

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

DAVID L. WEBER

Exhibit PT-8

NEW JERSEY-AMERICAN WATER COMPANY, INC.

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

2 A. My name is David L. Weber, and my business address is 131 Woodcrest Road,
3 Cherry 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. (“Service
6 Company”) as Senior Manager of Regulatory Services.

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

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

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

13 A. I received a Bachelor of Arts degree in Accounting from Cedarville University in
14 1992 and a Master of Business Administration degree in Finance from Drexel
15 University in 2000. I am a Certified Management Accountant and a Certified Public
16 Accountant. I have also attended the Utility Rate School sponsored by the National
17 Association of Regulatory Utility Commissioners (“NARUC”).

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

19 A. From 1992 to 1994 I was employed as an Accountant by the public accounting firms
20 of George S. Olive & Co and Brandy, Ware & Schoenfeld, Inc. in Richmond, Indiana.
21 In 1994 I began employment with Service Company as an Accountant. From 1994

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1 to 2001, I held various positions within Accounting and Finance. Since 2001, I have
2 held various positions within Rate Regulation.

3 **6. Q. Have you previously submitted testimony in regulatory proceedings?**

4 A. Yes, I have prepared written, pre-filed testimony before the New Jersey Board of
5 Public Utilities in the Company's 2008 general rate case, BPU Docket No.
6 WR08010020.

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

8 A. I have prepared, or caused to be prepared, for New Jersey-American Water Company,
9 Inc. ("NJAWC" or the "Company") certain exhibits and schedules, which reflect its
10 accounting and financial condition and which support NJAWC's petition for
11 increased rates. The schedules include Exhibit P-2, Other Operations and
12 Maintenance Expense ("Other O&M") - Schedule 46; Property Tax Expense -
13 Schedule 51; Income Tax Expense - Schedule 57; Consolidated FIT component of
14 rate base - Schedule 58, and Deferred Federal Income Taxes (FIT) (accelerated
15 depreciation) component of rate base - Schedule 58.

16 **OTHER O&M EXPENSE**

17 **8. Q. Please explain Exhibit P-2, Schedule 46.**

18 A. Other O&M Expense includes all expenses of delivering service not captured
19 elsewhere. This includes a variety of costs including contract services, building
20 maintenance costs, office supplies, and maintenance of the water and sewer systems.
21 The schedule shows the base year expense as compared to the Pro Forma level of

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1 expense. Base Year expense totaled \$34,255,032. Pro Forma expense is equal to
2 \$35,041,745. This is an increase of \$786,713 or 2.2% from the base year per books.

3 **9. Q. Please describe the adjustments made to the base year to arrive at the pro forma**
4 **expense.**

5 A. Six adjustments were made. The adjustments are described below and more detail
6 can be found in SIR-53.

7 1. Advertising – Removed advertising expenses. The Company is not seeking
8 cost recovery for these expenses.

9 2. Penalties – Removed penalties expenses. The Company is not seeking cost
10 recovery for these expenses.

11 3. Water Diversion Expense – Invoices for Other O&M were miscoded to Water
12 Diversion Expense in the base year. The adjustment reclassified these
13 invoices from Water Diversion Expense to Other O&M. The result of the
14 adjustment is \$365 increase in Other O&M and decrease to Water Diversion
15 Expense.

16 4. DSIC Revenue Under-Recovery – Adjustment to amortize the under-recovery
17 of the Company’s authorized level of DSIC revenues for the period June 2016
18 through December 2018. The Company under-recovered actual DSIC
19 revenues of \$362,613 for the period June 2016 through July 2017 and is
20 projecting an additional \$15,177 through December 2018 for a total under-
21 recovery of \$377,790. The Company is proposing to record the under-

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1 recovery in a regulatory asset and amortize the recovery in base rates over a
2 two-year period.

3 5. Revenue Stabilization Mechanism (“RSM”) Communication Expense –
4 Adjustment to include expenses for customer communication regarding the
5 implementation of the proposed RSM. Please refer to the direct testimony of
6 Company Witness Destefano, Exhibit PT-5, under the section entitled RSM.

7 6. Credit Card Payment Expense – Adjustment to include fees currently incurred
8 by customers paying by credit card or electronic check as discussed in my
9 direct testimony, below.

10 **10. Q. What is the fee that customers are currently charged for paying with a credit**
11 **card?**

12 A. Customers are currently charged \$1.95 for each transaction. The Company has
13 contracted that rate with a third-party vendor responsible for processing the
14 transactions. The transaction is made directly between the customer and the third-
15 party vendor; the Company does not collect the current \$1.95 charge.

16 **11. Q. Will these transaction process fees continue to be incurred?**

17 A. Yes, but the Company is proposing that the fees incurred between the customer and
18 the third-party vendor be recovered through the general ratemaking process, and be
19 paid directly by the Company. The Company’s estimate of the pro forma fees, based
20 upon number of credit card payments made by customers within the base year, is
21 \$599,068.

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1 **12. Q. Do other utility companies offer customers the option of paying with a credit**
2 **card with no fee?**

3 A. Utilities have taken a varied approach. Some charge a fee and others offer customers
4 the credit card payment option free of charge. Jersey Central Power & Light charges
5 customers for making a one-time payment via credit card, but does not directly charge
6 a fee if the customer enrolls in the Automatic Credit Card Payment Program. Suez
7 (formerly United Water) Toms River received Board approval in Board Docket No.
8 WR12090830 to absorb the fees incurred by customers paying via credit card and
9 recover those fees through base rates. Suez does not charge customers for making
10 payments via credit card, but does not currently offer an automatic credit card
11 payment option.

12 **13. Q. What is NJAWC proposing in this case?**

13 A. NJAWC is proposing to provide the no-fee option to customers who make a one-time
14 payment as well as customers who enroll in an automatic credit card payment
15 program.

16 **14. Q. How does the Company's proposal benefit customers?**

17 A. Providing customers with another option for making payments with no direct cost is
18 intended to increase customer satisfaction and incentivize paperless billing.

19 **15. Q. Please explain further.**

20 A. NJAWC is making this proposal in order to continue encouraging customers to use
21 online payment platforms. More than 40% of NJAWC customers pay by mailing a

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1 physical check. In addition to being a “green alternative” to submitting payments by
2 mail, the Company anticipates that customer satisfaction will improve.¹ Our
3 customers pay their other bills by credit card with no additional charge and we will
4 simply be affording them the same opportunity.

5 **16. Q. Are there any studies that the Company can point to that support increased**
6 **customer satisfaction?**

7 A. Yes, the 2016 J.D. Power & Associates Electric Utility Residential Customer
8 Satisfaction Study found that customers who were given the option of paying without
9 a fee had a higher customer satisfaction index. The same study also cited “Fee-Free
10 Card Payment” options as a “Best Practice.”

11 **PROPERTY TAX EXPENSE**

12 **17. Q. Please explain Exhibit P-2, Schedule 51.**

13 A. Property Taxes are owed to the municipalities in which New Jersey-American has
14 property. Property taxes are assessed annually and paid quarterly. These payments
15 are recorded on the Company’s balance sheet as prepayments and amortized monthly
16 to expense. Base Year expense totaled \$5,296,203. Pro Forma expense is equal to
17 \$5,300,848. This is an adjustment of \$4,645 from the base year per books.

18 **18. Q. Please describe how pro forma Property Tax expense was calculated.**

19 A. The pro forma was calculated by making adjustments to a baseline annual expense.
20 The baseline expense includes bills for the four quarters ending August 2016,

¹ 2016 J.D. Power & Associates Electric Utility Residential Customer Satisfaction Study.

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1 November 2016, February 2017, and May 2017. Two adjustments were made to the
2 baseline expense. First, the baseline was reduced by an amount of tax savings
3 expected as a result of successful appeals by the company. Second, the baseline
4 expense was increased by a compound annual growth rate (CAGR) of 0.44% to
5 account for anticipated increase in cost from the baseline to the test year period. The
6 CAGR was calculated using four years of expense from April 2013 to March 2017
7 and increased the pro forma expense by \$23,368.

FEDERAL INCOME TAX EXPENSE

8 **19. Q. Please explain the Federal Income Tax calculation on Exhibit No. P-2,**
9 **Schedule 57.**

10 A. Exhibit No. P-2, Schedule 57 calculates pro forma current and deferred income
11 expenses under both present rates and proposed rates. Current Tax Expense is
12 calculated as pro forma Operating Revenues less pro forma Tax Deductions. The tax
13 deductions include a reduction for permanent, non-deductible items and an increase
14 for tax depreciation over book depreciation. Deferred Tax Expense is equal to Tax
15 Depreciation Over Book Depreciation times the statutory tax rate of 35%. Deferred
16 Tax Expense was also adjusted for the amortization of excess deferred tax liabilities
17 under the Reverse South Georgia method as well as flow through of amortization of
18 income tax regulatory assets.
19

CONSOLIDATED FIT

20 **20. Q. Please explain the calculation of the Consolidated Federal Income Tax**
21 **component of rate base on Exhibit No. P-2, Schedule 58.**
22

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1 A. The Consolidated Federal Income Tax calculation was done in compliance with the
2 methodology adopted by the BPU in Docket No. EO12121772. The calculated
3 consolidated tax adjustment is \$1,576,494 with a resulting reduction to the
4 Company's rate base of \$394,198 after the application of 75%/25% sharing
5 methodology.

DEFERRED FEDERAL INCOME TAXES

7 **21. Q. Please explain how the reduction to rate base for "Deferred Federal Income**
8 **Taxes ("Deferred F.I.T.") (accelerated depreciation)" on Exhibit No. P-2,**
9 **Schedule 58, was determined.**

10 A. Base Year Deferred F.I.T. (accelerated depreciation) on plant in service at March 31,
11 2017 represents the actual balance per the books and records of the Company. Test
12 year activity through March 31, 2018, and certain post-test year additions through
13 September 30, 2018, have been calculated based on current year experience and
14 committed construction. Tax depreciation on 2017 and 2018 committed construction
15 has been calculated on a twenty-five year straight-line basis as specified for water
16 utility property in the Small Business, Health Insurance and Welfare Reform Acts of
17 1996. The pro forma calculations are shown in the Company's response to SIR-61.
18 The Company has reflected Bonus Depreciation at 50% for 2016 and 2017 and 40%
19 for 2018. Additionally the Company has reflected Repairs Expense for all years since
20 2008 and through 2018.

21 **22. Q. Does this conclude your direct testimony?**

22 A. Yes, it does.