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, AND
OTHER TARIFF MODIFICATIONS

BPU Docket No. WR1912____

Direct Testimony of

JOHN S. TOMAC

Exhibit P-6

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NEW JERSEY-AMERICAN WATER COMPANY, INC.

Introduction

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

A. John S. Tomac, 1 Water Street, Camden, New Jersey.

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

A. I am employed by American Water Works Service Company, Inc. ("AWWSC" or "Service Company") as the Senior Director of Rates & Regulatory for New Jersey-American Water Company, Inc. ("NJAWC" or the "Company"), Virginia-American Water Company ("VAWC'), New York American Water Company, Inc., ("NYAW") and Maryland- American Water Company, Inc. ("MAW").

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

A. My present responsibilities include managing the rates and regulatory functions for NJAWC, NYAW, VAWC, and MAW focusing on strategic planning in a regulatory environment. As Senior Director of Rates and Regulatory, I am also a member of NJAWC's Senior Management Team, and I participate in the decision making process for all functional areas of the Company.

4. Q. Please describe your educational background and business experience.

A. Please refer to Appendix A for a summary of my educational background and business experience.

5. Q. Have you previously testified in regulatory proceedings?

A. Yes, I have testified before the New Jersey Board of Public Utilities ("BPU") in BPU Docket No. WR17090985, as well as before the Virginia State Corporation Commission and the West Virginia Public Service Commission. I have also testified extensively before the Connecticut Public Utility Regulatory Authority from 1984 to 2012.

6. Q. Are you generally familiar with the book of accounts and related records of the Company?

A. Yes, I am.

7. Q. What system is followed in keeping the general books of accounts and related records of the Company?

A. The general books of accounts and related records of the Company are kept in conformity with the Uniform System of Accounts ("USOA").

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

A. The purpose of my direct testimony is to support the Company's revenue requirement calculation in this case, which is based on a test year ending June 30, 2020, including *pro forma* adjustments to the test year Income Statement and Statement of Rate Base. I will discuss certain elements of the revenue requirement, including the calculation of rate base and related depreciation and amortization expense, as well as the components and computation of the Company's proposed capital structure. I will also sponsor various financial and accounting data required by the Board's regulations as set forth in Section 14:1-5.12 of the New Jersey Administrative Code ("NJAC"). Finally, I will discuss the Company's proposal with respect to lead service line cost recovery and the net book value adjustment for acquisitions proposed in this proceeding.

9. Q. Do you sponsor any Schedules in your Direct Testimony?

A. The Schedules listed below are attached to the Petition as Exhibit P-2. I am sponsoring Schedules, RR, 1-4, 8-9 and 15-17 which were prepared by me or under my supervision and direction. Company Witness Hawn will sponsor Schedules 6, 7, 10, 11-14 and 18 as part of her direct testimony and Company Witness Rea will sponsor Schedule 5 and part of his direct testimony.

- Schedule RR- Revenue Requirement Computation
- Schedule 1 Comparative Balance Sheet
- Schedule 2 Comparative Income Statement
- Schedule 3 Balance Sheet at November 30, 2019
- Schedule 4 Pro-forma Income Statement under present and proposed rates and rate of return
- Schedule 5 Statement of Operating Revenues
- Schedule 6 Statement of Operating and Maintenance Expenses
- Schedule 7 Uncollectible Expense
- Schedule 8 Summary of Depreciation and Amortization
- Schedule 9 Statement of Depreciation
- Schedule 10 Statement of Taxes Other than Income Taxes

- Schedule 11 Gross Receipts and Franchise Tax
- Schedule 12 Utility Assessments
- Schedule 13 Water Monitoring Tax
- Schedule 14 Federal Income Tax Calculation
- Schedule 15 Statement of Rate Base
- Schedule 16 Weighted Cost of Capital
- Schedule 17 Consolidated Tax Adjustment
- Schedule 18 Schedule of Payments to Affiliated Companies

TEST YEAR

10. Q. What test year period is NJAWC using to determine the revenue requirement in this proceeding?

A. NJAWC's test year is the twelve month period ending June 30, 2020. This filing utilizes five months of actual data ending November 30, 2019 and seven months of estimated data through June 30, 2020. The actual data has been obtained from the Company's books and records. The estimated data will be replaced with actual data as the case progresses, ultimately containing all actual results in the 12-month update.

11. Q. Has NJAWC included any post-test year adjustments in the determination of the proposed revenue requirement?

A. Yes. NJAWC is proposing to reflect changes in certain capital expenditures through December 31, 2020 and changes in certain revenues and expenses through

March 31, 2021, as described later in my Direct Testimony as well as the Direct Testimony of Mr. Donald C. Shields (Exhibit P-5) and Ms. Jamie Hawn (Exhibit P-7). Including these post-test year adjustments is consistent with standards previously adopted by the Board and provides for an annualization and/or adjustment of revenues, expenses and capital expenditures through the time period in which they are expected to be in effect. Specifically, the Board's policy concerning post-test year adjustments set forth in its order *Re Elizabethtown Water Company*, Docket No. WR8504330, is that utilities are afforded an opportunity to make a record concerning known and measurable changes to expenses and revenues that are nine months beyond the test year and changes in rate base that are six months beyond the test year. The post-test year adjustments included in this case are further discussed below.

12. Q. Please describe the Company's revenue requirement.

A. The Company's revenue requirement is equal to the cost of providing water and fire service to approximately 652,000 customers and sewer service to approximately 50,000 customers in 220 communities in 18 counties throughout the State of New Jersey. This includes everything from sourcing water supply, treating and monitoring that supply to ensure water quality compliance and pumping and distributing adequate supply through approximately 9,200 miles of main, to providing high quality customer service to our customers through two customer service centers, 24-hour emergency call handling, and providing self-service options, and everything in between. These efforts ensure that our customers can count on safe, clean, reliable drinking water, sanitation, and fire protection service year round.

To accomplish all of this, the Company incurs costs for which it seeks recovery through the ratemaking process. The Company's costs include a variety of operating expenses, depreciation and amortization, and various local, state and federal taxes, combined with an opportunity to earn a fair return on the Company's rate base that support NJAWC's provision of safe and reliable service to all of its customers.

13. Q. What is the revenue requirement NJAWC is proposing in this case?

A. The Company projected revenue requirement in this proceeding, equal to the cost of providing service, is approximately $802 million, as supported by Company witnesses in this proceeding.

14. Q. Please describe how you calculated the Company's revenue deficiency.

A. The Company's revenue deficiency is measured as the difference between the forecasted revenue requirement and the Company's forecasted revenues including the Distribution System Infrastructure Charge ("DSIC") at present rates. The Company's revenue deficiency proposed in this application is calculated to be $87.8 million which represents an approximate 12.3% deficiency. The Company calculated a rate of return of 5.934% under present rates and 7.566% under proposed rates when calculated on the proposed rate base approximating $3.6

billion. The requested increase is also based on a rate of return on common equity of 10.50%.

15. Q. What are the overall drivers of the requested increase?

A. The proposed revenue increase is principally driven by capital investment since the Company's last base rate case (BPU Docket No. WR17090985) (the "2017 Rate Case"). Of the proposed increase of $87.8 million, nearly 70% is driven by new capital investments to ensure that our customers continue to receive safe and reliable service. A primary driver for rate relief in this proceeding is the value of NJAWC's investment in infrastructure and our ability to earn a reasonable return on that investment. The impact of the proposed rate increase, however, is somewhat offset by NJAWC's efforts to secure financing that resulted in an overall cost of debt proposed in this filing of 4.06%, which is approximately 90 basis points lower than the cost of debt of 4.95% authorized in the 2017 Rate Case.

16. Q. Are increases in O&M expenses a significant contributor?

A. No, they are not. While operating expenses have increased since the Company's 2017 Rate Case, the Company's overall O&M expense must be put into perspective. The Company is seeking to recover $219 million in operating expenses, which represents expense levels into 2021. In 2010, the Company's operating expenses were $216 million. So, for a period of 10 years O&M expenses have remained relatively flat (a 1% increase) and translates into a reduction in O&M expense per customer from $335 in 2010 to $309 in this application. This is result of the Company's effort to control costs while acquiring new water and wastewater systems. Since 2010 the Company has added over 63,000 new customers through acquisitions and organic growth. This not only allows for the Company's O&M costs to be spread over a larger base but all other costs as well. If the Company's O&M expense per customer were the same as in 2010, total O&M expenses proposed in this case would be approximately $238 million at pro-forma customer levels versus $219 million proposed in this application. This is a remarkable achievement and is testament to the Company's commitment to operating efficiency. As Company witness Mr. Shroba explains in his direct testimony, the Company strives to manage costs as efficiently as possible to provide a more cost-effective level of service for our customers over the long term.

17. Q. What is the impact of the proposed rate increase on customer bills?

A. As proposed, the average residential water customer's monthly bill, using 5,400 gallons per month, would increase $6.46 from the current charge of $55.89 to $62.35, an increase of $.21 per day. The annual bill for the average residential water customer would be $748.17 per year, an increase of $77.47. Even at the proposed rates, water costs remain a good value. Proposed water costs would approximate $2.05 per day, or $.01 per gallon.

FILING REQUIREMENTS

18. Q. Please describe Exhibit P-2, Schedules 1 through 4 and schedule RR

A. Schedule 1 reflects the Comparative Balance Sheets have been prepared from the books and records of the Company. None of the statements or schedules contained in this Petition, either present or pro-forma, include any financials for NJAWC's subsidiary, Environmental Disposal Corporation ("EDC").

Schedule 2 is a "Comparative Statement of Income" for the twelve-month periods ended December 31, 2016, 2017 and 2018, respectively, as recorded from the Company's books and records. Schedule 2 also includes dividend payments on preferred and common stock of the Company for each twelve-month ended period.

Schedule 3 shows a Balance Sheet for the period ending November 30, 2019.

Schedule 4 reflects the Company's income statement on a pro forma basis under present and proposed rates. Column (2) on Schedule 4 indicates the results for the period ended June 30, 2020 (the test year) based on 5 months actual and seven months projected. Annualized and normalized adjustments are made to the Test Year to reflect known or measurable changes in the Company's operations through March 31, 2021. The result is a pro forma income statement that is representative of the Company's prospective financial condition. Schedules 5, 6, 8, 10, and 14-16 support the values on Schedule 4.

This schedule is new and has been added to the application. Schedule RR supports the computation of the proposed revenue increase and the calculation of the gross-up factor. Schedules 4, 7, 11, 12, 15 and 16 support Schedule RR.

Rate Base

19. Q. Please describe the rate base components as shown on Exhibit P-2, Schedule 15.

A. The proposed rate base in this application amounts to $3.69 billion. Rate base was calculated in the traditional manner and in accordance with past practices. The calculation of rate base starts with utility plant in service ("UPIS") less accumulated depreciation to arrive at net utility plant. Cash working capital, utility plant acquisition adjustments and prepayments were then added to net utility plant. Customer advances for construction and contributions, MTBE and sulfate settlements, pre 1971 ITC, consolidated FIT tax adjustment and deferred taxes were deducted from net utility plant. The components of rate base are shown on Exhibit P-2, Schedule 15.

20. Q. Please explain how the components of rate base were calculated.

A. The balance for UPIS was calculated starting with the actual balance as of November 2019. Forecast plant additions for the period December 2019 through June 30, 2020 were then added and estimates for plant retirement for the same period were deducted to develop the estimated test year ending balance of June 30, 2020. The Company also included forecasted plant additions, reduced for plant retirements for the six-month post-Test Year period ending December 31, 2020. The Company's post-test year capital expenditures for utility plant include all known and measurable capital projects for that period as well as the roll in of the DSIC capital expenditures.[1] The forecast plant additions are discussed further in the direct testimony of Mr. Don Shields.

21. Q. Please explain the methodology used to compute accumulated depreciation as shown on Exhibit P-2, Schedule 15 and all proposed post-Test Year adjustments.

A. The computation of accumulated depreciation as of December 31, 2020 as set forth on Exhibit P-2, Schedule 15 is consistent with prior cases. It begins with the actual balance at November 30, 2019 and computes the additional depreciation expense beginning with that period through June 30, 2020 and then again for the period July 1, 2020 through December 30, 2020 on all assets that will be in service at that date.

The computation of depreciation expense can be seen on Exhibit P-2, Schedule 9. Depreciation expense uses both the life and cost of removal rate for computation of depreciation expense authorized in the last base rate case. The accumulated depreciation reserve is reduced for estimated retirements and cost of removal charges through June 30, 2020 and then through December 30, 2020. Projections for retirements are based on a three year average for the period July 1, 2016 through

[1] In past applications, the Company had only included in the post-test year projects that were determined to be major in nature and consequence. In this application we are including all capital projects in the post-test year as additions to utility plant in service as they are known and measurable.

June 30, 2019. Cost of removal charges are also based on the same three year average. The accumulated depreciation reserve also reflects the continued return to customers of a Non-Legal Asset Retirement Obligation of $48 million at $1.2 million a year over a forty year period as established in the Stipulation of Settlement in Docket No. WR08010020.

22. Q. Please explain the methodology used to compute cash working capital as shown on Exhibit P-2, Schedule 15, and any post-Test Year adjustments.

A. The calculation of cash working capital is provided by Mr. Harold Walker. Please see Mr. Walker's direct testimony and schedules filed as part of the application.

23. Q. Did the Company include utility acquisition adjustments in rate base?

A Yes. In addition to the acquisition adjustments previously approved by the BPU, the Company has included the acquisition adjustments for the acquisitions of Shorelands Water Company, Inc. ("Shorelands") and the Borough of Haddonfield's Water and Sewer System ("Haddonfield") that were included in the last base rate case as well as the acquisition adjustment that pertains to the newly acquired Roxbury Water Company. I will discuss the inclusion of the acquisition adjustments later in my direct testimony.

24. Q. Please explain the methodology used to calculate customer advances and contributions in aid of construction and any proposed post-Test Year adjustments.

A. The computation of customer advances begins with the actual balance at November 30, 2019 and adds the amount of new advances the Company expects to receive for the period December 1, 2019 through June 30, 2020 and for the period July 1, 2020 through December 30, 2020 based on capital budget projections. For contributions in aid of construction, the balances at June 30, 2020 and December 31, 2020 are each lower than the November 30, 2019 starting balance. This is a result of the amortization of contributions in aid construction over the life of underlying assets the contributions originally funded.

25. Q. Please explain the rate base reduction for MTBE and Aluminum Sulfate Settlements.

A. The Company has received funds from settlements in both MTBE and Aluminum Sulfate litigation. The rate base reduction is the mechanism by which funds received are shared between customers and shareholders. The Company received approximately $950,000 to date for the Aluminum Sulfate related settlement in June 2019, which has been applied as an additional reduction to rate base in this Application. This represents 85% of the settlement amount. The remaining 15% was retained by the Company as with past practices.

26. Q. Please explain the rate base reduction for pre-1971 investments tax credits.

A. Investments tax credits taken before 1971 are being amortized through 2050.

27. Q. Has the Company calculated a CTA in the manner required by the BPU's regulations?

A. Yes. The Company computed its consolidated tax adjustment in accordance with the BPU's regulations clarifying the consolidated tax adjustment ("CTA") methodology for rate case filings for public utilities whose parent companies file consolidated federal income tax returns, *see* N.J.A.C. 14:1-5.12(a)(11) ("CTA Rule" or "Rule"). Under the recently enacted rule, the CTA is to be calculated using each affiliate's taxable income/loss for each of the five consecutive years (including the complete tax year within the utility's test year) using statutory income tax rates or the alternative minimum tax, whichever is applicable. The rule provides that rate base may be reduced by up to 25 percent of the full CTA.

28. Q. Is the Company proposing a reduction to rate base relating to a consolidated tax adjustment?

A. No. The Company's calculation of the CTA using the BPU's recently enacted CTA rule results in a rate base reduction of zero as the Company's taxable income has been negative for four out of the last five years. A rate base reduction will result only if taxable income of the Company is greater than zero. Accordingly, no CTA should be made to rate base.

29. Q. Please explain how the amounts of deferred income taxes were calculated as part of rate base.

A. Deferred income taxes are a result of timing differences between book and tax depreciation as a result of the normalization process. The computation begins with the actual values at November 30, 2019. Deferred taxes are increased by computing the difference between book and tax deprecation times the federal statutory rate of 21% on the capital additions for the period December 1, 2019 through June 30, 2020 and then again for the period July 1, 2020 through December 31, 2020. This computation increases deferred taxes which results in a further reduction to rate base. The Company then reduced deferred income taxes for the pass-back of excess deferred income taxes the Company expects to return to customers over a twelve month period beginning January 1, 2020.

In the Company's Tax Cuts and Jobs Act proceeding before the BPU, On December 9, 2019 the Company submitted a proposal to the BPU requesting that the pass-back amount be $12.5 million in 2020. As a result of this proposal, deferred EDIT will decrease as the tax is returned to customers and rate base will increase by the reduction in the regulatory liability by $6.3 million at the end of the test year, June 30, 2020, and by an additional $6.2 million at the end of the post-test year, December 30, 2020.

30. Q. Why is it important to include all capital additions in the post year?

A. Pursuant to *Elizabethtown,* the Company has the opportunity to make a record with regard to changes to rate base for a period of six months beyond the end of the test year, provided: there is clear likelihood that the proposed utility plant additions will be in service by the end of the six month period; that the utility plant additions are major in nature and consequence; and that the utility plant additions be substantiated with very reliable data. As the BPU knows and Mr. Shields demonstrates in his testimony, NJAWC has a track record of completing its capital program as planned year after year.[2] Consequently, it is likely that it will do so again in 2020, and the data provided to support the capital investments through December 31, 2020 can be relied upon by the BPU.

In addition, although *Elizabethtown* discusses the concept of major in nature and consequence, it fails to define exactly what that means. Listing a series of larger projects based on an amount that is undefined and often debatable, while not including other projects and improvements just as important in providing service to our customers disregards the fact that the Company should recover its costs for UPIS during the time those rates are in effect. In light of the level of investment the Company makes every year and its track record of completing the capital investment it plans each year, it is reasonable to allow the Company to recover its capital costs and associated depreciation expense on assets that are completed, and in service when new rates are in effect. Undue regulatory lag is perpetuated without timely cost recognition of these in-service utility plant assets. The Company is simply asking for recovery of its capital investments that are in service and for which the customer is benefiting at the time new rates are in effect. This is not radical ratemaking. In fact, establishing revenue requirements based on a rate base which includes utility plant that is in service is essentially setting rates based on a historical perspective.

[2] Given the timing of this filing and absent a settlement of this case, it is likely that the post-test year utility plant additions in this application will be completed and in-service by the time this proceeding is adjudicated.

In addition, as discussed below, the capital additions in this application are funded by the proposed capital structure. The debt portion of the capital structure includes proposed refinancing's that take place late in the post-Test Year that have reduced the overall cost of debt. Since the post-Test Year capital additions reflect the funding requirements of the capital structure at December 30, 2020, all capital additions should be included in rate base.

31. Q. Please explain how future DSIC filings impact the Company's proposed post-Test Year plant additions.

A. The Company will file its third foundational filing pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:9-10.1 et seq. shortly after the filing of this Petition. If approved, the filing allows for annual revenue increases occurring in six month intervals over a period of 24-36 months. The revenue increases would commence approximately eight months after approval of the filing, as DSIC related infrastructure is renewed or replaced. If DSIC related infrastructure completed in the post-Test Year is included in rate base for the purpose of computing revenue requirements here, the Company's first DSIC filing subsequent to the implementation of a general rate increase will result in a lower DSIC rate. This is a result of eliminating the "gap" period of capital spending that has been included in previous DSIC filings that will now be included in base rates. In addition, because the Company's base spend must be met annually for the DSIC, and the capital spend included in the first filing will not include the GAP period spend, the Company will not likely reach the 5% cap until its fourth DSIC surcharge filing. Currently, the Company will reach the cap with the third DSIC surcharge filing. This will smooth out the amount of the DSIC surcharge over a longer period of time.

Capital Structure

32. Q. What is the purpose of determining the Company's capital structure?

A. The capital structure is used to compute the Company's weighted average cost of capital ("WACC") in this proceeding. The WACC is the overall rate of return that is applied to the Company's rate base. The Company's WACC reflects, among other things, the rate of return on common equity ("ROE") recommendation presented in the direct testimony of Ms. Ann E. Bulkley.

33. Q. What capital structure did the Company use to calculate the revenue requirement in this case?

A. The Company used the capital structure for the forecasted period ending December 31, 2020. The capital structure proposed by the Company is shown on Exhibit P-2, Schedule 16. Schedule 16 indicates the capital structure and WACC on which the Company based its cost of service and revenue requirement in this case. The proposed capital structure is composed of 44.54% long-term debt and 54.46% common equity.

34. Q. Why did you choose to forecast the capital structure to the period ending December 31, 2020?

A. While *Elizabethtown* generally provides for pro forma capital structure adjustments that extend three months beyond the test year, the Company believes it is reasonable and appropriate to look out six months to December 31, 2020 because it is in our customers' best interest to do so. Two major refinancing's totaling $75 million that will reduce the cost of long-term debt are projected to occur during the last quarter of 2020. By capturing pro forma adjustments to the capital structure through December 31, 2020, it aligns the Company's capital additions included in rate base with the funding of that rate base.

35. Q. In what manner does the Company currently obtain its long-term and short-term debt?

A. The Company primarily utilizes the services of American Water Capital Corp. ("AWCC") to meet its long-term and short-term debt requirements. AWCC is an American Water subsidiary, and an affiliate of NJAWC. AWCC was created to consolidate the financing activities of the operating subsidiaries, to effect economies of scale on debt issuance and legal costs, to obtain lower interest rates through larger debt issues in the public/private markets, and to use more cost-effective means of obtaining short-term debt (used to bridge the gap between permanent financings) than the bank lines of credit used previously. Participating in AWCC debt issuances has allowed the Company to obtain debt at lower interest rates and incur lower issuance and transaction costs by utilizing the combined size and resources of the larger American Water system. In addition, the Company has obtained tax-exempt long-term debt financing through the Drinking Water State Revolving Fund Program administered by the New Jersey Infrastructure Bank ("iBank"), formerly known as the New Jersey Environmental Infrastructure Trust ("NJEIT"), and also through the New Jersey Economic Development Authority.

36. Q. What factors require the Company to seek additional capital?

A. The Company has documented in past rate cases and in this filing that capital improvements to meet the new and changing regulations in the water industry, to replace aged treatment and distribution facilities, and to provide quality, reliable water service to its customers have driven, and will continue to drive, the need for new capital. In addition to the $72 million of new long-term debt issued through AWCC on May 13, 2019, the Company's proposed capital structure includes a new long-term debt financing through AWCC in the amount of $99 million and total borrowings of $12.86 million through the iBank. NJAW's proposed capital structure also includes equity infusions from American Water totaling $85 million for the forecasted period. It is important that the Company maintain a strong financial position to allow it to continue to attract capital at a reasonable cost, which will assist the Company in its effort to provide service improvements at the least possible cost to its customers.

37. Q. Please explain the planned long-term debt financing through AWCC included in this filing.

A. The Company's proposed capital structure includes $99 million of new long-term debt to be placed through AWCC in May 2020. The Company used an expected taxable interest rate of 3.53% for this financing. This rate is based on the projected rate for a 30-year U.S. Treasury bond ("Treasury") for May 2020, plus a credit spread.

38. Q. Why did the Company assume a 30-year term to estimate the interest rate on the new long-term AWCC debt issuance?

A. The Company's expectation is that the new long-term debt will be a 30-year taxable offering by AWCC, for which NJAWC will issue a note to AWCC for its share of the total debt placement. The basis for assuming a 30-year term is that it more closely matches the expected life of the utility plant assets being financed than would the use of shorter-term maturities.

39. Q. How did you determine the interest rate for the new long-term debt issuance?

A. The rate projection developed for the new long-term debt issue in 2020 is based on the rate for a 30-year Treasury taken from Bloomberg's forward yield curve on August 13, 2019. The projected rate for May 2020 was 2.23%. Added to this rate is 1.30% to capture the estimated spread at which AWCC will issue above the 30-year Treasury rate. Using the base rate of 2.23% and a spread of 1.30% produces the overall estimated issue rate of 3.53%. Based on the assumption that the Company will issue a 30-year bond, and on the methodology used to develop the projection discussed above, the estimated interest rate of 3.53% for the new long-term debt issuance is reasonable.

40. Q. Please explain the planned long-term tax-exempt debt financings through the iBank included in this filing.

A. The Company currently has construction loans through the iBank that total $12.8 million. The Company expects that these loans will be converted to long-term debt prior to December 31, 2020, which is the forecasted date of the Company's capital structure in this case.

41. Q. How did you estimate the interest rate for the new iBank loans?

A. The interest rate that is assigned to loans obtained through the iBank will be calculated as 75% of the market rate at the time of close. The market rate is based on the 30-year U.S. Treasury yield, consistent with the iBank' s AAA rating. As of November 29, 2019, the yield on a 30-year U.S. Treasury bond was 2.21%. Multiplying that rate by 75% results in a rate of 1.65%. Based on this formula, the Company applied a rate of 1.65% to the new iBank loans. Although this is a reasonable assumption given the inputs noted above, the Company will monitor this rate and reflect any changes in its update filings through the pendency of this case.

42. Q. Does NJAWC intend to refinance any of its existing long-term debt issues during the Test Year or post-test year period?

A. Yes, NJAWC's effective cost of long-term debt reflects the plan to refinance seven tax-exempt debt issues between December 1, 2019 and December 31, 2020. The refinancing of these debt issues is dependent upon market interest rates remaining at levels low enough to provide net interest savings. The terms of these seven secured tax-exempt debt issues, including their call dates, projected refinance rates, and projected refinance dates, are shown in the table below.

Current Coupon Rate	Issue Date	Maturity Date	Principal Amount Outstanding@ Nov 30, 2019	Call Date	Projected Re-Fi Rate	Projected Re-Fi Date
5.000%	10/20/2009	10/1/2039	$ 10,500,000	10/01/2019	2.200%	12/31/2019
5.700%	10/20/2009	10/1/2039	$ 134,225,000	10/01/2019	2.375%	12/31/2019
5.600%	07/09/2010	11/1/2034	$ 110,000,000	05/01/2020	2.375%	06/15/2020
4.450%	07/09/2010	6/1/2023	$ 15,300,000	06/01/2020	1.450%	06/15/2020
5.100%	07/09/2010	6/1/2023	$ 24,700,000	06/01/2020	1.550%	06/15/2020
4.875%	11/01/2010	11/1/2029	$ 35,000,000	11/01/2020	2.375%	12/15/2020
4.700%	11/01/2010	12/1/2025	$ 40,000,000	12/01/2020	2.000%	12/15/2020

NJAWC's updated filings in this case will reflect the actual terms of any refinancing's that occur.

43. Q. What is the Company's effective cost of long-term debt?

A. As shown on Exhibit P-2, Schedule 18, page 2 of 2, the effective cost of long-term debt, based on the projected principal amount outstanding of $1.53 billion at December 31, 2020, is 4.0574%.

44. Q. What amount of savings will the customer see as a result of the refinancing's?

A The effective cost of long-term debt rate as approved in the 2017 Rate Case was 4.9568%. Based on the projected principal amount outstanding of $1.53 billion at December 31, 2020 and using a new effective cost of long-term debt rate of 4.0574%, customers will see a $13.7 million saving in annual interest expense versus the 2017 Rate Case.

45. Q. You noted previously that the Company's forecasted capital structure at December 31, 2020 reflects the addition of equity infusions from American Water totaling $122 million. When are these infusions expected to occur?

A. The Company's forecast includes a $22 million equity infusion in December 2019 and a $63 million equity infusion in January 2020. These equity infusions will be booked to paid-in capital. The total forecasted common equity balance at December 31, 2020 is $1.83 billion.

46. Q. What WACC is the Company requesting in this case?

A. The overall WACC being requested is 7.5660%, as shown on Exhibit No. P-2, Schedule 16. The Company is requesting the ROE be set at 10.5%, which is the ROE recommended by Company witness Ann E. Bulkley.

Lead Service Line Replacement Program

47. Q. Please describe NJAWC's lead service line replacement program ("LSLR Program").

A. As a part of the Company's main replacement program, the Company proposes to replace the entire lead portion of the service line (both Company and customer-owned) when it discovers service lines containing lead. Replacing service lines containing lead in conjunction with main replacements is a cost effective, efficient, and responsible way to address the health and safety concerns otherwise present with lead service lines ("LSLs").

48. Q. What is the estimated cost of replacing customer-owned lead service lines?

A. As indicated in the direct testimony of Mr. Shields, NJAWC estimates that approximately 10,000 customer owned LSLs could exist. The Company is proposing to replace customer owned LSLs within the next 10 years as it encounters them in connection with its main replacement program. The 10 year period aligns with the Governor's objective to remove LSLs in New Jersey within 10 years.

As indicated by Mr. Shields, the estimated replacement cost is on average approximately $3,000-$5,500 per customer-owned LSL when performed in conjunction with a main replacement project as proposed by the Company. The total cost of replacing 10,000 customer-owned LSLs amounts to approximately $30 million to $55 million. If the Company averages $5 million in LSL replacements each year, this represents less than 1.5% of the Company's annual capital investments.

49. Q. Has the Company replaced customer-owned LSLs as part of its main replacement program?

A. Yes. As Mr. Shields explains, to date, the Company has replaced 610 customer-owned LSLs at a cost of approximately $1.8 million.

50. Q. Is the Company proposing a specific regulatory treatment for the costs incurred to date for customer-owned LSL replacements?

A. Yes. The Company has a Petition pending before the BPU requesting authority to record and defer on its books a regulatory asset that represents the cost of all customer-owned LSL replacements made beginning in 2017 in rate base as UPIS.[3] The Company has deferred the costs incurred to date in the amount of $1.4 million.[4] For purposes of this Petition, however, the Company has recorded those costs in its UPIS balance.

51. Q. How does the Company propose to account for its LSLR Program costs going forward?

A. In accordance with the USOA, the Company records the cost of replacing company-owned LSLs in Account 345 – Services. The Company is proposing to also include the costs to replace the customer-owned LSLs in USOA Account 345 as part of its LSLR Program, and seeks BPU approval for this approach.

52. Q. Why is the Company proposing to record the customer-owned LSL replacement costs in USOA Account 345 – Services?

A. In accordance with USOA Account 345, capitalized services include the installation cost of pipes and accessories. This account includes the replacement of the Company's LSLs, as well as other restoration cost items such as disturbed pavement, cutting and replacing pavement, pavement base, sidewalks, and curbing. Restoration costs also generally include costs related to repairing the property owned by others, and other general costs in connection with restoring areas to a

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[3] *In the Matter of the Petition of New Jersey-American Water Company, Inc. for Deferral Accounting Authority for the Financial Impact of Damage Related to the Environmental and Legal Issues Incurred with Customer Side Lead Service Replacement*, BPU Docket No. WR17040402.

[4] This amount does not include the $440,000 that was written off in connection with the Partial Stipulation approved by the BPU in the Company's last rate case (BPU Docket No. WR17090985).

safe or prior condition. The replacement of customer-owned LSLs is similar to the restoration of other customer owned property. The LSL is restored (replaced with new material) for safety reasons - to mitigate the potential increased health risk of lead contamination following physical disturbances from infrastructure work in the area. Mr. Shields discusses the potential impact of disturbing customer-owned LSLs and facilities and partial LSL replacements in his testimony. NJAWC should capitalize these restoration expenditures to plant as part of its overall project costs, consistent with USOA guidelines.

53. Q. Why is it appropriate for NJAWC to capitalize the costs to replace customer owned LSLs if NJAWC will not own them?

A. Although NJAWC would not own the customer's LSL after the Company replaces it, the Company's investment is part of a prudent expenditure incurred on behalf of its customers to maintain safety and public health. Replacing aging infrastructure often can disrupt or damage the assets of others, including customers, private entities and municipalities. NJAWC, like other utility companies, routinely incurs costs to restore those assets. These assets include pavement, sidewalks, curbing, driveways and landscaping. The Company capitalizes and recovers infrastructure costs associated with restoring other entities' assets that it disturbs or damages as part of its aging infrastructure replacement programs. NJAWC books the restoration costs to the Company's property account for its underlying capital project (such as mains or services) even though the pavement, driveways, landscaping, etc., including the newly restored portions, remain the property of the municipality, customer or other third party. Consequently, what the Company is proposing is not unique or unprecedented. In fact, it is consistent with approved accounting practices that have been in use for decades.

54. Q. Do you believe the LSLR Program should be DSIC-eligible?

A. Yes, it should be. Through the DSIC, the Company is allowed to recover the cost of main and service line replacements in between its base rate cases. LSLs, both Company- and customer-owned, will be replaced in conjunction with the Company's main replacement projects, and should be considered part of the overall project costs. Replacing customer owned service lines at the time of the replacement of the new main is the most cost efficient way to replace these lines. Therefore, it is logical to include those costs as being eligible for DSIC recovery. NJAWC respectfully requests that the Board appropriately include customer side lead service line replacements as an eligible DSIC expenditure.

55. Q. What is the Company requesting with regard to rate treatment of customer-owned LSL replacement costs?

A. Because customer-owned LSL replacement costs are properly capitalized and recorded in Account 345 as restoration costs, those costs are also properly includable in the Company's rate base for ratemaking purposes, and should be eligible for DSIC recovery in between rate cases. The Company requests that the BPU expressly approve the inclusion of customer-owned LSLs in rate base and as DSIC eligible.

Acquisition Adjustments

56. Q. Are the acquisitions adjustments pertaining to the Haddonfield and Shorelands acquisitions included in the Company's rate base in this application?

A. Yes, NJAWC has included the acquisition adjustments of $1.88 million for Haddonfield and $26.7 million for Shorelands (collectively, the "2017 Acquisition Adjustment") in its proposed rate base in this proceeding.

57. Q. Has the Company amortized the revenue impact of the Acquisition Adjustment in this application?

A. Yes, the Company has amortized the revenue impact of the Acquisition Adjustment over a 40-year period consistent with the Partial Stipulation approved by the BPU in the 2017 Rate Case. This amounts to an annual revenue requirement increase of $44,959 for Haddonfield and $667,671 for Shorelands.

58. Q. Does the Company have BPU approval to include the Acquisition Adjustment in rate base?

A. No. The issue of whether the Company is permitted to rate base recognition of the Acquisition Adjustment is currently before the Office of Administrative Law, on remand, in Docket No. PUC 16279-2018 S, Administrative Law Judge ('ALJ") Jacob S. Gertsman presiding, BPU Docket No. WR17090985 (the "2017 Remand").

59. Q. Why has the Company included the Acquisition Adjustment in rate base in this case if the issue has not been fully adjudicated?

A. The Company awaits the ALJ's Initial Decision in the 2017 Remand. Should the Board's Order following issuance of the Initial Decision dictate a different treatment than proposed by the Company in this proceeding, the Company will modify this filing as it deems appropriate.

New Acquisitions

60. Q. Has the Company acquired any other water systems since the 2017 Rate Case?

A. Yes, the Company has acquired the Roxbury Water Company and the assets of the Mt. Ephraim Sewer System.

61. Q. Are these two systems included in this application?

A. Yes, they are.

62. Q. Did the purchase price of either of the systems exceed the net book value of the assets acquired?

A. Yes, the purchase price of $4,500,000 for acquiring the Roxbury Water Company exceeded the net book value of its assets by $2,680,183 ("Roxbury Acquisition Adjustment"). Regarding the Mt. Ephraim Sewer System acquisition, the Company only included in rate base the value of the assets at the original cost. There was no acquisition adjustment included in rate base although the purchase price was slightly above the net book value of the assets.

63. Q. Is the Company requesting recovery of the amount paid over net book value of the assets for either of these acquisitions?

A. Yes, the Company is requesting that the Roxbury Acquisition Adjustment be included in rate base. Using the 40 year amortization period applied to the 2017 acquisition adjustment, NJAWC has also included amortization expense of $67,005 in this application as part of operating expenses.

64. Q. What is the basis for including the total amount paid for Roxbury in rate base?

A. As Mr. Shields explains in this direct testimony, the purchase of Roxbury allows the Company to avoid approximately $8,000,000 in capital costs for an interconnection needed to bring additional supplies to the International Trade Center ("ITC") system due to Roxbury's closer proximity to the ITC system. In addition, it allows the Company to secure additional supplies within the Highlands Region where it is nearly impossible to secure approval from the Highlands Council. In addition, Roxbury's customers will benefit from more efficient system operation, combined stable sources of supply, firm capacity and storage. Mr. Shields discusses the Roxbury acquisition as part of his testimony.

CONCLUSION

65. Q. Does this conclude your direct testimony?

A. Yes, it does.

NEW JERSEY-AMERICAN WATER COMPANY, INC.

Appendix A

1. Q. Please describe your educational background and business experience.

A. Currently I hold the position of Sr. Director of Rates and Regulation for American Water's Eastern Division which includes New Jersey, New York, Virginia and Maryland. I was promoted to this position in November of 2017. In July of 2014, I joined West Virginia American Water Company as Sr. Manager of Rates and Regulatory Affairs. At West Virginia American, I was responsible for all of the Regulatory Flings including a Rate Case Filing in 2015 and the Companies first DSIC application in 2016. From 2008 to 2014, I was President and Owner of John S. Tomac Consulting LLC, based in North Carolina. The firm provided Management, Financial and Rate Case Services for water utilities throughout the United States. Between 1997 and 2008, I served as President and Chief Financial Officer of Birmingham Utilities Inc., an investor owned public water utility serving 18 municipalities throughout Connecticut. I was responsible for all the operations and financial aspects of the Company whereby I directed Company growth that increased market capitalization of over four hundred percent, leading to the sale of the Company in 2008. Prior to becoming President of Birmingham Utilities, I was employed for almost 20 years by Aquarion Water Company of Connecticut, the largest investor owned water utility in New England, where I served as Assistant Controller. In that capacity, I was responsible for the regulatory affairs and budgeting activities of the utility's subsidiaries. I was also responsible for the filing of all rate applications, providing testimony on all financial matters of the Company and testifying as an expert witness on those matters. I was also responsible for filing of all SEC and regulatory reports as

Appendix A

well as managing all aspects of the accounting department. I previously held a professional membership in the National Association of Water Companies (NAWC). I served as a Board Member, Chairman of the Rates and Revenue Committee, Chairman of the New England Chapter and Vice Chairman of the Small Water Committee. I also served as President of the Connecticut Water Works Association and I am currently a member of the American Water Works Association. I am also a faculty member of the National Association of Regulatory Utility Commissioners (NARUC) Rate School. I hold a MBA in Finance from the University of New Haven and a BS degree in Accounting from Central Connecticut State University.