

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

Scott Grace

Exhibit PT-6

NEW JERSEY-AMERICAN WATER COMPANY, INC.

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

2 A. My name is Scott Grace, and my business address is 131 Woodcrest Road, Cherry
3 Hill, New Jersey 08003.

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

5 A. I am employed by the American Water Works Service Company Inc. (“AWWSC” or
6 the “Service Company”) as a Principal Regulatory Analyst.

7 **3. Q. What are your responsibilities in this position?**

8 A. My current duties consist of preparing work papers, exhibits, testimony and
9 interrogatory responses in support of rate applications and other regulatory filings for
10 the Eastern Division of American Water Works Company, Inc. (“American Water”).

11 **4. Q. Please describe your educational background and professional associations.**

12 A. I am a graduate of Rutgers University with a Bachelor of Arts Degree in Mathematics
13 with a concentration in Accounting. I am a member of The Association for Financial
14 Professionals. I have obtained my Certified Treasury Professional certification
15 through that association. I have also attended the Utility Rate School sponsored by
16 the National Association of Regulatory Utility Commissioners (“NARUC”).

17 **5. Q. What has been your business experience?**

18 A. I was employed by ATX Communications as a supervisor of accounting services
19 from 1996 to 1999 and as a senior accountant from 1999 through October 2006. My
20 employment with Service Company started in October 2006. I held the position of

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1 cash operations supervisor into 2010. I was promoted to the role of business liaison
2 for the Shared Services Center (“SSC”), to serve as an interface between the
3 operating companies and all finance functions of the SSC. This role transitioned into
4 a process excellence manager role in 2013 and I held that position into March 2017.
5 I have been in my current role of Principal Regulatory Analyst since March 27, 2017.

6 **6. Q. Have you previously testified in regulatory proceedings?**

7 A. No, I have not previously testified in regulatory proceedings.

8 **7. Q. What is the purpose of your testimony in this proceeding?**

9 A. I have prepared, or caused to be prepared, for New Jersey-American Water Company,
10 Inc. (“NJAWC” or the “Company”) certain exhibits and schedules, which reflect its
11 accounting and financial condition and which support NJAWC’s petition for
12 increased rates. The schedules include Exhibit P-2, Schedule 31, Rental Expense;
13 Schedule 33, Leased Vehicle, Fuel & Maintenance Expense; Schedule 34, Postage &
14 Forms; Schedule 35, Security; Schedule 36, Paving; Schedule 40, Audit Fees;
15 Schedule 41, Property Sales; and Schedule 42, Management Audit.

16 **RENTAL EXPENSE**

17 **8. Q. Please explain Exhibit P-2, Schedule 31.**

18 A. Exhibit P-2, Schedule 31 presents the Company’s pro forma rental expense. Line 3
19 sets forth total pro forma expense by the Company. Actual base year expense is
20 shown on line 5. The last line is simply the difference between the pro forma
21 operating expense and base year. Rental expense includes rental fees for property,

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equipment and other rental costs. Pro forma rental expense contains adjustments for new leases, as well as known and measurable increases to existing lease contracts. Please refer to SIR-38 for the development of the pro forma rental expense – real property.

LEASED VEHICLE, FUEL & MAINTENANCE EXPENSE**9. Q. Please explain Exhibit P-2, Schedule 33**

A. Exhibit P-2, Schedule 33 sets forth the pro forma expense for leased and owned vehicles, fuel and maintenance. Lines 3 through 5 show total gross pro forma costs for each category before capitalization. A capitalization rate of 34.8%, representing a three-year average of capitalized costs, was then applied to produce the pro forma capitalized transportation costs shown on line 11. This amount is then deducted from gross costs to arrive at the amount chargeable to operating expense shown on line 13. Actual base year transportation costs as well as the amount capitalized are shown on lines 16 through 19. The last line is simply the difference between the pro forma operating expense and the base year. The Company currently purchases all vehicles and has no lease costs. Therefore, costs on line 3 for pro forma leased & owned vehicles includes costs to put company owned vehicles on the road including title, registration, and fleet administration service fees. The Company has included a complete fleet listing in SIR-40.

10. Q. How did you adjust the base year fuel expense?

A. The basis for this increase came from the website of the Energy Information Administration, which contains the official energy statistics of the U.S. Government.

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The Company used the East Coast Regular Conventional Retail Gasoline Prices (dollar per gallon) base year average of \$2.2154, with the average as of June 5, 2017, of \$2.3130 to obtain an increase of \$0.098 per gallon, or a 4.41% price increase.

11. Q. Did you adjust the base year maintenance expense?

A. Yes, pro forma maintenance expense is based on the three-year average expense from 04/01/2014 – 03/31/17.

POSTAGE AND FORMS

12. Q. Please explain Exhibit P-2, Schedule 34.

A. Exhibit P-2, Schedule 34 presents the Company's pro forma postage and forms expense. Line 5 sets forth total pro forma expense by water operation. Actual base year expense is shown on line 9. The pro forma adjustment on the exhibit is simply the difference between the pro forma operating expense and actual base year expense.

13. Q. How did you develop the pro forma postage expense shown on line 3?

A. We used the base year quantity of each category of mailing that comes through the large meter detail by day. The quantities of each category of mailing are multiplied by the unit price for that category as of the March 31, 2017. The rate the Company pays for 5-digit postage was reduced on 1/22/17. The majority of mailings run through this category as shown on page 2 of SIR-41. The result is a reduction in the postage expense shown on the base year adjusted for known changes line. Actual base year expense for customer letters and dunning was used as pro forma expense.

NEW JERSEY-AMERICAN WATER COMPANY, INC.**14. Q. Please explain the adjustment for test year and post-test year customer growth.**

A. The Company has included customer growth in Exhibit P-2, Schedule 6, so it is therefore appropriate to offset the additional revenue associated to customer growth with postage expense and forms expense related to these new customers.

15. Q. How did you develop the pro forma forms expense shown on line 4?

A. Service Company receives multiple invoices per month from its vendor, Transcentra, Inc., for the following type of forms utilized by the business: Bills, Reminder Notices and Letters. Each Transcentra invoice contains the quantity of each component used multiplied by the unit price stated in the contract. To allot the portion of the charges that belong to NJAWC, the total bill amount is multiplied by an apportion percentage of 22.37%. This apportionment is based on the percentage of printed materials shipped to addresses within the same state. Please refer to SIR-41 work papers for the quantity of each component used in NJAWC along with the unit price for base year ended March 31, 2017.

16. Q. Please list and describe the components that make up the Transcentra invoices.

A. The Transcentra billed invoice components and their descriptions are listed below:

- | | |
|------------------------|---------------------------|
| • QIC04R/QIC05R/QIC08R | Forms |
| • QIC72E | Envelopes |
| • QIC82E | 10" Envelopes |
| • QIC51B | Remit Envelopes |
| • QIC44F | Flat Envelopes |
| • ZZZ060 | First Sheet Printing |
| • ZZZ065 | Additional Sheet Printing |

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1	• ZZZ300	Digital Form Printing
2	• ZZZ500	Tens Postage
3	• ZZZ501	Tens Postage International
4	• ZZZ550	Flats Postage
5	• ZZZ560	Boxes Postage
6	• ZZZ602	Fees for Inserting 1 st Page
7	• ZZZ610	Inserting BRE/Inserts
8	• ZZZ650	Packaging Fee
9	• ZZZ655	Box Packaging
10	• ZZZ695	NCOA Link Address Changed
11	• ZZZ700	Folding Inserts Charge/Nesting
12	• ZZZ720	Handwork Special Handling
13	• ZZZ740	Shipping Fees
14	• ZZZ800	Custom Computer Programming
15	• ZZZ900	Setup Fees

16 **17. Q. What was the source for the unit prices for the above components?**

17 A. Unit prices for each component were taken from base year Transcentra invoices dated
 18 March 31, 2017. The new contract with Transcentra started in February 2017 and is
 19 valid through December 2019. The contract price reductions resulted in a lower pro
 20 forma forms expense as compared to the base year.

21 **18. Q. How did you forecast the quantity of each of these components above?**

22 A. Quantity of each component was kept the same as the base year quantity. Customer
 23 growth adjustments were made for base year and test year growth as well as the
 24 Shorelands acquisition for forms. A pro forma expense per customer was applied to

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1 the customer growth numbers to arrive at the pro forma additional costs due to new
2 customers.

3 **19. Q. How was the sales tax calculated?**

4 A. The sales tax was based on the amount billed to NJAWC from the Transcentra
5 invoices and actual tax paid for the 12 months ended March 31, 2017.

6 **SECURITY**

7 **20. Q. Please explain Exhibit P-2, Schedule 35.**

8 A. Exhibit P-2, Schedule 35 presents the Company's pro forma Security expense. Line
9 3 sets forth total pro forma Security expense by water operations. Actual base year
10 expense is shown on line 5. The last line on the exhibit is simply the difference
11 between the pro forma operating expense and actual base year expense.

12 **21. Q. What types of expenses are included in the security services?**

13 A. Security expenses consist of costs to provide monitoring services for Company
14 locations, physical on-site security staff, cloud service security, SCADA firewall and
15 annual maintenance, risk assessment costs, security equipment, and maintenance and
16 repair of security equipment.

17 **22. Q. How did you develop the total Security expense shown on line 3?**

18 A. Pro forma expenses were developed by analyzing base year charges and adjusting for
19 known and measurable contract rates as well as added known and measurable
20 additional cost for software security. Please refer to SIR-42 for the workpapers for
21 Exhibit P-2, Schedule 35.

NEW JERSEY-AMERICAN WATER COMPANY, INC.**PAVING****23. Q. Please explain Exhibit P-2, Schedule 36.**

A. Exhibit P-2, Schedule 36, presents the Company's pro forma paving expense. Line 3 sets forth total pro forma expense by water and wastewater operations. Actual base year expense is shown in line 5. The last line on the exhibit is simply the difference between the pro forma operating expense and the actual base year expense.

24. Q. How did you develop the pro forma paving expense shown on line 3?

A. The pro forma expense for paving is based on the three-year average as depicted in SIR-43.

AUDIT FEES**25. Q. Please explain Exhibit P-2, Schedule 40.**

A. Audit fees are based on the engagement letter provided to American Water by Price Waterhouse Coopers LLP (PWC) for the period 7/1/2017 through 6/30/2018. The engagement letter outlines the audit costs associated with the services provided by Price Waterhouse Coopers LLP as American Water's independent accountant. NJAWC is allocated a portion of the audit fees as shown on the work paper supplied in SIR-47. Customer count is the basis for the allocation factor plus an amount equally distributed for subsidiary report requirements. The allocation percentage for NJAWC is 18.64% in total. A 1.61% increase was applied to NJAWC's allocated portion of the audit fees based on a two-year average of actual Price Waterhouse Coopers audit bills. A scope change fee adjustment was made for fees incurred in addition to the base fee. This adjustment is equal to the average of the actual prior

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four years. Additional PWC out of pocket audit fee expenses are added to pro forma expense and are equal to the base year expense. The last pro forma adjustment is the addition of incremental costs anticipated from the additional customers associated with the recent Shorelands acquisition shown on SIR-47.

PROPERTY SALES**26. Q. Please explain Exhibit P-2, Schedule 41.**

A. Property Sales expense is related to properties that were held in the Company's rate base and that the Company has sold. Fifty percent of the gain is deferred and returned to the customer. The remaining fifty percent is posted as below the line income. The Company has realized the following gains since the last case: \$57,392 from the sale of 3 S. Clifton Ave in Lakewood; (\$3,060) from the sale of 11 N. 9th Ave. in Manville; \$24,488 from the sale of Block 11509, Lot 6 on Railroad Ave. in Long Hill Township; \$106,322 from the sale of 124 Thatcher's Road in Flemington; \$2,320,088 from the pending sale of 100 James Street in Lakewood (expected to close September 2017). These amounts will be amortized over 24 months. Please refer to the response to SIR-48 for the supporting workpapers.

MANAGEMENT AUDIT**27. Q. Please explain Exhibit P-2, Schedule 42.**

A. Exhibit P-2, Schedule 42 shows the amortization expense associated with the Company's total unamortized costs of the Board of Public Utilities' audit of the Company's management and operations, BPU Docket Number WA09070510 as of September 2015. The Company was authorized to amortize the remaining \$77,244

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1 at \$2,575 per month, starting 10/1/2015 and ending 3/31/2018, through BPU Docket
2 Number WR15010035.

3 **28. Q. Is the company asking for recovery of expenses related to the management audit**
4 **in this case?**

5 A. No, the Company is not asking for recovery, as the balance will be fully amortized
6 as of 3/31/2018.

7 **29. Q. Does this conclude your direct testimony?**

8 A. Yes, it does.