company believes that any organic growth would be relatively low, and would be subsumed within the overall trend of declining sales. If, however, NJAWC did experience any net organic growth, the result would be additional actual metered revenues, which would be credited to customers through the RSM if total revenues net of production costs exceed the authorized revenues net of production costs.

61. Q. Does the RSM eliminate the need to perform an accurate sales forecast because the RSM will correct any inaccuracies?

A. No. The Company always strives for, and the BPU should always demand, the most accurate sales forecasts possible. The most accurate forecasts achievable should minimize, to the extent possible, the surcharge or credit under the RSM. Nevertheless, sales will still be influenced by weather, as well as other factors such as the overall economy. Permitting a utility to actually achieve the revenue forecasted is simply good ratemaking policy.

62. Q. How would declining use affect the calculation?

A. Declining usage lowers the actual water sales volume and therefore actual revenues. Were the BPU to approve the RSM, and the Company were to project too great a decline in usage such that sales volumes were higher than forecasted, the Company would simply credit the over-collection of the revenues to customers through the RSM.

63. Q. Could the RSM potentially result in both credits and surcharges to customers from year to year?

A. Yes. As discussed above, there are many reasons that actual revenues can deviate from authorized revenues. The primary cause of variations in sales volume, particularly for residential customers, is weather. Other causes include improved water and energy efficiency, customer conservation practices, price elasticity, and economic conditions.

64. Q. Have you provided additional information concerning the operation of the RSM?

A. Yes, the proposed water RSM Tariff is included within Exhibit P-1 as Tariff Rider B.

65. Q. Has the Company analyzed how the RSM would have impacted NJAWC had it been adopted previously?

A. Yes, Schedule DMD-1 attached to my direct testimony shows the over/under collection of the established revenues, the production costs and the net of the two items. A positive number reflects the amount of the surcharge and a negative number reflects the amount of the credit to customers. The Company under-collected its revenue target net of production costs in all years except 2015 and 2016, when credits for over-collections would have been issued to NJAWC's customers.

66. Q. Under the RSM, will customers who use less pay less?

A. Yes, they will pay less in their current bill because they are using less water. They will also pay less when and if a surcharge is issued because the surcharge is volume based. They will also pay less when and if a credit is issued because the credit is a one-time fixed amount. The lower the customer's consumption the higher credit he or she receives as a percentage of their bill.

67. Q. Are the underlying reasons for the RSM beyond the direct control of the Company?

A. Yes, both weather and customer usage are beyond the direct control of the Company and significantly impact the volume of water sold, which in turn impacts revenues and power, chemicals and waste disposal costs. Clearly weather is the most significant component in this regard, is subject to significant variations, and is beyond the Company's control. Declining usage is also beyond the control of the Company, as it reflects both a conservation ethic among the public as well as government policies to conserve water through more efficient appliances and plumbing fixtures.

68. Q. Will the RSM guarantee that NJAWC earns a profit?

A. No. The RSM only insures that NJAWC will receive its authorized revenues. If the Company's costs increase, its revenues will not change and its net income declines. Therefore, the Company must still manage its costs to earn a profit.

69. Q. Does an RSM eliminate some of the difficulties of trying to design an effective weather normalization mechanism for a water utility?

A. Yes, weather itself creates fluctuations in usage, costs, and revenues that are outside the utility's control. As a general rule, usage is increased by hot, dry weather and reduced by cool, wet weather, primarily in the summer months, although the variation is regionally influenced as well. As Company Witness Roach attests in his testimony, however, weather, alone, has never been satisfactorily addressed through traditional ratemaking models for water utilities (as opposed to gas and electric utilities where heating and cooling degree days correlate well with usage).

Variations in heat, precipitation, cloud cover and other factors make predicting the effect of temperature alone on outdoor usage extremely difficult. What is the case, however, is that actual weather can work either in favor of or against the Company from a financial standpoint as it will collect more or less revenue than determined by the revenue requirement, even if usage is "normalized" in the rate setting process. The Company has no effective way of managing or controlling this factor under its current ratemaking channels. Although the ratemaking process has historically tried to take this into consideration by basing rates on "normal" weather conditions, as a practical matter, normal weather is never really achieved. In fact, "weather" is difficult to define in a statistical sense, and establishing "normal" weather is even more difficult. A mechanism that mitigates the adverse effect of weather variability on revenues recognizes that normal weather is a condition that will likely never be achieved and effectively reduces the adverse impacts of weather variability for both the Company and its customers. Even with weather variability, people in New Jersey are using less water every year, and New Jersey's experience is consistent with a national trend of declining water usage per customer. We forego additional revenues when we invest in efficiency efforts; yet significant efficiency investments are (likely to be) a necessary component of a least-cost mix of resources. The current ratemaking structure is simply not well adapted to a declining usage, minimal growth, high investment utility environment and is unlikely to encourage the necessary future investment to improve efficiency. There is a need for revenue consistency to enable planning and deployment of the

most efficient resources to cover operating and maintenance expense as well as ongoing capital projects.

70. Q. What other benefits would a RSM provide over traditional tariff designs, such as the structure currently employed by NJAWC?

A. One of the more controversial aspects of traditional rate cases is the forecast level of water sales during the year the new rates will be in effect - regardless whether a particular jurisdiction uses a historical, current, or future test year. It is well-documented that water sales per customer are remaining flat or declining across the water industry, including NJAWC. With little to no customer growth to make up the difference in declining use per customer, rates must be raised to provide the lost revenues. As Company Witness Roach's testimony explains, whether through changes in simple daily tasks or the installation of more water efficient products, our customers have found ways to decrease water use in their homes. Nevertheless, some parties argue that any decline in sales is temporary and revenue projections continue to fail in adequately reflecting the declining use. An RSM can generally reduce or eliminate many difficulties in determining pro forma revenues.

71. Q. How will an RSM improve the ratemaking process and reduce rate case controversy?

A. As a ratemaking tool, the Company's proposed RSM should effectively reduce or even eliminate the contentiousness related to the process of determining the projected pro forma water volumes used to set water rates, and will help ensure that

the Company would receive the authorized revenue, no more and no less, and customers would pay the appropriate price for water service in their monthly bills. The reconciliation process of the RSM provides its core value by capturing any variances and allowing a true up to make the customer and company whole.

72. Q. Do you consider the RSM to be "single issue ratemaking" that adjusts rates outside of a rate case without considering "all relevant factors?"

A. No, I do not. Single issue ratemaking would generally involve adjusting existing rates based on a change in the cost of a single expense item without giving due consideration to whether other costs have gone up or down. The RSM does not do that. All that the RSM is doing is ensuring that the level of revenue deemed appropriate by the BPU is, in fact, being collected. If more revenue is being collected, the RSM provides a credit to customers. If less revenue is being collected, the RSM imposes a surcharge. The RSM is indifferent to the costs or investment that lie behind that revenue. The RSM is simply harmonizing the actual revenue collected to the amount of revenue deemed necessary in the rate order.

73. Q. Will an RSM create volatility for customers through periodic rate changes?

A. No, quite the contrary. An RSM, as proposed by the Company, actually decreases volatility and rate shock for customers through smaller and more frequent rate changes as opposed to larger rate increases that must be filed to recover the revenue lost through steadily declining sales. Furthermore, to the extent that the Company can avoid filing for a rate increase to recover such sales declines (because they are

recovered through the RSM), that will reduce the frequency and cost of base rate filings.

74. Q. Is it accurate to state that an RSM shifts business risk from utilities to customers?

A. No, I do not believe that is the case. There is no shifting of risk, as a utility has an equal chance of over or under-collecting revenue under traditional ratemaking. Company Witness Moul will explain to what extent the adoption, or absence, of an RSM will impact the Company's cost of equity.

75. Q. Do you believe that an RSM deprives customers of the benefits of their efforts to conserve water?

A. No, I do not. An RSM does not remove the actual benefits of conservation. Removing barriers to improving efficiency and needed investment is in our customers' interests because, over time, it reduces the cost of providing water service to customers and promotes the sustainability of our natural resources. Furthermore, even with an RSM, the customers who use less will always save more relative to similarly situated customers.

76. Q. Is an RSM unfair to low-income consumers who already use low amounts and have difficulty affording efficiency upgrades?

A. I do not believe that to be the case. First, a low use customer is not necessarily a low income customer. Moreover, the RSM is beneficial to low income customers because it keeps the majority of each bill volumetrically-based, where other

mechanisms such as Straight-Fixed Variable ("SFV") pricing shift more of the cost of service to lower use customers. That is one of the reasons why the Company has proposed an RSM instead of seeking a SFV rate design alternative.

77. Q. Please summarize the reasons supporting the adoption of the RSM.

A. Rate designs that tie a utility's revenue recovery directly to sales volume have prompted two widespread concerns in modern utility regulation. First, rewarding a water utility for selling more water implicitly encourages water use and penalizes a water utility for encouraging end use water efficiency and conservation. This misalignment is troubling because utilities are often the best positioned to improve water efficiency and promote conservation. Second, because of seasonal variability and declining use per customer, volumetric-driven rates do not give water utilities a reasonable opportunity to recover their authorized revenues. Accordingly, these utilities are constrained in their ability to raise the necessary capital to invest in needed infrastructure. The current ratemaking structure incents NJAWC to sell more water, not to encourage efficiency on the part of its customers. The RSM will: 1) make NJAWC indifferent to selling less water; 2) remove the disincentive to promote water efficiency; 3) reduce the adverse impact of weather variability for both the utility and its customers; 4) reasonably ensure that revenues to support continued water infrastructure and efficiency investments are available; and, 5) reduce the contentiousness of the rate case rate case process. The result is a better alignment of all stakeholder interests.

PROPOSED TARIFF CHANGES – EXHIBIT P-1

78. Q. Regarding Exhibit P-1, the Company's proposed tariff, are there new proposed Rate Schedules?

A. Yes. As previously mentioned in my testimony, the Company is adding Tariff Rider B related to the Revenue Stabilization Mechanism.

79. Q. Has the Company made any other changes to its existing tariff language?

A. Yes. The Company has changed the qualification requirements for the H2O Help to Others Low Income Payment Program ("LIPP"), increasing the income threshold to 300% of the federal poverty level guidelines, as recommended by NJ-Shares and consistent with other regulated utility programs in New Jersey. The Company has also updated the "Terms of Payment" section of R.S. 1-A to more clearly explain the billing process for end users of the tariff. The Company has also changed tariff references to Rate Schedules 2-A and 2-B, covering the Lakewood Sewer area, to "Statewide Wastewater Collection Area". This is proposed to identify Rate Schedule 2-A as the Company's primary collection tariff for incorporating potential sewer acquisitions, consistent with the Company's stated goal of consolidating sewer rate schedules. The blacklined version of the Company's tariff provided in response to SIR-9 also contains numerous corrections and updates to the Standard Terms and Conditions for both water and wastewater customers. The changes are primarily intended to fill gaps, resolve inconsistencies or outdated references, and/or more closely conform the tariff language to the current regulations.

80. Q. Is the Company proposing to apply the PWAC charge for Rate Schedules A-11 and A-15 (Haddonfield Water and Shorelands Water) at this time?

A. No. The Company proposes to adjust the base rates for these two recently acquired systems during this proceeding, and include these systems in the PWAC filing expected to be submitted in November 2018, with an anticipated effective date of April 1, 2019. This process is consistent with the three-year rate freeze period agreed to in the acquisition of the Haddonfield Water System (a period which concludes in May 2018). It also allows the current Shorelands Water rates, which were approved by the BPU and implemented in March 2015, to be properly updated based on their inclusion in the NJAWC tariff and revenue requirement in this case. This method will reset the purchased water recovery in Shorelands base rates to $0 – as described above, NJAWC purchased water expenses are reviewed for recovery outside of base rate cases through annual PWAC filings – and avoids over-recovery of purchased water expense from Shorelands customers.

81. Q. Are there other changes that the Company is proposing to its tariff?

A. Yes, there are. NJAWC is also proposing the following revisions to the terms and conditions of the Company's tariff:

- Updates to the standard terms and conditions for water and wastewater;
- Modification to the definition of "customer" to include "premise owner";
- Updates to language concerning medical certificates;
- Modification of application of after-hours reconnection fee; and
- Implementation of charges for notice of discontinuance of multi-use services

82. Q. Why has the Company made proposed language changes to the standard terms and conditions for water and wastewater service in its tariff?

A. The language changes that the Company has proposed in this proceeding are to make clear to our customers the requirements and obligations for service and requests for service on the part of both the customer, and the Company.

83. Q. Why is it necessary to clarify the difference between "customer" and "premises owner" as you have proposed on Sheet No. 6, ¶5?

A. The clarification is important for several reasons. There are many instances throughout the tariff where responsibilities for ownership and maintenance of services and facilities are discussed. The customer (or end-user) is not always the owner of the premises, who is ultimately responsible for maintaining the connecting lines, and for granting the Company access to the premises for purposes of providing service. This is an important distinction, especially when dealing with premises where there are multiple customers of record being provided water service via a single connecting line. If a single customer of record is in arrears on his or her account, the Company has no recourse to collect on the past-due amount without discontinuing service to all customers of record within the premises. The Company is proposing to add language to Fourth Revised Sheet No. 11, paragraph 4, that makes it clear that the owner of the premises is responsible for providing a suitable location for a separate meter and separate shut-off valve that will be dedicated to each customer. Failure of the premises owner to comply with this provision may

result in termination of service to all accounts serviced by the single connecting line. In making this clarification, we expect to be able to gain the support and cooperation of premises owners in providing the Company with access to the Company's facilities to perform shut-offs when necessary to collect on past due accounts.

84. Q. Please explain the modifications that were made to Sheet No. 17, ¶1, pertaining to medical emergencies.

A. NJAWC is committed to assisting its most vulnerable customers, especially those who are facing medical and financial hardships. Unfortunately, it has been our experience that some customers are under the misconception that having a 60-day grace period from discontinuance of water service during a medical emergency means that they are not responsible for their bills for service during this period, even after the period of non-discontinuance is over. We encourage our customers who request and receive an extension of time to pay due to a medical emergency to continue to make *some* payment towards their outstanding balance, as the balance will only continue to increase over time without such payment. However, some customer are still caught by surprise when they get their bills for service.

Additionally, it has also been our experience that some customers requesting a waiver of discontinuance under this regulation and tariff provision are stretching the definition of "medical emergency . . . which would be aggravated by the shut off" of water service. It is our belief that having language in the tariff such as that

proposed on Sheet No. 17, ¶1, reserving the Company's right to contest the validity of a claimed medical emergency before the BPU would dissuade such customers from abusing this provision to the detriment of the Company's other customers who must cover the uncollectible expense that can occur as a result of the disingenuous actions of a few.

85. Q. Please explain the proposed changes to the Company's restoration of service charges on Sheet No. 68, Rate Schedule P-2, ¶1.

A. State of New Jersey regulations require utilities to restore service to customers within 12 hours of request when the conditions under which service was discontinued are corrected, and the utility has received notice of the payment. N.J.A.C. 14:3-3A.9. The Company, in this case, is proposing that restorations of service made after normal working hours or on holidays, as those terms are defined on Rate Schedule P-2, be subject to an after-hours restoration of service charge of $100 instead of the $28 customers are charged during normal working hours.

86. Q. Why should the customers pay a higher rate for an after-hours reconnection when the Company is required to comply with the 12-hour window for restoration of service in accordance with the regulations?

A. The overtime and "roll the truck" costs that NJAWC incurs when performing an after-hours restoration of service should be borne by the customers who cause such costs to be incurred. A field service representative ("FSR") must be asked to work overtime to complete the after-hours restoration of service and there are other costs

associated with "rolling a truck" after-hours as well. Conversely, reconnections of service performed during normal working hours can be accomplished by FSRs already in the field in the course of their normal work day; no extraordinary costs are incurred.

87. Q. Has the Company proposed to implement charges for notice of discontinuance of multi-use services for non-payment?

A. Yes.

88. Q. Please explain the reason for this proposal.

A. New Jersey regulations require the Company to notify the following parties via certified mail 30 days before discontinuance of service:

- the multi-use service customer of record;
- the property owner, if different than the customer of record;
- the mayor of the municipality in which the service is provided;
- the fire chief of the municipality in which the service is provided;
- the enforcing housing code official of the municipality in which the service is provided;
- the enforcing uniform fire code official of the municipality in which the service is provided;
- the welfare officer of the municipality in which the service is provided; and
- the Board of Public Utilities

(N.J.A.C. 14:3-3A.4(j))

Furthermore, if payment is not received and service is subsequently discontinued, all of the same parties listed above must be notified via certified mail, and an

additional notice must be sent to Insurance Services Office, Inc., advising them of the discontinuance of service. Each certified mail piece currently costs $6.56 to send. In order to recoup these costs, the Company is proposing to amend the terms of payment for Rate Schedule P-3, Tariff Sheet No. 71, by adding the following language:

> In the event that a multi-use service is noticed for discontinuance of service for non-payment, the customer will be charged $50 or actual cost, whichever is greater, to cover the costs associated with the noticing provisions required by N.J.A.C. 14:3-3A.4(j). In the event service is discontinued for non-payment, the customer will incur an additional charge of $60 or actual cost, whichever is greater, to cover the costs associated with the noticing provisions required by N.J.A.C. 14:3-3A.4(j).

89. Q. Does Exhibit P-1 include all of the Company's proposed tariff changes?

A. Yes, and through this testimony I am incorporating Exhibit P-1 into my testimony.

OTHER OPERATING PRO FORMA REVENUE

90. Q. Mr. DeStefano, please explain the Base Year and pro forma "Other Operating Revenue" as delineated on Exhibit P-2, Schedule 5, page 1, line 9.

A. First, workpapers supporting pro forma Other Operating Revenues are provided in response to SIR-14, Workpaper 5-O, pages 1-4. Other Operating Revenue as recorded during the Base Year is comprised primarily from revenues derived from Reconnection of Service charges, Bad Check charges, Office Rental Income,

miscellaneous service revenues, Antenna Leases, Late Charges, and revenue credits stemming from the Company's LIPP Discount program. Pro forma adjustments to the actual Base Year level of Other Operating Revenues for these categories were made as follows: (i) Bad Check, Reconnection of Service, late payment charge, and miscellaneous service pro forma revenues were adjusted to a three-year average of 2014-2016 revenues; (ii) increased Laurel Oak Road rent revenues due to increase in allocation of square footage to Service Company; (iii) estimated SREC revenues based on earned credits through the most recent SREC year multiplied by the recent market price; (iv) an adjustment of $4,123 to the Base Year for the H2O Help To Others LIPP Discount program, plus an increase of $178,681 for projected increases in customer benefits due to the above mentioned broadening of the income threshold (see Workpaper 5-O, page 2 of 4 for details of this adjustment); and (v) Antenna lease revenue is adjusted to account for only leases still active in the post test year period. Finally, by virtue of the Company's proposed increase in Fixed Service charges under its proposed rates, a $216,000 reduction in pro forma Other Operating Revenue would result associated with the increased discount provided under the LIPP Discount program. Workpapers supporting the above adjustments have been provided in SIR-14, Workpaper 5-O, pages 1 and 4.

PRO FORMA OPERATING EXPENSES

91. Q. Please explain Exhibit P-2 Schedule 19, "Water Diversion".

A. The pro forma diversion permit fees represent charges levied by the State of New Jersey for processing, monitoring, administering and enforcing the water supply

allocation program for twelve months ended March 31, 2017. The pro forma expense for 'excess water diversion charges' paid to the State of New Jersey represents the actual amount paid during the twelve months ended March 31, 2017. Diversion expense paid to the Delaware River Basin Authority represents 12 months ended 12/31/16. Both the diversion permit fees and excess water diversion charges are increased for pro forma by 1.0%. The Company will update its 'excess water diversion charges' applicable to calendar year 2017 paid to the State when available. Please see the workpapers submitted in response to SIR-27.

92. Q. Please explain Exhibit P-2 Schedule 42, "Uncollectible Expense".

A. The pro forma uncollectible expense was developed using a three-year average of Net Write-Offs to Billed Water and Sewer Revenues. The three-year average for 2014, 2015 and 2016 is 0.49%. Please see the workpaper supplied in SIR-46. The three-year average was applied to total pro forma present and proposed rate revenues as applicable to obtain the pro forma uncollectible expense.

93. Q. Please explain your calculations of "Gross Receipts Tax and Surtax" as presented on Exhibit P-2 Schedule 53.

A. Schedule 53 presents the calculation of the Gross Receipts Tax and Surtax on a pro forma basis under present and proposed rates. The applicable tax and surtax rates totaling 8.4375 percent are applied to the taxable base under present and proposed rates.

94. Q. Please explain your calculation of "Franchise Tax and Surtax" as presented on Exhibit P-2 Schedule 54.

A. Schedule 54 presents the calculation of the Franchise Tax and Surtax on a pro forma basis under present and proposed rates. The applicable tax bases reflect the fact that less than 100 percent of the Company's mains are in public streets. The 5.625 percent tax and surtax rate, therefore, results in an effective tax rate ranging from 5.3308 to 5.2357 percent for water and sewer service respectively. The overall impact on the combined Gross Receipts and Franchise Tax rate is to reduce the statutory rate of 14.0625 percent to an effective tax rate of 13.7683 to 13.6732 percent for water and sewer service, respectively.

95. Q. Mr. DeStefano, please explain Exhibit P-2, Schedule 55, "BPU/DRC Assessments".

A. Schedule 55 computes the combined Board of Public Utilities and Division of Rate Counsel assessments at both present and proposed rate revenues. The assessment rates are the Fiscal Year 2017 rates. Please see the workpapers submitted in response to SIR-58.

96. Q. Please explain Exhibit P-2 Schedule 56, "Water Monitoring Tax"

A. The pro forma water monitoring tax is based on pro forma total water sales, net of Sales for Resale, which are not subject to the tax. A tax rate of $.01 per thousand gallons of sales is applied. Please see the response to SIR-59.

97. Q. Does this conclude your direct testimony at this time?

A. Yes, it does.

New Jersey American Water Company **Schedule DMD-1**

Comparison of Utilized Revenues and Production Costs to Actual

Docket WR1709_____

General Metered Service Water	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Authorized Revenues **(1)**	$397,460,127	$400,554,949	$439,739,115	$439,739,115	$454,158,610	$467,680,838	$473,360,865	$473,360,865	$479,799,180	$501,912,152
Actual Revenues	369,696,285	370,184,478	410,469,866	432,198,459	439,676,035	461,162,881	450,704,130	457,426,392	485,970,924	522,731,814
Variance - Surcharge (Credit)	$27,763,842	$30,370,471	$29,269,249	$7,540,656	$14,482,575	$6,517,957	$22,656,735	$15,934,473	($6,171,744)	($20,819,662)

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Authorized Production Costs **(1)**	$28,137,755	$28,845,753	$37,809,859	$37,809,859	$28,634,133	$28,594,325	$28,577,603	$28,577,603	$28,261,489	$27,175,767
Actual Production Costs	27,783,663	28,653,490	30,491,124	30,432,858	27,838,998	28,009,897	26,564,975	27,979,788	28,290,040	24,570,965
Variance - Surcharge (Credit)	($354,092)	($192,263)	($7,318,735)	($7,377,001)	($795,135)	($584,428)	($2,012,628)	($597,815)	$28,551	($2,604,802)

Revenues net of Expenses	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Variance - Surcharge (Credit)	$27,409,750	$30,178,208	$21,950,514	$163,655	$13,687,440	$5,933,529	$20,644,107	$15,336,658	($6,143,193)	($23,424,464)

Note (1): Classes of customers include Residential, Commercial, OPA and Industrial (excluding OIW)