

**BEFORE THE  
STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES**

**IN THE MATTER OF THE PETITION OF :  
NEW JERSEY-AMERICAN WATER : PETITION  
COMPANY, INC. FOR APPROVAL OF :  
INCREASED TARIFF RATES AND : BPU DOCKET NO.: WR1912\_\_\_\_\_  
CHARGES FOR WATER AND :  
WASTEWATER SERVICE AND OTHER :  
TARIFF MODIFICATIONS :**

**TO: THE HONORABLE COMMISSIONERS OF THE BOARD OF PUBLIC UTILITIES**

New Jersey-American Water Company, Inc. (the “Company,” “NJAWC” or “Petitioner”), a public utility corporation of the State of New Jersey, with its principal office at 1 Water Street, Camden, New Jersey 08102, hereby petitions this Honorable Board (the “Board” or “BPU”) for authority pursuant to N.J.S.A. 48:2-18, N.J.S.A. 48:2-21, N.J.S.A. 48:2-21.1, N.J.A.C. 14:1-5.7 and N.J.A.C. 14:1-5.12 to increase its base tariff rates and charges for water and wastewater service and to implement certain other tariff revisions. In support thereof, Petitioner states as follows:

**I. BACKGROUND**

1. NJAWC is engaged in the production, treatment and distribution of water and collection of wastewater within its defined service territory within the State of New Jersey. Said service territory includes portions of the following counties: Atlantic, Bergen, Burlington, Camden, Cape May, Essex, Gloucester, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Salem, Somerset, Union, and Warren. Petitioner currently serves approximately 652,000 water and fire service customers and 50,000 wastewater service customers.

2. The rate schedules and other tariff provisions that NJAWC proposes to increase and modify by virtue of this filing are those currently effective rate schedules and tariff provisions now on file with the Board, designated “Tariff for Water and Wastewater Service, B.P.U. No. 8 – Water and Wastewater” (the “Existing Tariff”).

3. The Existing Tariff was issued pursuant to Board Orders in Docket Nos. WR10040260, effective January 1, 2011, WR15010035, effective September 21, 2015, WR16111065, effective April 1, 2017, WR18111241, effective March 26, 2018, WR17090985, effective October 29, 2018, WM18080904, effective January 1, 2019 and WR17111183, effective July 1, 2019.

4. The proposed rate schedules and other tariff provisions that Petitioner seeks to make effective as a result of this filing are those contained in the tariff sheets, which are blacklined against the Existing Tariff to reflect proposed changes (the “Proposed Tariff”), a copy of which is attached as Exhibit P-1. It is requested that the Proposed Tariff be made effective January 15, 2020, a date which is no less than thirty (30) days from the date of this filing.

## **II. BASE RATES**

5. The Company’s proposed revenue requirement, equal to the cost of providing water, fire and wastewater service to NJAWC’s customers, is approximately \$802 million.

6. The Company’s revenue deficiency is \$87.8 million or approximately 12.3%.

7. The proposed increase will produce additional revenues of \$87.8 million per year or 12.3% over existing annual revenues.

8. The impact of this Petition on the bill of an average customer using 5,400 gallons per month would be \$6.46 or 11.55%. The actual percentage increase applicable to specific customers will vary according to the applicable rate schedule and the level of each customer’s usage.

9. Petitioner’s test year ends June 30, 2020. Petitioner is proposing to reflect changes in capital expenditures through December 31, 2020, and changes in certain revenues and expenses through March 31, 2021.

10. Petitioner's filing in this case is based on five months of actual and seven months of estimated data. During the proceeding, the Company will update its Direct Testimony and Exhibits, as appropriate, to reflect actual results. It is anticipated that by the conclusion of this case, the entire test year ending June 30, 2020 will reflect actual results.

11. As required by N.J.A.C. 14:1-5.12(a)(11), the Company has applied a consolidated tax adjustment. After the execution of an Agreement of Non-Disclosure ("NDA"), a proposed version of which is attached as Exhibit P-1A, a consolidated tax savings schedule will be provided to the NDA parties.

### **III. THE NEED FOR THE REQUESTED RATE RELIEF**

12. The primary driver of the proposed rate increase is the capital investment to maintain and improve the Company's infrastructure to continue providing safe, reliable and adequate service to its customers. In total, the Company will have invested approximately \$1.008 billion in capital improvements since the end of the test year in the Company's last rate case (Docket No. WR17090985, effective October 29, 2018) (the "2017 Rate Case"). Specifically, the Company has invested or plans to invest over \$785 million through June 30, 2020, and projects that an additional \$222 million will be added to its plant in service balance by December 31, 2020. Of that amount, \$349 million is or will be recovered through the DSIC.

13. In making these investments, NJAWC works to control capital expenditure costs through competitive bidding, streamlined selection of services and materials and utilization of large volume purchasing power.

14. Petitioner has made these capital improvements in order to allow it to continue to provide safe, adequate and proper service in a manner that is in the long-term interests of our customers.

15. Many of these projects are described in the Company's Direct Testimony, Exhibits and Schedules and include improved resiliency and reliability at treatment plants, as well as in the distribution system, managing source of supply both from a treatment and capacity perspective, improved pump efficiency, and treatment changes to maintain regulatory compliance, among others. Additional examples include technology investments that include upgrades and enhancements to our foundational technology, as well as new technology that integrates with existing systems that the Company has leveraged to enhance its service to customers; upgrading Supervisory Control and Data Acquisition ("SCADA")/Automation and Control ("A&C") to replace aging controls and communication equipment that allow for remote operation of critical facilities such as well stations and boosters; and re-chlorination stations and tank mixing upgrades at remote storage tank facilities that help maintain reliable disinfectant residuals in remote areas of the system which in turn protects customers and helps maintain regulatory compliance. In each instance, these projects support the Company's continued provision of safe, adequate and reliable service to customers.

16. It is not possible to make investments at this level without the opportunity to recover a return of, and a reasonable return on those investments.

17. The Company's commitment to keep operations and maintenance ("O&M") expenses low has mitigated the proposed base rate increase. The Company seeks to recover \$218.9 million in O&M expenses, which represent expense levels into 2021.

18. Although O&M expenses have increased since the 2017 Rate Case, the Company's efforts to slow and mitigate cost increases have been very successful. For a period of 10 years, O&M expenses have remained relatively flat and have decreased on a per customer basis by over \$25 per customer, from \$335 per customer in 2010 to \$309 through March 31, 2021.

#### **IV. ACQUISITION ADJUSTMENT FOR ROXBURY WATER COMPANY**

19. The proposed rate increase includes recognition of an acquisition adjustment for the Company's purchase of the Roxbury Water Company ("Roxbury") on December 31, 2018.

20. The acquisition price for Roxbury of \$4.5 million exceeded the original cost less depreciation of Roxbury by approximately \$2.7 million.

21. The integration of Roxbury into NJAWC will allow the Company to avoid approximately \$8 million in future capital costs.

22. Specifically, the acquisition allows the Company to address water supply issues in the portion of the Company's International Trade Center ("ITC") system located in the Highlands Region at a significantly lower cost. Before the purchase of Roxbury, the Company's lowest cost alternative was to bring water supply north from its existing system in Chester to the ITC system through an approximately 39,000 linear feet (7.3 miles) main extension at an estimated cost of \$21 million. The purchase of Roxbury allows the Company to avoid approximately 21,700 LF (4.1 miles) of the same main extension by connecting Roxbury with ITC.

23. The Company has proposed full rate base recognition of the Roxbury purchase price in this case, including the acquisition adjustment, which the Company proposes to amortize over 40 years.

#### **V. REVENUE STABILIZATION MECHANISM**

24. The Company proposes a Revenue Stabilization Mechanism ("RSM") to align the Company's revenues with the level the Board uses to establish rates in this case. The proposed mechanism will effectively address the unpredictable changes in volume of water sold due to factors beyond the Company's control (e.g., weather) and declining usage due to reduced-flow fixtures and water-efficient appliances, and conservation.

25. Most of the Company's costs are fixed, but its rate structure is primarily based upon volumetric charges. As a result, any factors that affect sales, either positive or negative, will impede the Company's ability to achieve the revenue level used to establish rates in this proceeding which is presumed to be representative of the level of revenues that will be achieved post-rate case.

26. The RSM will ensure that the Company collects revenues in an amount sufficient to recover the amount included in authorized rates, regardless of sales volume, and that customers pay no more or less than the revenue level found appropriate to produce just and reasonable rates. If revenue is higher than expected, the net difference will be credited to customers. Conversely, if revenue is lower than expected, the RSM will make up the net difference to the Company.

#### **VI. REVENUE NORMALIZATION AND DECLINING USAGE**

27. The declining consumption trend among water companies is well supported and has significant consequences for the Company.

28. The Company's analysis demonstrates a continuing annual system-wide decline of 1.76% and .69% per year in residential and commercial usage, respectively, and a trend of declining usage into the foreseeable future.

29. The Company proposes to normalize revenues in this case.

#### **VII. CUSTOMER-OWNED LEAD SERVICE REPLACEMENT**

30. As 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").

31. NJAWC estimates that the Company has approximately 10,000 Company-owned

LSLs (including “goosenecks”). While the Company does not have an exact count of customer-owned LSLs that would be replaced under the Company’s proposal, the original expectation is that there is likely lead on the customer side where lead is found on the Company side.

32. 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 lead service line replacements made beginning in 2017 in rate base as utility plant in service. The Company has deferred the costs incurred to date in the amount of \$1.4 million.<sup>1</sup> For purposes of this application, however, the Company has recorded those costs in its utility plant in service balance.

33. The Company seeks Board approval to record the costs to replace the customer-owned LSLs in Uniform System of Accounts (“USOA”) Account 345 – Services. The replacement of customer-owned LSLs is similar to the restoration of other customer owned property, which is also recorded in USOA Account 345. 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. NJAWC should capitalize these restoration expenditures to plant as part of its overall project costs, consistent with USOA guidelines.

34. Additionally, NJAWC requests that the Board approve the inclusion of customer-owned LSLs in rate base and as DSIC eligible. The Company estimates that replacing customer-owned LSLs as part of its DSIC main replacement program will take up to 10 years.

### **VIII. PERFORMANCE PAY**

35. Petitioner is seeking full cost recovery of its employee expenses, including performance pay. The Company’s performance compensation plans align the interests of our

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<sup>1</sup> This amount does not include the \$440,000 that was written off in connection with the Partial Stipulation approved by the BPU in the 2017 Rate Case.

customers, employees and investors. The plans emphasize customer service, environmental compliance, a safe work environment, and other operational goals, as well as certain financial goals.

36. As part of this case, the Company is submitting a study of the Company's compensation conducted by a third-party consultant, Willis Towers Watson and supported by Company witness Robert Mustich. The study assessed the Company's total compensation philosophy, including its short-term and long-term performance pay programs; comparing them to peer utilities and industry generally.

37. The study results show that when performance pay is included in the compensation program, NJAWC employees are generally within the range of market median indicating that the Company's compensation practices are reasonable. The study also concluded that the Company's long-term and short-term performance pay programs are reasonable.

38. As discussed in the testimony of Company witnesses Thomas Shroba and Mr. Mustich, performance pay is important for the Company to attract, retain, and motivate the talent needed to run the Company successfully and efficiently. Performance pay also benefits both the Company and customers by incentivizing the employees to continue delivering excellent service to customers. The operational components of the Company's performance compensation plans measure performance that can most directly influence customer satisfaction, health and safety, environmental performance, and operational efficiency. Customers derive a direct benefit from the Company's focus on these key measures in the plan. Further, the plans' well-grounded financial measures keep the organization focused on improved performance at all levels of the organization, particularly in increasing efficiency, decreasing waste, and boosting overall productivity.



39. In addition, the Company's overall compensation levels are in line with the market, and thus, are a reasonable and prudently incurred cost of service that is appropriate for inclusion in rates.

#### **IX. PENSION AND OPEB TRACKER**

40. The Company proposes to implement a tracking mechanism for its expenses related to pension and other post-employment benefits ("OPEB") due to the historical variances the Company has experienced between forecasts and actual expense levels in this area. Specifically, the Company proposes to track the differences between its pension and OPEB expense included in the Company's authorized rates and the level of such expenses actually incurred. Differences will be deferred for future credit or recovery. The Company proposes that it would continue to defer these costs until an amortization could be set in the next base rate case, which would have the effect of returning any excess to customers or permitting the Company to collect any shortfall in that case.

41. A tracker is needed for pension and OBEP expense because the costs can vary widely due to market conditions and are difficult to forecast.

42. The proposed pension and OPEB tracker will benefit both customers and the Company by protecting them from the wide variations that can exist in expected versus actual costs.

43. The tracker will ensure that the Company's rates ultimately reflect no more or less than the actual pension and OPEB costs incurred. This is fair to both customers and the Company and establishes the balance that reasonable ratemaking requires.

## **X. RATE DESIGN PROPOSAL**

44. Petitioner is presenting in this case a cost of service study which was prepared utilizing the base-extra capacity method, as described in the 2012 and prior Water Rates Manuals published by the American Water Works Association.

45. In this case, the Company proposes to consolidate the rate schedules for General Metered Service Class (“GMS”) customers such that the monthly meter service charges and the volumetric rates for these rate schedules are identical.

46. The Company is proposing to eliminate the inclining block rate for Schedule A-15 Haddonfield and set the volumetric rate for Schedule A-15 equal to the volumetric rate for Schedule A-1 (GMS Customers). The Company is also proposing to increase the monthly service charge in Schedule A-15 from \$8.00 per month for a 5/8” meter to \$12.00 per month to begin to close the gap between the monthly service charges for Haddonfield customers and the rest of the NJAWC’s customer base. In addition, the Company is proposing to apply incremental increases to the meter charges for all other meter sizes larger than 5/8” meters. Thus, meter charges for higher capacity meters will be more in line with the rest of the NJAWC customer base.

47. The Company proposes to increase monthly meter charges for Schedule A-16 (Roxbury) to close the gap between the monthly service charges for Roxbury customers and the rest of the NJAWC customer base, and to increase the volumetric charge for Roxbury customers from \$3.29 per thousand gallons to \$3.64 per thousand gallons.

48. The Company proposes to reduce the disparities in public fire rates.

49. The Company does not propose any significant changes to its wastewater service rate design. The Company proposes to move rates closer together between each district.

## **XI. TARIFF PROPOSALS**

50. The Company proposes a number of Tariff changes discussed in the Direct Testimony of Jamie Hawn. The changes proposed by Ms. Hawn are designed to streamline and clarify the Tariff and to conform the Tariff to the relief requested in this case.

## **XII. OTHER REQUESTED RELIEF**

51. As further explained in Ms. Hawn's testimony, NJAWC is proposing to amortize 50% of expenses related to this filing, including the projected costs of legal and consultant expenses, newspaper notices, court reporting, postage and other miscellaneous expenses, over a 36-month period.

52. The Company is also including the expense associated with the 2019 BPU Management Audit Order issued in BPU Docket No. WA18080849, amortized over a 10-year or 120-month period, the expected interval between management audits.

53. NJAWC is also proposing to provide a no-fee option to customers who pay their bills with a credit card. Under this proposal, the third-party vendor fees would be recovered through the Company's base rates.

## **XIII. TESTIMONY AND EXHIBITS INCORPORATED HEREIN**

54. The Company submits herewith, and incorporates as a part hereof, all documents and exhibits required to accompany such a Petition pursuant to the Board's rules of practice as set forth in N.J.A.C. 14:1-5.12.

55. Attached hereto and incorporated herein are the Direct Testimony (Exhibits) and Schedules submitted on behalf of the following witnesses:

- a. Cheryl Norton, President, NJAWC, whose testimony includes an overview of the Company and the primary issues driving the Company's filing (Exhibit P-3);
- b. Thomas Shroba, Vice President of Operations, NJAWC, whose testimony includes an overview of the Company's operations, its commitment to water quality, environmental

compliance, safety, improving water efficiency, as well as the Company's proposed staffing levels and compensation philosophy (Exhibit P-4);

- c. Donald C. Shields, Vice President, Engineering for the Eastern Division, American Water Works Service Company "Service Company"), whose testimony addresses the recovery of capital expenditures incurred since the Company's last rate case, the proposal regarding the replacement of customer-owned lead service lines, the plan for the engineered coating of steel structures and the customer benefits resulting from the acquisition of Roxbury Water Company, and some of the risks and challenges for water utilities associated with increased regulation and climate variability (Exhibit P-5);
- d. John S. Tomac, Senior Director of Rates and Regulatory for the Eastern Division, whose testimony supports the Company's revenue requirement calculation, rate base and capital structure, and discusses the Company's proposal with respect to lead service line cost recovery and the net book value adjustment for acquisitions proposed in this proceeding, among other regulatory policy issues (Exhibit P-6);
- e. Jamie D. Hawn, Senior Manager of Rates and Regulatory for NJAWC, whose testimony includes the Company's request for recovery of expenses in this proceeding, the Company's pro forma adjustments to Operations and Maintenance ("O&M") expense, Taxes other than Income, Income Taxes and the proposed tariff modifications (Exhibit P-7);
- f. John M. Watkins, Senior Director Regulatory Services for Service Company, whose testimony describes the Company's proposals related to the RSM and the OPEB tracker (Exhibit P-8);
- g. Gregory P. Roach, Senior Manager of Revenue Analytics for Service Company, whose testimony includes weather normalized usage per customer, and the impact of declining use per customer (Exhibit P-9);
- h. Charles B. Rea, Director, Rates and Regulatory for Service Company, whose testimony sponsors a cost of service study, rate design and Post-Test Year revenues at Present Rates (Exhibit P-10);
- i. Ann Bulkley, Senior Vice President for Concentric Energy Advisors, Inc., whose testimony discusses cost of capital issues including the proposed return on equity, capital structure and overall cost of capital (Exhibit P-11);
- j. Patrick L. Baryenbruch, President of Baryenbruch & Company, LLC, whose testimony discusses the reasonableness of the Service Company costs (Exhibit P-12);
- k. Robert V. Mustich, Managing Director and East Region Rewards Business Leader for Willis Towers Watson, whose testimony addresses the reasonableness of the Company's compensation program, and benchmarks the Company's compensation expense against national and regional peer groups (Exhibit P-13); and

1. Harold M. Walker, Manager, Financial Studies for Gannett Fleming Valuation and Rate Consultants, LLC, whose testimony presents the Company's cash working capital allowances (Exhibit P-14).

56. Attached hereto and incorporated herein is Exhibit P-2, which includes Schedule Nos. RR and 1 through 18 in support of this Petition.

#### **XIV. PROPOSED PROCEDURAL SCHEDULE**

57. The Company respectfully proposes the adoption of the following procedural schedule for the conduct of this proceeding:

February 28, 2020	Service of first round discovery
March 20, 2020	Responses to first round discovery due
April 6, 2020	Public Hearings
April 10, 2020	Service of second round discovery
April 27, 2020	Second round discovery responses due
April 28, 2020	Company files 9+3 update
May 8, 2020	Service of 9+3 update discovery
May 25, 2020	Responses to discovery on 9+3 update due
Week of May 25, 2020	Discovery/Settlement Conferences
Week of June 1, 2020	Discovery/Settlement Conferences
Week of June 15, 2020	Settlement Conferences
July 2, 2020	Rate Counsel and Intervenor Direct Testimony Due
July 10, 2020	Serve discovery on Rate Counsel and Intervenor Direct Testimony
July 21, 2020	Company files 12+0 update
July 24, 2020	Responses to discovery on Rate Counsel and Intervenor testimony due
August 14, 2020	Company, Rate Counsel and Intervenors file Rebuttal Testimony
August 21, 2020	Serve discovery on Rebuttal Testimony
August 28, 2020	Responses to rebuttal discovery due
September 4, 2020	Surrebuttal Testimony

September 8, 2020

Evidentiary Hearings begin (depending on ALJ's availability)

**XV. MISCELLANEOUS**

58. Notice of this filing and three copies of this Petition are being served on Stefanie A. Brand, Director, Division of Rate Counsel by personal service.

59. Notice of this filing and two copies of this Petition are being served on the Department of Law and Public Safety by personal service.

60. Notice of this filing and the effect thereof will be served by mail upon the clerk of the Board of Chosen Freeholders and County Executive Officers of those counties in the Company's service territory, as well as upon the clerks of the respective municipalities within the Company's service territory. Such notice will be given at least 20 days prior to the date set for the initial hearing and shall include and specify the time and place of said hearing. The counties and municipalities upon whom service of said notice will be made are shown in NJAWC's tariff.

61. Customers will be notified of this filing, and the effect thereof, together with the time and place of hearing by publication at least 20 days prior to the date set for hearing in newspapers published and circulated within the Company's service territory. A copy of the form of notice is attached as Exhibit P-1B.

62. Proof of Service of the Notices referred to herein will be served upon the parties and filed with the Board and Office of Administrative Law.

63. The reasons for the proposed increase in rates requested by the Company are as follows:

a. To recognize in rates its investments to continue to provide safe, adequate and reliable service to existing and new customers of Petitioner, which have been put into service since the Company's last base rate case, as well as the opportunity to earn its requested return on equity on those investments. These investments are not currently

included in rate base and Petitioner currently bears carrying charges and depreciation expense associated with these facilities.

- b. To recover increased costs, not previously recovered in rates.
- c. To permit the Company to earn a fair and adequate rate of return on its net investment in used and useful property.
- d. To establish rates which will be sufficient to enable the Company, under efficient and economical operation, to maintain and support its financial integrity and to raise such funds as may be necessary for the proper discharge of its public duties.
- e. To provide earnings sufficient to attract investors and provide sufficient cash flow to fund the Company's operations.
- f. To enable the Company to continue to provide safe, adequate and proper service to its customers.

64. Petitioner respectfully submits that the rates, tariff modifications and other relief requested by it are in all respects just and reasonable.

WHEREFORE, the Company respectfully requests that the Board find, determine and rule as follows:

- a. that the proposed rates submitted with this Petition are just and reasonable and should be made effective;
- b. that the proposed tariff revisions requested herein and herewith are necessary and reasonable; and

c. that the Company may have such other further relief as requested herein and as the Board may deem reasonable and proper under the circumstances presented to it in this case.

Respectfully submitted,

NEW JERSEY-AMERICAN WATER  
COMPANY, INC.

By: Christine Soares  
Christine Soares  
Corporate Counsel

DATED: December 16, 2019



Communications addressed to the Petitioner in this case are to be sent to:

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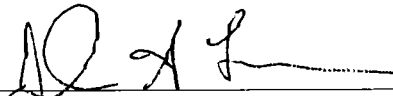
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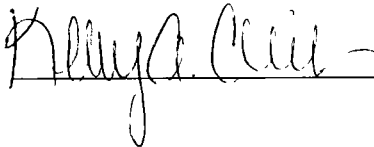
**VERIFICATION**

John S. Tomac, of full age, being duly sworn, according to law, deposes and says:

1. I am the Senior Director, Rates and Regulatory, of New Jersey-American Water Company, Inc., and am authorized to make this Verification on behalf of this company.
2. I have read the contents of the foregoing Petition and hereby verify that the statements therein contained are true and accurate to the best of my knowledge and belief.

  
\_\_\_\_\_  
John S. Tomac  
Senior Director, Rates and Regulatory

Sworn to and subscribed before  
me this 13<sup>th</sup> day of ~~January~~ <sup>December</sup>, 2019

  
\_\_\_\_\_

