

New Jersey American Water Distribution System Improvement Charge (DSIC) Q and A

BACKGROUND

The New Jersey Board of Public Utilities (NJ BPU) approved implementation of a Distribution System Improvement Charge (DSIC) for New Jersey American Water's water customers in September of 2015. The Company's first DSIC filing was made in April of 2016, with a change in rates effective June 1, 2016. The company filed for an updated charge in October 2016, with new rates effective December 1, 2016. The company filed for an updated charge in April 2017, with new rates effective June 1, 2017. The current surcharge update was filed in October 2017 and will be effective December 10, 2017. DSIC is a proven regulatory tool that allows for modest surcharges outside of the general rate proceeding for approved and completed rehabilitation and replacement of aging infrastructure, while maintaining BPU oversight and review.

QUESTIONS & ANSWERS

When and how will the increase affect my water bill?

The Distribution System Improvement Charge (DSIC) began appearing on bills June 1, 2016. The charge has been updated effective December 1, 2016 and June 1, 2017 for additional company investments into its system infrastructure. The charge is based on the customer's meter size and is not based on water usage. For a residential customer with a 5/8 meter (what most residential customers have) the most recent DSIC charge is \$2.94 per month. The monthly DSIC charge for all meter sizes are listed in the chart below (these are the charges effective 12/10/2017):

Size of Meter	Monthly Charge
5/8"	\$3.25
3/4"	4.88
1"	8.13
1-1/2"	16.26
2"	26.01
3"	48.77
4"	81.28
6"	162.56
8"	260.10
10"	325.12
12"	406.40
16"	650.25

How much did the company invest in DSIC-eligible projects and for what period?

The company has invested approximately \$302 million in DSIC-qualified projects that were placed in service between September 21, 2015 and September 30, 2017.

What is the purpose of the DSIC Charge? How will a DSIC benefit customers?

The Distribution System Improvement Charge (DSIC) pays for critical infrastructure projects, including replacing and repairing water mains, fire hydrants and customer service lines that are old, made of substandard materials, or otherwise in urgent need of repairs.

These types of projects benefit our customers by improving the reliability of the water distribution system, as well as enhancing water quality and fire protection. Delaying work on these kinds of projects could actually result in more costly problems down the road. The DSIC also allows companies to fund these critical infrastructure projects on an ongoing basis, helping to create jobs in our communities and attract and retain businesses that rely on stable, efficient and cost-effective water supplies.

Don't I already pay the company for this in my existing rates?

No. Your existing rates cover projects that were completed and placed in service before the end of the company's last rate case, which was effective September 21, 2015. The DSIC pays for specific types of projects that have been completed and placed in service since the end of the last case, subject to the review and approval of the BPU.

Is this charge reviewed or approved by the state?

Yes. The company has already submitted a comprehensive list of projects to the BPU for review and approval – this is typically referred to as a Foundational Filing. About every six months or so, the Company will submit its list of completed projects to the BPU, along with information about costs and the proposed charge to customers. Each filing to the BPU is also reviewed by the Division of Rate Counsel.

When do you anticipate a change in the DSIC charge?

Water utilities are permitted to make DSIC filings twice a year, at approximately 6 month intervals. New Jersey American Water's first filing covered infrastructure investments for approximately 6 months ending March 31, 2016 (with a DSIC rate change effective June 1). The Company's second filing covered the six months of projects ending September 30, 2016, with a rate change going into effect on December 1, 2016. The Company's third filing covered the six months of projects ending March 31, 2017, with a rate change going into effect on June 1, 2017. The current surcharge is expected to be the final semi-annual rate change based on the 2015 approval of this mechanism.

How long has the DSIC program been in place?

The first DSIC program was approved by the BPU on May 1, 2012. The DSIC charges based on that approval were reset to \$0 for customers when the most recent rate case was effective, September 21, 2015.

When did it first begin appearing on bills?

The DSIC charge first appeared on customers' bills on August 1, 2013. It was reset to \$0 when the most recent rate case was effective, September 21, 2015. It was reinstated based on the company's first DSIC filing after the rate case, effective June 1, 2016 and has been updated semi-annually since.

Will the DSIC charge be separately identified on the customer's regular bill?

Yes, it appears as a separate line item on customers' bills.

Will this reduce costs for the company?

It should. By accelerating the pace of necessary infrastructure upgrades and replacements in its water system, and completing those projects on a steady, programmed basis, the company should be able to obtain better prices for contractors and materials over time. In the company's experience, planned work can be completed at lower costs compared to unscheduled emergency work, which tends to be much more expensive as well as disruptive to the communities we serve. The projects the company is pursuing are essential to reduce main breaks, service interruptions, and leaks on underground pipes or valves, all of which can result in higher costs to customers than the improvements alone. These upgrades are also necessary to improve water quality, system reliability and pressure, and to enhance fire protection.

Why is it so critical that we accelerate distribution system improvements?

As it stands today, over 15 percent – or 1,300 miles – of New Jersey American Water's 8,700 miles of pipe are between 100 and 140 years old and nearing the end of their useful lives. These mains may run down the main street of your town, or in front of your house, school or job. As these mains age, they become more likely to leak or break, which can be very disruptive. The DSIC is intended to help the water companies fix these issues before they turn into major leaks or breaks.

Older assets like water pipes are frequently made of less robust materials, or were manufactured to standards that are no longer adequate to meet the needs of the water distribution system. Safe, reliable drinking water service is essential to the health and well-being of our communities as well as an irreplaceable part of our economy.

Before the DSIC, the pace of these important projects was falling further and further behind the need for such work. At the same time, drinking water and infrastructure standards are becoming stricter. That is why the New Jersey Board of Public Utilities, after a lengthy public stakeholder process that lasted almost two years, created a distribution system improvement program. A DSIC mechanism helps New Jersey American Water and other water utilities in New Jersey meet the challenge posed by aging infrastructure.

As someone on a fixed income, do you have any programs that assist low-income customers?

- Yes. For nearly a decade, New Jersey American Water has been assisting low-income customers who qualify through its H2O Help to Others Program™.
- Under the company's H2O assistance program, customers who qualify may receive a grant of up to \$500 to help pay their water bill and a discount on their monthly fixed service charge. For more information, visit www.newjerseyamwater.com or contact the H2O Help to Others Program™ administrator, New Jersey SHARES, toll-free at 1-877-NJAWH2O.
- Discount off the fixed service charge for water for those who qualify. Based on meter size as follows:
 - 5/8-inch meter: \$13.60 discount
 - 3/4-inch meter: \$20.40 discount
 - 1-inch meter: \$34.00 discount
- In addition, to qualify for the discount program, customers have to be at or below 200 percent of the Federal Poverty Income Guidelines. For example, for a family of four, to qualify currently, the household income may not exceed \$4,024 (at 9/21/2015 – the FPIG guidelines are typically updated every February).
- **NEW LOW INCOME DISCOUNT OFFERED:** For those who qualify for the above discount program, who also receive Social Security benefits or Medicare coverage can receive a discount off their current DSIC charge, based on meter size. The DSIC discount is limited to the 1" size price.

Where can I find more information?

Visit us online at www.newjerseyamwater.com. Under the Customer Service menu, select Your Rates. You can also contact our customer service center at 1-800-652-6987.