

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

JAMIE D. HAWN

Exhibit P-7

**New Jersey-American Water Company, Inc.
Direct Testimony of Jamie D. Hawn**

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

2 A. My name is Jamie D. Hawn and my business address is 1 Water Street, Camden,
3 New Jersey 08102.

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

5 A. I am employed by American Water Works Service Company, Inc. (“Service
6 Company”) as the Senior Manager of Rates and Regulatory for New Jersey-
7 American Water Company, Inc. (“NJAWC,” “New Jersey-American Water” or the
8 “Company”), which falls within the Eastern Division (New Jersey, New York,
9 Virginia and Maryland).

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

11 A. My responsibilities as Senior Manager of Rates and Regulatory include: 1) leading
12 rates and regulatory activity for the Company, including coordinating with finance,
13 engineering, and legal; 2) supporting the Company in regulatory proceedings, such
14 as rate change applications; 3) preparing rate analyses and studies to evaluate the
15 effect of proposed rates on the revenues, rate of return, and tariff structures;
16 4) executing the implementation of rate orders, including development of the
17 revised tariff pricing necessary to produce the authorized revenue level;
18 5) overseeing the preparation of revenue and capital requirements analyses;
19 6) providing support for financial analyses, including preparing applicable
20 regulatory commission filings; and 7) ensuring compliance with Generally

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1 Accepted Accounting Principles (“GAAP”), regulatory requirements, and
2 Company policies.

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

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

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

7 A. Yes. I have testified before the regulatory commissions in New York,
8 Pennsylvania, West Virginia and New Jersey. Most recently, I testified before the
9 New Jersey Board of Public Utilities (“BPU” or the “Board”) in BPU Docket No.
10 WR19110465 regarding NJAWC’s Purchased Water Adjustment Clause
11 (“PWAC”) and the Purchased Wastewater Treatment Adjustment Clause
12 (“PSTAC”).

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

14 A. I will support the Company’s request for recovery of expenses in this proceeding,
15 as well as the Company’s pro forma adjustments to the following expenses:
16 1) Operations and Maintenance (“O&M”) expense; 2) Taxes other than Income;
17 and 3) Income Taxes. I will also discuss the Company’s proposed tariff
18 modifications.

NEW JERSEY-AMERICAN WATER COMPANY, INC.**7. Q. Do you sponsor any schedules in your Direct Testimony?**

A. Yes. I sponsor the Schedules listed below, which were prepared by me or under my supervision and direction. These Schedules support the Company's calculation of expenses:

- Schedule 6 Statement of Operating and Maintenance Expenses
- Schedule 7 Uncollectible Expense
- 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 18 Schedule of Payments to Affiliated Companies

I. OPERATION AND MAINTENANCE EXPENSES**8. Q. What is the Company's overall O&M expense, which it seeks to recover through this proceeding?**

A. The Company is seeking recovery of approximately \$219 million in O&M expense. While this represents about a 3.5% increase over the level of O&M expenses requested in the Company's last base rate case, it is relatively flat when compared to the Company's 2010 O&M levels. In fact, the Company's proposed O&M expense (excluding purchased water and sewer costs) is over \$25 less per customer than its cost per customer a decade ago.

NEW JERSEY-AMERICAN WATER COMPANY, INC.**1 9. Q. What is the Company’s Test Year period in this proceeding?**

2 A. The Company’s Test Year period is the twelve months ending June 30, 2020 (the
3 “Test Year”). This filing is based on five months of actual financial data, for the
4 period July 1, 2019 through November 30, 2019, and seven months of projected
5 financial data for the period December 1, 2019 through June 30, 2020. Test Year
6 data was used to calculate the adjustments proposed in Exhibit P-2, Schedule 6.
7 The Company will update its filing to reflect actual data when the information
8 becomes available.

**9 10. Q. What is the Company’s proposed Post Test Year period for O&M expense
10 adjustments?**

11 A. Consistent with *Elizabethtown*¹, the Company is proposing certain known and
12 measurable expense adjustments through March 31, 2021 (*i.e.*, nine months after
13 the Test Year (the “Post Test Year”)).

14 11. Q. How did the Company formulate its pro forma adjustments to expenses?

15 A. The Company used actual expenses from the twelve-month period ending June 30,
16 2019 (“Actual Expenses”) and annualized such expenses for known operating
17 conditions. Since certain expenses can vary annually, the Company used a three-
18 year average (*i.e.*, twelve months ending June 30, 2017, June 30, 2018, and June
19 30, 2019) for pro forma adjustments to normalize these annual variances (the
20 “Three-Year Average”). Additionally, for certain expenses, the Company made

¹ Final Order, *Re Elizabethtown Water Company*, BPU Docket No. WR8504330 (May 23, 1985).

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1 adjustments for known and measurable conditions and/or applied an inflation rate
2 from the Blue Chip Financial Forecast Vol. 38, No. 6, June 1, 2019. All adjustments
3 are detailed in the Schedules addressed above in Exhibit P-2 filed as part of this
4 application.

5 **12. Q. Is the Company seeking any rate relief associated with its wholly-owned**
6 **subsidiary, Environmental Disposal Corporation (“EDC”)?**

7 A. No. Recovery of expenses and capital expenditures associated with operating EDC,
8 a wastewater subsidiary of New Jersey-American Water, is not being requested in
9 connection with this proceeding.

10 **Production Costs**

11 **13. Q. Please explain which of the Company’s operating expenses are considered**
12 **“Production Costs”.**

13 A. Production Costs include purchased water, power, chemical and waste disposal.
14 Production Costs vary depending on the amount of water purchased or produced by
15 the Company’s treatment plants, *i.e.* system delivery or water obtained and
16 delivered to NJAWC’s network of water mains. NJAWC’s proposed Production
17 Costs are reflected in Exhibit P-2, Schedule 6, lines 2 - 5.

18 **14. Q. Please explain the system delivery impact on Production Costs.**

19 A. System delivery is the amount of treated water that the Company’s treatment plants
20 produce. Water sales as well as other factors impact the amount of water produced
21 by the plants which, in turn, impacts expenses associated with treating and
22 distributing that water. Accordingly, the Company’s power, chemical, and waste

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1 disposal costs were adjusted to reflect the same level of water sales used in its pro
2 forma revenue adjustments. Thus, if pro forma system delivery is adjusted, either
3 up or down, during this proceeding, the pro forma expense will be adjusted
4 accordingly. Company witnesses Charles B. Rea and Gregory Roach support the
5 Company's pro forma revenue adjustments, among other items in their direct
6 testimony.

7 **15. Q. How did the Company prepare the pro forma expense for Production Costs?**

8 A. For purchased water, which includes only water diversion fees (as discussed
9 below), the Company used the Three-Year Average to establish the pro forma
10 expense. For power, chemicals and waste disposal expenses, the Company
11 annualized the Actual Expenses to account for changes in contract pricing, tariff
12 increases,² or Company experience based on a Three-Year Average to develop the
13 pro forma expense. To calculate the Company's expense, a cost per thousand
14 gallons of water was established and applied to the pro forma system delivery to
15 arrive at the total pro forma power, chemical and waste disposal expense.

16 **16. Q. Please describe the types of expenses that are included in Purchased Water**
17 **costs as shown on Exhibit P-2, Schedule 6, line 2?**

² The Company adjusted for Atlantic City Electric Company's ("ACE") 5% increase, approved in March 2019 in BPU Docket No. ER18080925, Jersey Central Power & Light's ("JCP&L") 0.5% increase for its Infrastructure Investment Program ("IIP"), approved in May 2019 in BPU Docket EO18070728, Elizabethtown Gas Company's 5.63% increase for base rates approved November 2019 in BPU Docket GR19040486 and New Jersey Natural Gas Company's 9.60% increase approved November 2019 in BPU Docket GR19030420. The Company also notes that Rockland Electric Company ("Rockland") filed for new rates in May 2019, requesting an average increase of 9.60%. Upon the issuance of a rate order in that proceeding, the Company will update its pro forma expenses to include Rockland's allowed rate increases.

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1 A. The costs in this line item include: 1) the water purchased by the Company from
2 third parties; and 2) the Company's expenses for water diversion fees. For the
3 purpose of this case, the Company has excluded all third party purchased water
4 costs as these costs are recovered through the PWAC. The Company has removed
5 these costs since 2007 per Order dated April 2, 2007 in BPU Docket No.
6 WR06030257, which required that all purchased water costs be removed from base
7 rates and recovered through the PWAC. The pro forma expense reflected in Exhibit
8 P-2, Schedule 6, line 2 represent the pro forma expense related to NJAWC's water
9 diversion fees, which are levied by the State of New Jersey for processing,
10 monitoring, administering and enforcing the water supply allocation program.
11 They also include Delaware River Basin Authority diversion permit fees for water
12 withdrawal. The water diversion fees expense is based on the Three-Year Average.

13 **17. Q. Please explain the components of power costs?**

14 A. Power costs includes electricity, natural gas, and diesel expenses (collectively,
15 "Power"), associated with treating, pumping and delivering water through over 500
16 of NJAWC's production and distribution facilities, as well as the collection and
17 treatment of wastewater. The Company contracts for its electric and gas supply
18 with third party suppliers. Effective January 2020, the Company will change its
19 contract vendor for electric supply from Direct Energy to Constellation Power,
20 which reduces the Company's annual power expense by approximately \$1.6
21 million. The distribution of the supply contracted by Constellation Power is
22 provided by each facility's local distribution company ("LDC"), *i.e.*, ACE, JCP&L,

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1 Public Service Electric and Gas (“PSE&G”), Rockland (collectively, the “Electric
2 LDCs”). Power expense also includes annual costs associated with the Zero
3 Emission Certificate (“ZEC”) program³ which became effective in April 2019 to
4 maintain the State’s carbon-free nuclear fleet.

5 Gas supply will remain with Direct Energy Business. Gas distribution is also
6 provided locally by Elizabethtown Gas Company, New Jersey Natural Gas
7 Company, PSE&G, and South Jersey Gas Company (collectively, the “Gas
8 LDCs”).

9 The Company continues to explore ways to reduce its power costs. Since 2010, the
10 Company has reduced its annual power costs by approximately \$7 million or 28%,
11 which results in a direct savings to customers.

12 **18. Q. Please explain the Company’s adjustments to reduce pro forma power**
13 **expense.**

14 A. The Company made two adjustments to reduce power expense. The first reduction
15 reflects credits that the Company expects to receive from the New Jersey Clean
16 Energy Program for demonstrating efficient energy usage. The credit adjustment is
17 based on the Company’s Three-Year Average. The second reduction reflects
18 rebates from NRG Curtailment Solutions which manages our participation in the
19 demand response market. The Company will receive rebates in exchange for

³ The BPU approved the ZECs of up to \$300 million in annual subsidies to the State’s three nuclear powerplants. Each plant will be paid approximately \$100 million for a three-year period while the ZECs are in effect. All end users will see an increase of \$.004 per kilowatt hour (“kWh”).

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1 reducing load during peak times. The credits are also based on a Three-Year
2 Average.

3 **19. Q. Please explain how the pro forma chemical expense was calculated.**

4 A. Chemical expense was calculated starting with the Three-Year Average of usage
5 for production. The Three-Year Average usage level was then modified for current
6 production methods which included the addition or elimination of chemicals. The
7 resulting usage levels were then multiplied by the price of the chemical associated
8 with that usage to arrive at pro forma expense. The chemical prices are based on
9 the contracted prices for 2020, then increased for the Three-Year Average price
10 change.

11 **20. Q. What are the major exceptions to using the Three-Year Average quantity for
12 this calculation?**

13 A. A major exception to using the Three-Year Average would be a change in the type
14 of chemicals used at a particular location. Several changes involve adjustments to
15 quantities based on current usage trends and the switching and discontinuance of
16 various chemicals. In many instances, these chemical changes are driven by
17 changes in water quality regulations and source water quality. Due to increased
18 water quality regulations, which include new and revised limits for both raw and
19 finished water, and for emerging contaminants, NJAWC expects significant
20 changes in chemical usage. Recent changes have caused chemical costs to increase
21 from about \$9.9 million in the Company's last case to \$13.7 million in this

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1 application. Please see the direct testimony of Company witness Donald Shields
2 for further discussion on this matter.

3 **21. Q. What are the different types of waste disposal costs?**

4 A. Waste disposal expense includes the costs related to the processing and disposal of
5 sludge, solids and residuals at the Company's water and wastewater treatment
6 plants, as well as hauling, permitting and sampling expenses in its water and
7 wastewater operations. Additionally, waste disposal includes sewer billings from
8 municipalities and authorities for the release of water treatment waste residuals and
9 wastewater treatment waste residuals into the local sewer systems. However, waste
10 disposal costs for wastewater associated with Ocean City Sewer, Lakewood Sewer
11 and Adelphia Sewer are recovered by the Company through its PSTAC and thus,
12 not included in pro forma expenses.

13 **22. Q. Please explain the costs for waste disposal related to water operations.**

14 A. The Company's waste disposal expense is based on different methods for
15 processing water treatment waste at various sites 1) de-watering and pressing,
16 blending and hauled offsite; 2) storing sludge for future transportation to a local
17 facility; 3) discharging residuals directly into the local sewer system; 4) wet hauling
18 and 5) de-watering and pressing, blending and sold as residential topsoil.
19 Additionally, in NJAWC's Delran location, basin or lagoon sludge removal takes
20 place approximately every fall and spring. All these various methods are contracted
21 to third parties. Waste disposal expense is based on the volume of tons or gallons
22 removed and hauled to a disposal site.

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1 In NJAWC's Central Operations, certain location residuals are de-watered and
2 pressed but instead of being hauled to a landfill for disposal, they are combined
3 with subsoil in a 50/50 ratio by a vendor and sold as residential topsoil ("beneficial
4 reuse"). The vendor only charges NJAWC about \$25 per ton to remove this waste
5 versus \$98 per ton for the landfill tipping fee, which does not include the additional
6 cost of hauling this material to the landfill. Thus, the environmentally-friendly
7 process of producing this beneficial reuse provides an alternative for the Company
8 to disposal of the residuals and reduces costs for customers.

9 **23. Q. Please explain the costs for waste disposal related to the Company's**
10 **wastewater operations.**

11 A. The wastewater waste disposal expenses are those associated with the Statewide
12 Sewer operation, which includes both consumption based (*i.e.*, NJAWC provides
13 metered water for these customers) and fixed operation (*i.e.*, NJAWC does not
14 provide metered water service for these customers), the Pottersville operation, and
15 the Elk Township operation. The waste disposal expenses are for handling and
16 disposing, including hauling and permitting. There are also charges for dumpster
17 hauling at the Hawk Point, Homestead, Glen Meadows and Beacon Hill locations.
18 The Elk Township location pays a sewer processing fee to the Borough of
19 Glassboro.

NEW JERSEY-AMERICAN WATER COMPANY, INC.**Compensation and Compensation-Related Expense****24. Q. Please describe total compensation expense at New Jersey American Water.**

A. NJAWC's compensation and compensation-related expenses are for employees who support the operations of NJAWC exclusively. Compensation expense is based on the number of full and part time employees, which is translated into a number that equates to full-time equivalent employees ("FTEs"). There are three classifications of NJAWC employees: union hourly employees, non-union hourly employees, and exempt employees. Union and non-union hourly employees receive base pay and overtime pay (and in some cases, shift premiums and meals), and are eligible for performance pay. Exempt employees receive base pay and are eligible for performance pay. Compensation and compensation-related costs include:

i. Salaries and Wages

a. Base Pay

b. Overtime

c. Shift Premiums and Meals

d. Performance Pay

ii. Payroll Taxes

iii. Pension

iv. Group Insurance and Other Post-Retirement Employee Benefits ("OPEBs")

v. Other Benefits, including:

a. 401k

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- 1 b. Defined Contribution Plan (“DCP”)
- 2 c. Retiree Medical
- 3 d. Employee Stock Purchase Plan (“ESPP”)
- 4 e. Miscellaneous

5 NJAWC’s proposed compensation and compensation-related pro forma expense is
6 reflected in Exhibit P-2, Schedule 6, lines 6 - 9.

7 **25. Q. Please describe the overall approach to calculating compensation and**
8 **compensation related expenses.**

9 A. As discussed by Company Witness Mr. Shroba, the Company has identified 885.5
10 FTEs as the appropriate staffing level for the Company to continue to provide safe
11 and reliable service to NJAWC’s customers. However, the Company recognizes
12 that it may not have all positions filled at all times as a result of employee turnover
13 that the Company may experience in the normal course of business. Thus, for
14 purposes of this filing, the Company has reduced its compensation expense by
15 applying a vacancy rate of 3.3% that reduced the number of FTE’s by 29. The
16 vacancy rate was calculated using the Three-Year Average. At this time, the gross
17 amount for each of the compensation components was calculated using 885.5 as the
18 FTE count. From that, the Company aggregated the compensation amounts and
19 made two adjustments. The first adjustment was to reduce overall compensation
20 by the vacancy rate of 3.3%, as mentioned above. The second adjustment was to
21 deduct the portion of gross compensation charged to capital with the ratio of
22 43.22%, as set forth in Table 1 below.

NEW JERSEY-AMERICAN WATER COMPANY, INC.1 **26. Q. Please describe how the capitalization ratio was calculated.**

2 A. The Company calculated a capitalization rate for each category of compensation
 3 and compensation-related expenses based on a methodology similar to the one
 4 proposed by Rate Counsel in the Company's last rate case. To calculate the
 5 capitalization ratios by expense, the Company used three years of actual capital
 6 costs divided by the associated gross costs for the twelve months ending June 2017,
 7 June 2018 and June 2019. The resulting Three-Year Average capital ratios used in
 8 this filing are provided in Table 1 below:

9 Table 1: Capitalization Ratios

Expense Category	Workpaper Reference	3-Yr Average Capital Ratio
Compensation	Schedule 6-6	43.22%
Pension	Schedule 6-7	44.39%
Group Insurance	Schedule 6-8	41.55%
Other Post-Retirement Employee Benefits (OPEB)	Schedule 6-8	50.84%
401K	Schedule 6-9	42.34%
Defined Contribution Plan (DCP)	Schedule 6-9	39.77%
Retiree Healthcare (VEBA)	Schedule 6-9	31.16%
Transportation	Schedule 6-12	43.80%
Workers Compensation	Schedule 6-16	46.48%

10

11 **27. Q. Please describe how the various components of pro forma Salaries and Wages**
 12 **were calculated.**

13 A. Salaries and Wages expense is composed of four components: 1) base pay;
 14 2) overtime expense; 3) shift premiums and meal compensation required by union
 15 contract, and 4) short and long-term performance compensation for eligible
 16 employees. Each component is discussed in greater detail below.

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1 Base Pay is the cost related to regular time hours for all employees. To calculate
2 base pay, the Post Test Year hourly rate was multiplied by: 1) 2,088 regular hours
3 for all non-union and union hourly employee groups; and 2) 2,080 for all non-union
4 exempt employee groups. For union employees, the Post Test Year hourly rate was
5 based on the collective bargaining agreement (“CBA”) wage rates and effective
6 dates through the end of the Post Test Year multiplied by 2,088 hours to establish
7 an annual compensation expense by position. For those unions with CBAs that do
8 not extend to the Post Test Year, the Company used the Three-Year Average merit
9 increase for that specific union (2.21% to 2.98%). For non-union hourly and
10 exempt employees, the Company for pro forma purposes increased the actual 2019
11 hourly wage rate to account for the merit increase effective in March of each year.

12 Overtime represents the costs associated with non-regular time hours worked by
13 the Company’s hourly employees. Overtime was calculated using a Three-Year
14 Average of actual overtime hours multiplied by a Post Test Year average pro forma
15 wage rate.

16 Shift Premiums and Meals represents the shift differential paid to union employee
17 and meals paid when a union employee works beyond their normal hours. To
18 determine pro forma Shift Premiums and Meals expense, a Three-Year Average of
19 each was calculated.

20 Performance Pay represents the short- and long-term performance compensation
21 for eligible employees. Performance pay was calculated on a position by position

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1 basis and was based on each position’s target percent for both the Annual
 2 Performance Plan (“APP”) and Long-Term Performance Plan (“LTPP”). The
 3 target percent was multiplied by each eligible employee’s Post Test Year base pay
 4 to determine the APP and LTPP cost. Company Witnesses Mr. Shroba and Mr.
 5 Mustich support the Performance Pay program in their direct testimony.

6 **28. Q. Why did the Company use 2,088 hours to calculate the pro forma Base Pay for**
 7 **hourly employees?**

8 A. The number of work hours in a twelve-month period can vary from 2,080 to 2,096
 9 work hours. Any twelve-month period that begins on a Saturday or Sunday will
 10 have 2,080 work hours, apart from a leap year, which will have 2,088 hours. Any
 11 twelve-month period that begins on a Monday through Friday will have 2,088 work
 12 hours, except the leap year, which will have 2,096. The table below provides an
 13 analysis of the work days and hours for 2017-2021.

2017 Work Days/Hours													
Month	January	February	March	April	May	June	July	August	September	October	November	December	Total
Work Days	22	20	23	20	23	22	21	23	21	22	22	21	260
Hours	176	160	184	160	184	176	168	184	168	176	176	168	2,080
2018 Work Days/Hours													
Month	January	February	March	April	May	June	July	August	September	October	November	December	Total
Work Days	23	20	22	21	23	21	22	23	20	23	22	21	261
Hours	184	160	176	168	184	168	176	184	160	184	176	168	2,088
2019 Work Days/Hours													
Month	January	February	March	April	May	June	July	August	September	October	November	December	Total
Work Days	23	20	21	22	23	20	23	22	21	23	21	22	261
Hours	184	160	168	176	184	160	184	176	168	184	168	176	2,088
2020 Work Days/Hours													
Month	January	February	March	April	May	June	July	August	September	October	November	December	Total
Work Days	23	20	22	22	21	22	23	21	22	22	21	23	262
Hours	184	160	176	176	168	176	184	168	176	176	168	184	2,096
2021 Work Days/Hours													
Month	January	February	March	April	May	June	July	August	September	October	November	December	Total
Work Days	21	20	23	22	21	22	22	22	22	21	22	23	261
Hours	168	160	184	176	168	176	176	176	176	168	176	184	2,088

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1 The table shows that the number of work hours during the Test Year is 2,096.
2 However, since the Test Year includes a leap year, the Company removed the
3 additional 8 hours. Thus, the Company used 2,088 hours to calculate Base Pay for
4 hourly employees and to support the Company's calculations to develop
5 compensation and compensation-related expenses.

6 **29. Q. Please describe the Company's request for payroll taxes.**

7 A. NJAWC is seeking recovery for its payroll tax pro forma expense as reflected in
8 Exhibit P-2, Schedule 10, line 4.

9 **30. Q. What do Payroll Taxes represent?**

10 A. Payroll taxes are directly associated with salaries and wages and represent the
11 federal and state taxes imposed on the Company to be paid based on the employee's
12 wages. Payroll taxes include the Federal Insurance Contributions Act, which is
13 divided into two pieces: Old Age and Survivors & Disability Insurance (commonly
14 known as "FICA"), and Hospital Insurance (commonly known as "FICA
15 Medicare"). Payroll taxes must also be paid for Federal Unemployment Tax
16 ("FUTA") and State Unemployment Tax ("SUTA").

17 **31. Q. How was Payroll Tax expense calculated?**

18 A. Each of the four taxes above (i.e., FICA, FICA Medicare, FUTA and SUTA) were
19 calculated using the current tax rate. Additionally, the Three-Year Average increase
20 for the FICA wage limit was applied to the 2020 FICA wage limit to estimate the
21 pro forma FICA wage limit.

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1 Payroll Taxes are applied to all components of salaries and wages. Base pay and
2 performance pay are calculated by applying the tax rates on a position-by-position
3 basis. Overtime, shift premiums and meals were calculated by applying the tax
4 rates to the gross costs. This gross payroll tax expense was further reduced to
5 account for the 3.3% vacancy rate. Finally, an adjustment was made to deduct the
6 portion of payroll taxes charged to capital projects which is 43.22% (i.e., the
7 capitalization ratio).

8 **32. Q. Please describe the Company's Pension expense.**

9 A. Certain Company employees are eligible for a defined benefit plan/pension benefits
10 upon their retirement. This includes non-union employees hired before January 1,
11 2006 and union employees hired before January 1, 2001.

12 NJAWC's resulting annual pension expense has two components. The first
13 component is the annual pension cost recognition. NJAWC records pension
14 expense according to Financial Accounting Standards Board ("FASB") Accounting
15 Standards Codification Topic 715 or "ASC 715" (formerly Statement of Financial
16 Standards 106). This results in a certain amount of annual cost which is accrued
17 throughout the year. The Company used the 2019 ASC 715 amounts, as provided
18 by Towers Watson, as the basis for the service and non-service costs for pension
19 expense in this application. The service cost portion was reduced by the Three-
20 Year Average capital ratio of 44.39%.

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1 The Company has requested in this application a tracker for Pension and Other
2 Post-Retirement Employee Benefits (“OPEB”) as further described in the direct
3 testimony of Company Witness John Watkins. In this application, the combined
4 cost for Pension and OPEB is approximately \$5 million less than the requested
5 amount in the Company’s last base case. The OPEB expense is explained below.

6 The second component of pension expense relates to the amortization of a deferred
7 pension asset due to the conversion from contribution accounting (often called
8 “ERISA” accounting) to accrual accounting (formerly FAS 87 accounting). This
9 portion of pension expense continues to be amortized at the levels authorized in
10 BPU Docket No. WR17090985, which are set to expire in 2024.

11 **33. Q. What costs are included in Group Insurance expense as shown on Schedule 6?**

12 A. The costs on this line included both Group Insurance and OPEB expenses.

13 **34. Q. What does Group Insurance expense represent?**

14 A. Group Insurance represents the Company’s costs for providing employees with
15 health, dental and vision coverage, as well as basic life, short- and long-term
16 disability, and accidental death and dismemberment insurances. The Company’s
17 cost for health, dental, and vision plans are partially offset by employee
18 contributions. The costs and contributions vary by plan type.

19 **35. Q. How did you calculate the Company’s Group Insurance expense?**

20 A. The Company calculated Group Insurance expense on a position-by-position basis,
21 according to actual employee plan selections, current plan costs and employee

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1 contributions, resulting in a gross cost. The gross pro forma Group Insurance
2 expense was then reduced for the 3.3% level of vacancy and the portion of Group
3 Insurance charged to capital (i.e., 41.55%).

4 **36. Q. What does OPEB expense represent?**

5 A. OPEB expense represents the accrual cost recognized under ASC 715. Depending
6 on the date they began employment, certain New Jersey-American Water
7 employees are eligible for OPEB upon their retirement. This includes non-union
8 employees hired before January 1, 2006 and union employees hired before January
9 1, 2001.

10 **37. Q. How did the Company calculate OPEB expense?**

11 A. OPEB expense is based on the Company's 2019 ASC 715 service and non-service
12 cost amounts, provided by Towers Watson. A 50.84% adjustment was made to the
13 service cost component to remove the portion of OPEB expense that will be charged
14 to capital.

15 **38. Q. Please describe the components of Other Benefits expense and how each was
16 calculated.**

17 A. Other Benefits expense includes programs such as 401k, DCP, Retiree Medical and
18 the ESPP. These costs were calculated on a position-by-position basis. The
19 calculations are described below.

20 401k - New Jersey-American Water incurs 401k expense when it matches
21 employee contributions to 401k retirement accounts. For union employees hired

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1 before January 1, 2001 and non-union employees hired before January 1, 2006, the
2 Company matches 50% of the first 5% of the employee's contribution (for a
3 maximum match of 2.5%). For the remaining employees, there are two other plans:
4 1) the Company matches 100% of the first 3% and 50% of the next 2% of the
5 employee's contribution (for a maximum match of 4%); or 2) the Company
6 matches 60% of the first 6% of the employee's contribution (for a maximum match
7 of 3.60%). To compute the gross pro forma 401k costs, the base pay for each
8 participating employee was multiplied by such employee's current match election
9 for their eligible plan. The Company then adjusted the gross pro forma 401k costs
10 by applying a reduction for vacancy level of 3.3% and moving 42.34% to capital.

11 DCP - The DCP is a Company-funded retirement savings program for employees
12 not eligible for the defined benefit pension program. Under the DCP program, the
13 Company contributes 5.25% of an employee's Base Pay into a retirement account.
14 DCP expense was calculated on a position-by-position basis. To calculate the DCP
15 expense, the Company multiplied 5.25% by the employee's pro forma Base Pay.
16 The Company then made two adjustments: 1) the Company applied the 3.3%
17 vacancy level; and 2) the Company eliminated the 39.77% moved to capital.

18 Retiree Medical - Union employees who are not eligible for OPEBs are entitled
19 to Company-provided retiree medical benefits. The Company contributes \$600 a
20 year per eligible employee to a retiree plan funded through a trust referred to as the
21 Voluntary Employee Benefits Association ("VEBA"). The Company multiplies
22 the Company's current VEBA-eligible number of employees by \$600. Next, the

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1 Company applies a 3.3% vacancy level and a deduction of 31.16% to eliminate the
2 portion of VEBA charged to capital.

3 ESPP - ESPP expense is the Company-funded 15% discount of American Water
4 stock purchases made through payroll deductions by enrolled employees. The pro
5 forma expense was calculated by multiplying each employee's pro forma base pay
6 by their individual contribution amount and applying the 15% Company discount.

7 Miscellaneous Benefits - Miscellaneous benefits refer to various benefits offered to
8 employees such as tuition aid, safety awards and training. Pro forma miscellaneous
9 benefits were calculated using a Three-Year Average.

Service Company**39. Q. What services does NJAWC obtain from the Service Company?**

12 A. The services provided by the Service Company include customer service, water
13 quality testing, innovation and environmental stewardship, human resources,
14 communications, technology and innovation, finance, accounting, payroll, tax,
15 legal, engineering, accounts payable, supply chain, and risk management service
16 (collectively, the "Support Services"). The Service Company operates customer
17 service centers in Alton, Illinois and Pensacola, Florida that handle customer calls,
18 billing, collection activities for NJAWC and its public utility affiliates, customer
19 inquiries and correspondence, and service order requests. In addition, the Service
20 Company operates two Field Resource Coordination Centers responsible for
21 tracking and dispatching service orders for our field representatives and distribution

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1 crews. The Service Company also operates the Central Laboratory, located in
2 Belleville, Illinois.

3 **40. Q. How are Support Services charged to NJAWC?**

4 A. Support Services are charged to NJAWC in two ways: 1) directly to NJAWC at
5 100% of the cost; or 2) a percentage allocation based on factors such as a per
6 customer allocation across the American Water regulated subsidiaries. Company
7 Witness Patrick Baryenbruch has submitted testimony and has performed an
8 analysis which is included in this application which demonstrates the
9 reasonableness of the Service Company costs.

10 **41. Q. How were the Support Services calculated for the Post Test Year?**

11 A. The expense for Support Services is categorized into two areas: compensation and
12 related benefit costs and other costs which are not compensation related. For the
13 compensation and related expense, the Company annualized a base pay increase
14 effective March of each year, then the Three-Year Average merit increase of 2.85%
15 was applied to non-union employees. For union employees the actual contract rate
16 increases, or the union Three-Year Average increase was applied to derive the pro
17 forma compensation and related expense levels. Other costs pertaining to
18 charitable contributions, outplacement, injuries and damages, and penalties have
19 been removed and therefore are not included in the pro forma expense. Additional
20 adjustments, both positive and negative, were also made in preparing the pro forma
21 Support Services expense to account for activity such as employee movements,
22 acquisitions, office space, depreciation, and capital lease interest. NJAWC's

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1 proposed Support Services pro forma expense is reflected in Exhibit P-2, Schedule
2 6, line 10.

3 **42. Q. Please explain the adjustment for the employee movements.**

4 A. Seventeen NJAWC positions relating to Engineering - Geographic Information
5 System "GIS", Safety, Finance, Human Resources, External Affairs and Corporate
6 Security were transferred to the Service Company to promote best practices across
7 the Eastern Division states. Specifically, the employees that support our successful
8 NJAWC GIS program will now expand that program across the other Eastern
9 Division states to leverage economies of scale and to train, apply and develop best
10 practices. Because these positions have been transferred to the Service Company,
11 the time charged by these employees, when applicable, will no longer be charged
12 to NJAWC at 100%, as a portion of their salary as well as benefits will be charged
13 to other Eastern Division states. To calculate the level of expense for these
14 positions, the amount of time worked on NJAWC was adjusted to reflect only
15 NJAWC's portion going forward in the Post Test Year.

16 **43. Q. Please explain the costs related to office space subleased from the Service
17 Company.**

18 A. In June 2019, the Company moved its corporate offices from Voorhees, New Jersey
19 (the "Voorhees Building") to our current location at One Water Street, Camden,
20 New Jersey. As a result, NJAWC is now subleasing approximately 9,500 square
21 feet of office space in the Camden facility from the Service Company for NJAWC
22 employees. The Company's pro forma cost for office space includes base lease

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1 expense, rental space for common areas as well as lease expense for furniture,
2 fixtures and equipment.

3 **Rental Expense**

4 **44. Q. Please explain NJAWC's rent expense.**

5 A. Rental expense includes rental fees for property, equipment and other rental costs.
6 Pro forma rental expense contains adjustments for new leases, as well as known
7 and measurable increases to existing lease contracts. NJAWC's proposed rental
8 pro forma expense is reflected in Exhibit P-2, Schedule 6 – line 11.

9 **45. Q. How was the pro forma rental expense developed?**

10 A. Each rent expense was categorized as property, equipment, or miscellaneous
11 charges. Through a review of leases/contracts for pricing changes, expiration, or
12 new items, rental charges were analyzed to determine if such costs qualified for the
13 FASB issued Accounting Standards Update 2016-02 – Leases (Topic 842) (“ASC
14 842”) or a non-right-of-use asset. This information was used to develop pro forma
15 expense by category and vendor.

16 **46. Q. Please explain the accounting changes in regard to lease expense?**

17 A. In 2016, FASB issued ASC 842, with an effective date in 2019. FASB issued this
18 update to increase transparency and comparability among entities by recognizing
19 lease assets and lease liabilities on the balance sheet and disclosing key information
20 about leasing arrangements. Under ASC 842, leases are accounted for based on the
21 FASB's “right of use model.” This model reasons that a lessee has a financial
22 obligation to make lease payments to the lessor for its right to use the underlying

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1 asset during the lease term. Lessees are required to classify leases as either
2 operating or financing.

3 **47. Q. What impact does ASC 842 have on the pro forma rental expense?**

4 A. The income statement presentation and expense recognition pattern, for leases that
5 qualify as an operating lease under the standard, is such that a single lease cost is
6 typically recognized on a straight-line basis.

7 **48. Q. Please identify leases in the pro forma expense that qualify as an operating**
8 **lease under ASC 842.**

9 A. The Nero Equipment Co., Inc. and Precision Labs Properties LLC property leases
10 qualify as operating leases under ASC 842. Pro forma costs were derived from a
11 single lease cost recognized on a straight-line basis. The Canon Solutions, Neopost,
12 Airgas, and Linde LLC equipment leases qualify as operating leases under ASC
13 842. Pro forma costs were also derived from a single lease cost recognized on a
14 straight-line basis.

15 **49. Q. Are there any other significant adjustments you wish to explain?**

16 A. Yes. The Company intends to purchase property, which is planned to occur by
17 December 2020, that will eliminate the Tinton Industrial Park LLC and Orchard
18 Estates leases. Additionally, equipment expenses for Corporate Facility Services
19 and Asphalt Restoration Enterprises, LLC were removed from the Company's rate
20 requests since these costs pertained to relocation expenses from the sale of 100
21 James Street, which was addressed in the last base rate case.

NEW JERSEY-AMERICAN WATER COMPANY, INC.1 **Transportation**

2 **50. Q. Please explain the computation of the Company's pro forma transportation**
3 **expense?**

4 A. Transportation expense includes the costs associated with operating the Company's
5 fleet. Transportation costs include titling, registration and fleet administration
6 service fees, as well as the fuel, maintenance and repairs for the fleet. For pro forma
7 adjustment purposes, a portion of transportation expense was capitalized based on
8 a capital ratio of 43.80%. NJAWC's proposed transportation pro forma expense is
9 reflected in Exhibit P-2, Schedule 6 - line 12, column 10.

10 **51. Q. Was there a pro forma adjustment that specifically relates to the cost of**
11 **gasoline used to operate the fleet?**

12 A. Yes. The Company proposes a decrease for the cost of gasoline due to information
13 obtained from the Energy Information Administration's website, which contains
14 the official energy statistics of the U.S. Government. The Company used the East
15 Coast Regular Conventional Retail Gasoline Prices (dollar per gallon) to obtain a
16 decrease of \$0.114 per gallon, or a -4.26%.

17 **52. Q. How was the fleet maintenance expense calculated for pro forma purposes?**

18 A. Pro forma maintenance expense is based on the Three-Year Average of
19 maintenance expense.

NEW JERSEY-AMERICAN WATER COMPANY, INC.**Uncollectible Expense and Customer Accounting**

1 **Uncollectible Expense and Customer Accounting**
2 **53. Q. How was the Company's pro forma adjustment to uncollectible expense**
3 **calculated?**

4 A. NJAWC seeks recovery for its uncollectible pro forma expense as reflected in
5 Exhibit P-2, Schedule 6, line 13. The pro forma uncollectible expense was
6 developed using the Three-Year Average of net write-offs to billed water and sewer
7 revenues. The Three-Year Average is 0.43% which is a reduction from the amount
8 of .49% used in the last rate case. The Three-Year Average is applied to total
9 proposed rate revenues to obtain the full amount of Post Test Year pro forma
10 uncollectible expense. The Three-Year Average calculation for this adjustment can
11 be found in Exhibit P-2, Schedule 7.

12 **54. Q. Please describe the types of costs included in customer accounting expenses.**

13 A. Customer accounting expense collectively includes items related to customer
14 invoice mailings, bill inserts, collection notices, third party collection agency fees,
15 lock box fees for payment collection, mailing of water quality reports, etc. NJAWC
16 is seeking recovery for its Customer Accounting pro forma expense as reflected in
17 Exhibit P-2, Schedule 6 - line 14.

18 **55. Q. How did the Company calculate its pro forma adjustment to Customer**
19 **Accounting expense?**

20 A. To calculate the expense adjustment, except for postage and forms as discussed
21 below, the Company utilized the Actual Expense for the twelve month period
22 ending June 30, 2019, inflated by 1.9% to arrive at a level expense at June 30, 2020.

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1 The costs were further inflated by 1.43% representing nine months of inflation
2 (1.9%/12*9) to arrive at a cost level at March 31, 2021. The inflation rates used
3 were obtained from the Blue Chip Financial Forecast Vol. 38, No. 6, June 1, 2019.

4 **56. Q. How was the Company's pro forma adjustment to postage expense calculated?**

5 A. Postage is measured by the amount of presorted and non-presorted mail that is
6 tracked as it runs through the postage meter each day. The quantities of each
7 category of mailing are multiplied by the unit price for that category as of June 30,
8 2019. The pro forma expense reflects customer growth. No prospective change
9 was made for future rates to be charged by the U.S. Postal Service, as no rate
10 increases have been formally announced. In the event the Postal Rate Commission
11 increases rates, the Company will update accordingly.

12 **57. Q. How does the Company derive the expense for bill forms?**

13 A. The expense for bill forms is based on the invoices received from the vendor,
14 Transcentra, Inc. NJAWC's portion of the charges is allocated based on the
15 percentage of printed materials shipped to addresses within the same state.

16 **58. Q. Is the Company including credit card fees as a cost in this application?**

17 A. Yes. Currently, customers making payments using a credit card pay \$1.95 per
18 transaction. The Company has a contracted rate with a third-party vendor for
19 processing the transactions, which the vendor bills directly to the customer.
20 NJAWC is proposing to provide a no-fee option to customers who make a credit

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1 card payment. Under this proposal, the Company would pay for the third-party
2 vendor fees which would be recovered through the Company's base rates.

3 **59. Q. Do other utility companies in New Jersey offer customers the option of paying**
4 **with a credit card without a fee?**

5 A. Utilities have taken a varied approach. Some, like NJAWC, use vendors who
6 charge a fee and others offer customers the credit card payment option free of
7 charge if the customer enrolls in automatic payment via credit card or for
8 residential-only customers.

9 **60. Q. How does the Company's proposal benefit customers?**

10 A. Providing customers with another payment option without a fee will ease the
11 payment process for customers, incentivize paperless billing, and increase customer
12 satisfaction. It also supports the Company's efforts to continue encouraging
13 customers to use online payment platforms. More than 40% of NJAWC customers
14 pay by mailing a physical check. In addition to being a "green alternative" to
15 submitting payments by mail, the Company anticipates that customer satisfaction
16 will improve.⁴

⁴ The 2016 J.D. Power & Associates Electric Utility Residential Customer Satisfaction Study Power & Associates found that customers who were given the option of paying by credit card without a fee had a higher customer satisfaction index. The study also cited "Fee-Free Card Payment" options as a "Best Practice."

NEW JERSEY-AMERICAN WATER COMPANY, INC.1 **Regulatory Expense**2 **61. Q. Please describe the Company's request for Regulatory Expense.**

3 A. NJAWC is seeking recovery for its Regulatory Pro Forma expense as reflected in
4 Exhibit P-2, Schedule 6 - line 15. The detailed calculation for this adjustment can
5 be found in the Company's workpaper, Schedule 6-15. The Company will update
6 the estimate throughout this proceeding. The Company has normalized the
7 estimated costs for the preparation of this case through the briefing period. In
8 addition, the regulatory costs associated with the acquisition adjustment proceeding
9 pending before the New Jersey Office of Administrative Law⁵ are also included in
10 this application. One half of these expenses are being amortized over a 36-month
11 period, the expected interval between rate filings. Additionally, the Company is
12 including the expense associated with the 2019 BPU Management Audit Order
13 issued in BPU Docket No. WA18080849, amortized over a 10-year or 120-month
14 period, the expected interval between management audits.

15 **62. Q. What type of costs are included in Regulatory Expense for this application?**

16 A. Regulatory Expense incorporates both the actual and expected costs associated with
17 the Company's consultants, outside legal counsel and charges from the Regulatory
18 Services Team. Costs for customer communications, mailings, legal notices,
19 administrative fees, and miscellaneous expenses associated with this application
20 are also part of Regulatory Expense.

⁵ OAL Docket No. PUC 16279-2018S - 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, Changes in Depreciation Rates and Other Tariff Modifications – Acquisition Adjustment Remand.

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1 **63. Q. In what areas did the Company engage external consultants for this filing?**

2 A. The Company engaged four external expert witnesses for the subject matter related
3 to Cost of Capital and Return on Equity, Service Company Costs, Compensation
4 and Cash Working Capital.

5 **64. Q. Does the Regulatory Expense include the cost to prepare a Cost of Service or
6 Rate Design study to support the allocation of revenue requirements?**

7 A. Yes. Cost of Service and Rate Design studies were prepared for this application by
8 Company Witness Charles Rea. Mr. Rea is an American Water Service Company
9 employee. In numerous past rate cases, the Company used outside consultants to
10 perform these tasks. Mr. Rea's time charged to NJAWC rate case as part of the
11 time charged by the Regulatory Services Team.

12 **65. Q. How does the Regulatory Services team support this case?**

13 A. The Regulatory Services group supports all American Water regulated utility
14 companies and is experienced in providing support in all aspects of the preparation,
15 filing and support of rate and regulatory filings. Specifically, in this case, the
16 Regulatory Services group has helped prepare the rate case filing, and the group
17 will also assist with responding to discovery and participate in hearings. Regulatory
18 Services costs for supporting this case are included in the Company's Regulatory
19 Expense.

NEW JERSEY-AMERICAN WATER COMPANY, INC.**Insurance Other Than Group****66. Q. Please explain the Company's Insurance Other Than Group expense.**

A. New Jersey-American Water incurs costs related to several types of insurance other than group insurance, including Auto Liability, General Liability, Worker's Compensation and Property. The insurance costs are collectively known as Insurance Other Than Group ("IOTG"). The Company's General Liability, Auto Liability and Workers Compensation premiums are based upon the combination of loss experience (50%) and exposure (50% estimated annual revenue and payroll). Exposure for Auto Liability is based on estimated annual revenues, payroll and the number of vehicles. Consistent with the underwriting practices of the commercial insurance market, the loss experience is based upon a five-year average of historical loss experience. The five-year average is used to normalize any anomalous years of claims experience.

Property insurance is based on the total insured asset values for New Jersey-American Water as a percentage of the total American Water insured asset values.

This is also consistent with commercial insurance market underwriting practices.

Other insurances include the Company's directors/officers liability policies, employed lawyers, pollution, consultation fee, executive risk, information technology policies, aviation, aircraft hull, flood and environmental policies.

NJAWC is seeking recovery for its IOTG pro forma expense as reflected in Exhibit

P-2, Schedule 6 - line 16.

NEW JERSEY-AMERICAN WATER COMPANY, INC.**1 67. Q. How was the pro forma expense for IOTG developed?**

2 A. Most of the Company's IOTG policies renew on January 1 of each year while others
3 renew each April. Development of the pro forma expense begins with the annual
4 premiums for the policies for 2019 which at this time is the latest available
5 information. Actual 2020 premiums will be available January and April of 2020
6 and as they become available, the pro forma expense will be updated to reflect
7 actual costs.

**8 68. Q. Have you made any other adjustments to compute pro forma expense for
9 IOTG other than using the 2019 premium amounts?**

10 A. Yes, additional adjustments were made to derive the Post Test Year expense. First,
11 we have made an adjustment to increase the Property premiums by 25% over the
12 2019 premium amount. The Company's current property insurance program is at
13 the end of a four-year rate guarantee where premiums (using a set rate) did not
14 adjust unless the insured values increased greater than 5%. On January 1, 2020,
15 the property insurance rates will be adjusted for current market conditions along
16 with an adjustment of the insurable values. The projected 25% increase for 2020
17 was provided by the Company's broker given the insurance program and current
18 property insurance markets. Second, an adjustment to include the incremental costs
19 associated with the Company's recent acquisitions. Since Roxbury Water and Mt.
20 Ephraim will be included in the future premiums, an adjustment was made for pro
21 forma purposes. The amount of the additional expense was determined by dividing
22 the pro forma expense by the current number of New Jersey customers, excluding

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1 the Roxbury and Mt. Ephraim customers to determine a per customer insurance
2 cost. This per customer amount was then multiplied by the current customer count
3 for Roxbury and Mt. Ephraim to account for the additional insurance expense
4 amount.

5 Engineered Coating of Steel Structures

6 **69. Q. Please explain the Company's Engineered Coating of Steel Structures expense.**

7 A. The Post Test Year expense for engineered coating of steel structures reflects the
8 normalized annual cost of coating the Company's numerous tanks and standpipes.
9 The Company's steel and concrete structures store potable water for fire protection,
10 peak demand equalization and emergency storage throughout the Company's
11 system and are explained in more detail in the direct testimony of Company Witness
12 Donald Shields. The Company has prioritized the top 34 tanks that require
13 engineered coating over the next five-year period. The Company's pro forma
14 expense is based a total rehabilitation cost over the next five years of \$47 million,
15 or \$9.4 million per year. NJAWC seeks recovery for its Engineered Coating of Steel
16 Structures pro forma expense as reflected in Exhibit P-2, Schedule 6 - line 17.

17 Property Sales

18 **70. Q. Has the Company included in this application any gains from the sale of**
19 **properties that will be shared with the customers?**

20 A. Yes. The Company expects to close on the sale of its former headquarters located
21 in Voorhees, NJ in December 2019. This transaction was approved by the BPU on
22 December 9, 2019 in BPU Docket No. WM19070825. As a result of the sale, the

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1 Company recognized a gain on the sale of land where the building was located. In
2 accordance with the Order, the gain will be shared 50/50 with customers and the
3 Company. Therefore, the Company proposes to defer and return to customers 50%
4 of the gain with the remaining 50% to be posted as below-the-line income to the
5 Company. The gain allocated to customers will be amortized over three years or a
6 36-month period. NJAWC seeks to return the gain to customers as a reduction to
7 operating expense as reflected on Exhibit P-2, Schedule 6 - line 18.

8 Other Operating Expense

9 **71. Q. Please discuss Other Operating expenses.**

10 A. Other Operating Expenses consist of contracted services, building and maintenance
11 supplies, telecommunication expenses, office supplies and services, advertising and
12 marketing, employee-related expenses, miscellaneous, and maintenance expense.
13 NJAWC seeks recovery for its Other Operating pro forma expense as reflected in
14 Exhibit P-2, Schedule 6 – line 19.

15 **72. Q. How did the Company calculate its pro forma adjustment to Other Operating**
16 **Expenses?**

17 A. The Company started with the amount of Other Operating Expense for the twelve
18 month period ending June 30, 2019. From that amount the Company removed
19 expenses relating to advertising, charitable contributions and community relations.
20 That value was then increased by 1.9% which represents inflation through June 30,
21 2020 and then again by inflation of 1.43% representing nine months of inflation,
22 (1.9%/12*9) through March of 2021. The inflation rate is the consensus value for

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1 real Gross Domestic Product growth for 2020 and 2021 which was obtained from
2 the Blue Chip Financial Forecast Vol. 38, No. 6, June 1, 2019.

3 **Property Tax Expense**

4 **73. Q. Please explain the Company's Property Tax expense.**

5 A. Property Taxes are owed to the municipalities in which the Company owns real
6 property and buildings. Property taxes are assessed annually and paid quarterly.
7 These payments are recorded through the Company's balance sheet as pre-
8 payments and amortized monthly to expense. NJAWC seeks recovery for its
9 Property Tax pro forma expense as reflected in Exhibit P-2, Schedule 10 – line 3.

10 **74. Q. Please describe how the pro forma adjustment to Property Tax expense was**
11 **calculated.**

12 A. The pro forma property tax expense was calculated by annualizing the August 2019
13 quarterly payment amount. The Company then increased the annual expense by
14 the Three-Year Average increase in property taxes of 1.99% to account for
15 anticipated increases in cost for the Post Test Year period. Additionally,
16 adjustments were made to increase property taxes for property and land that is
17 expected to be purchased, as well as for the recently acquired Mt. Ephraim booster
18 station sites not yet assessed. Lastly, the Company decreased the pro forma expense
19 to remove the property taxes associated with the Voorhees Building and for certain
20 tax savings relating to appeals.

NEW JERSEY-AMERICAN WATER COMPANY, INC.1 **75. Q. Please explain the Company's revenue-based taxes.**

2 A. The Company pays state and municipal Gross Receipts and Franchise Excise Taxes
3 ("GRAFT") at a combined rate of approximately 14% on gross revenues, as well
4 as general assessment fees for the BPU Staff and Division of Rate Counsel based
5 on annual gross revenues. Additionally, the Company pays a water monitoring tax
6 of \$.01 per thousand gallons for all its metered consumption less the amount sold
7 for resale customers. NJAWC seeks recovery for its revenue-based pro forma
8 expense as reflected in Exhibit P-2, Schedule 10 line 5 through line 7, and
9 Schedules 11 through Schedule 13.

10 **76. Q. Please explain the Company's request for Income Taxes.**

11 A. Exhibit P-2, Schedule 14 calculates pro forma current and deferred income
12 expenses under both present rates and proposed rates. Current Tax Expense is
13 calculated as pro forma Operating Revenues less pro forma Tax Deductions. The
14 tax deductions include a reduction for permanent, non-deductible items and an
15 increase for tax depreciation over book depreciation. Deferred Tax Expense is
16 equal to Tax Depreciation Over Book Depreciation times the statutory tax rate of
17 21%. Deferred Tax Expense was also adjusted for the following amortizations:
18 excess deferred tax liabilities under the Reverse South Georgia method, excess
19 deferred taxes associated with the Tax Cut and Jobs Act (TCJA), deferred taxes
20 associated with investment tax credits (ITC), and excess flow through of income
21 tax regulatory assets.

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1 **77. Q. Does this conclude your testimony related to expenses?**

2 A. Yes, I will now address the tariff charges.

3 **II. PROPOSED TARIFF CHANGES – EXHIBIT P-1**

4 **78. Q. Please explain Exhibit P-1 attached to the Petition related to the Company's**
5 **proposed tariff.**

6 A. A clean copy of the proposed Tariff and a redline against the existing Tariff of the
7 proposed rate schedules and other tariff provisions that the Company seeks to make
8 effective as a result of this filing is attached to the Petition as Exhibit P-1.

9 **79. Q. Does the proposed Tariff include any new Rate Schedules?**

10 A. Yes. As mentioned in the direct testimony of John Watkins, the Company is adding
11 Tariff Rider B related to the Revenue Stabilization Mechanism.

12 **80. Q. Have other changes been made to the content and/or structure of the Rate**
13 **Schedules in the Tariff?**

14 A. Yes. Rate Schedule A-15 pertaining to Service Area 1E, Haddonfield, now has a
15 Fixed Service Charge based on meter size and a Water Charge for volumetric
16 consumption. This rate design change is discussed more fully by Company witness
17 Mr. Rea.

18 **81. Q. What additional Tariff changes are being proposed by the Company?**

19 A. The Company is proposing to make a number of changes to its tariff, which are
20 reflected in the clean and redlined versions of the Tariff. The proposed changes are
21 as follows:

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- 1 • Placing the Fixed Service Charge rates about the Water Charge rates on
2 all rate schedules for purposes of consistency;
- 3 • Converting the usage language in the Applicability paragraph of Rate
4 Schedule F, Optional Industrial Wholesale, from cubic feet to gallons for
5 consistency with other rate schedules, and adding an explanation of
6 “loading factors” to the language in that paragraph, for clarification;
- 7 • Converting the rate on Rate Schedule G, “Sales for Resale – Service to
8 Other Systems” from million gallons to thousand gallons for consistency
9 with other rate schedules; and
- 10 • On the Private Fire Protection Service Rate Schedules, clarifying that the
11 Size of Service rates are based on the size of the Service Line, and not the
12 customer’s Connecting Line (as these terms are defined within the tariff),
13 which are not always the same size. NJAWC engineers determine the size
14 of the service line based on what is appropriate for the premises.

15 **82. Q. Has the Company made any other changes to its existing tariff language?**

16 A. Yes. The Company has changed the qualification requirements for the H2O Help
17 to Others Low Income Payment Program (“LIPP”), increasing the income threshold
18 to 300% of the federal poverty level guidelines, as recommended by NJ-Shares and
19 consistent with other regulated utility programs in New Jersey. The Company also
20 added language to the financial aid section to clarify that the wastewater service
21 discount for eligible customers will not exceed the wastewater service charge.
22 Previously, the tariff language indicated that the discount for wastewater customers
23 was an amount equal to the water service discount amount which, depending on the
24 rate schedule, can be greater than the wastewater service charge.

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1 The blacklined version of the Company’s tariff provided as Exhibit P-1A contains
2 several corrections and updates to the Standard Terms and Conditions for both
3 water and wastewater customers. The changes are primarily intended to fill
4 information gaps, resolve inconsistencies or outdated references, and/or more
5 closely conform the tariff to the regulations under which the Company operates
6 (such as updates to language concerning medical certificates in conformance with
7 the regulations anticipated to be adopted pursuant to Linda’s Law).

8 **83. Q. Are there other changes that the Company is proposing to its tariff?**

9 A. Yes. NJAWC proposes to reorganize and streamline its tariff by moving the
10 Standard Terms and Conditions for Wastewater Service to the beginning of the
11 Tariff, and structuring the standard terms and conditions portion of the Tariff into
12 three sections: Standard Terms and Conditions for Water and Wastewater Service;
13 Standard Terms and Conditions for Water Service; and Standard Terms and
14 Conditions for Wastewater Service. By doing so, elements that are common to
15 water and wastewater service can be combined and duplicative information that
16 was previously provided in two separate sections of the Tariff can be removed.

17 In a further effort to streamline its Tariff, the Company proposes to remove and
18 reorganize the pages, removing pages that were “reserved for future use” due to a
19 consolidation of our rate structure in the previous base rate case, BPU Docket No.
20 WR17090985, and creating a new numbering structure for the rate schedule Tariff
21 sheets.

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1 **84. Q. Please explain the new numbering structure for the rate schedule tariff sheets.**

2 A. Under the new numbering structure, each class of service would share a leading
3 sheet number, followed by a schedule-specific number. General Metered Service
4 rate schedules would all start with the sheet number 35. Rate Schedule A-1 would
5 be sheet number 35.1, Rate Schedule A-2 would be sheet number 35.2, Rate
6 Schedule A-10 would be sheet number 35.3, etc. Similarly, the Sales for Resale
7 class of service rate schedules would start with sheet number 38. Rate Schedule C
8 would be sheet number 38.1, Rate Schedule D would be sheet number 38.2, Rate
9 Schedule E would be sheet number 38.3, etc.

10 If a rate schedule consists of more than one sheet, the subsequent sheets would be
11 numbered in sequence under this proposal. For example, Rate Schedule E, page one
12 is sheet number 38.3, page two is 38.3.1, page three is 38.3.2, etc.

13 **85. Q. What is the purpose of this new numbering structure for the rate schedules?**

14 A. This numbering structure allows schedules to be added and removed without
15 greatly impacting the subsequent pages and allows classes of service to be
16 identified by leading sheet number.

17 **86. Q. Why does the Company propose language changes to the standard terms and
18 conditions for water and wastewater service in its tariff?**

19 A. The Company has proposed language changes to make clear to our customers the
20 requirements and obligations for service and requests for service.

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1 **87. Q. Please explain the modifications that were made to Sheet No. 17, ¶7, pertaining**
2 **to customer-side connecting lines.**

3 A. On November 1, 2019, NJAWC filed an Amended and Restated Petition *I/M/O the*
4 *Petition of New Jersey-American Water Company, Inc. for Deferral Accounting*
5 *Authority for the Financial Impact of Damage Related to the Environmental and*
6 *Legal Issues Incurred with Customer Side Lead Service Replacement* under BPU
7 Docket No. WR17040402. The language inserted on tariff Sheet No. 18, ¶7 is
8 meant to clarify that the Company may replace customer-side lead service lines,
9 consistent with the Company's proposal as discussed by Mr. Shields and Mr.
10 Tomac in their direct testimonies. The proposed language has been included as
11 part of the proposed tariff changes in this case as these proceedings are expected to
12 run concurrently and it is anticipated that a decision will be made, or an agreement
13 reached in BPU Docket No. WR17040402 before the conclusion of this rate case.

14 **88. Q. Does this conclude your direct testimony?**

15 A. Yes, it does.

NEW JERSEY-AMERICAN WATER COMPANY, INC.**Appendix A****1 Q. Please describe your educational background and professional associations.**

2 A. I am a 2001 graduate of Rowan University where I earned a Bachelor of Science Degree
3 in Business Administration with a specialization in Accounting. I have also attended
4 the Utility Rate School sponsored by the National Association of Regulatory Utility
5 Commissioners (“NARUC”).

6 2. Q. What has been your business experience?

7 A. Prior to my employment with Service Company, my work history included an
8 accounting internship with Alloy, Silverstein, Shapiro, Adams, Mulford & Co. in
9 Cherry Hill, New Jersey, an audit position with M.D. Oppenheim & Co., PC, in Cherry
10 Hill, New Jersey, and a staff accountant position with A.C. Moore Arts and Crafts, Inc.
11 in Berlin, New Jersey. I began my employment with the Service Company in
12 September 2006 as a General Tax accountant in the General Tax Department. My
13 duties included developing, preparing and maintaining the general tax account
14 reconciliations for all American Water affiliates, developing general tax Sarbanes-
15 Oxley practices and policies, and making monthly closing journal entries. In June
16 2007, I transferred to the role of Accountant in the General Accounting/Financial
17 Reporting Department. My duties included preparing quarterly and annual financial
18 reports, monthly closing financials, and monthly account reconciliations for multiple
19 regulated companies of American Water and Service Company. My responsibilities
20 also included external audit coordination and internal controls task management. In
21 October 2010, I transferred to the role of Supervisor in the Accounts Payable

NEW JERSEY-AMERICAN WATER COMPANY, INC.**Appendix A**

1 Department and was responsible for overseeing the end-to-end operations and
2 transaction processing of accounts payable for multiple regulated companies of
3 American Water. In October 2011, I transferred to the position of Financial Analyst II
4 in Rates and Regulation. In July 2013, I was promoted to Financial Analyst III. In
5 January 2017, I was promoted to Senior Manager in Regulatory Services where I
6 supported rate applications and other regulatory filings for American Water's West
7 Virginia and Pennsylvania operating companies. Effective August 2018, I became the
8 Senior Manager of Rates and Regulatory for New Jersey-American Water.