

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF
NEW JERSEY-AMERICAN WATER COMPANY, INC.
FOR AUTHORIZATION TO CHANGE THE LEVEL OF ITS
PURCHASED WATER ADJUSTMENT CLAUSE AND
PURCHASED WASTEWATER (SEWERAGE) TREATMENT ADJUSTMENT CLAUSE

B.P.U. Docket No. WR1311_____

O.A.L. Docket No. PUC _____

Direct Testimony of
Robert R. Schaefer, PE

Exhibit PT-2

NEW JERSEY-AMERICAN WATER COMPANY, INC.

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

2 A. My name is Robert R. Schaefer. I am the Senior Director, Production of New Jersey-
3 American Water Company, Inc. (hereinafter referred to as “NJAWC” or the “Company”).
4 My business address is Chimney Rock Road South, PO Box 102, Bound Brook, New Jersey
5 08805.

6 **2. Q. What are your primary responsibilities as they relate to your testimony in this case?**

7 A. I am responsible for all business operations associated with production of water and operation
8 and maintenance of all treatment, pumping and storage facilities within the NJAWC service
9 territory.

10 **3. Q. Please summarize your educational background and professional experience.**

11 A. I received a B.S. Degree in Civil Engineering from New Jersey Institute of Technology in
12 1988 and an Associate in Applied Science Degree in Building Construction from Wentworth
13 Institute of Technology in Boston, MA in 1981. From 1981 to 1984, I was an Engineering
14 Technician for Otto H. York Co. in Fairfield, NJ and was involved in the design and
15 construction of air and water pollution control equipment for the chemical and oil industry. I
16 joined Elizabethtown Water Company (“EWC”) in 1984 as an Engineering Technician in the
17 Engineering & Planning Department. While at EWC I was promoted to Construction
18 Coordinator in September 1985; Superintendent of Transmission & Distribution in November
19 1993; Director of System Operations in August 1996; Director of Asset Planning in April
20 2001; and Director of Engineering & Technical Services in April 2002; Manager of
21 Operational Development for NJAWC in April 2004 and my present role in May of 2005. In
22 summary, I have over thirty years of experience in the planning, design and construction of
23 water facilities and supervision of operation and maintenance of those facilities. I am a
24 licensed New Jersey Professional Engineer. I am also a licensed Public Water Treatment
25 Plant Operator (T-3) and a licensed Public Water Supply System Operator (W-4) in the State

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1 of New Jersey. I am a member of the American Water Works Association (“AWWA”) and
2 the American Society of Civil Engineers (“ASCE”).

3 **4. Q. Have you previously participated in regulatory matters?**

4 A. Yes, I have previously participated in rate cases and Purchased Water Adjustment Clause
5 (“PWAC”)/Purchased Wastewater (Sewerage) Treatment Adjustment Clause (“PSTAC”)
6 filings through the preparation of direct and rebuttal testimony and support documentation. I
7 have testified before the New Jersey Board of Public Utilities (“BPU”) in various proceedings
8 on matters concerning the granting of franchises for EWC and other regulatory matters. I
9 have also represented the Company on numerous projects before municipal planning and
10 zoning boards.

11 **5. Q. What is the purpose of your direct testimony in this case?**

12 A. The purpose of my testimony is as follows: (1) to support the projected volume of water
13 purchases for the PWAC year ending 3/31/15; (2) to support the projected cost of purchased
14 water subject to the PWAC for the PWAC year ending 3/31/15; and (3) to explain the manner
15 in which NJAWC manages its water supply contracts, specifically the efforts undertaken by
16 the Company to control the charges on its purchased water.

17 **6. Q. Please provide a general overview of water supplies purchased by the Company.**

18 A. The Company’s primary objective is to produce the water it provides to its customers from
19 surface and ground raw water resources. Approximately 73% of all water supplied by the
20 Company is produced from surface raw water supplies. These raw water supplies are then
21 treated by NJAWC at seven surface water treatment plants. Raw water diverted from our
22 Passaic River basin supply, our Delaware River Basin supply and our Swimming River
23 reservoir system is not purchased. Approximately 22% of all water supplied by NJAWC is
24 groundwater produced at 123 plants of varying capacity throughout the distribution system.
25 It is not always possible for the Company to supply water from either purchased raw water

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1 sources, or from groundwater supplies. This may be because of the lack of proximity of our
2 customer base to groundwater resources or to transmission infrastructure. As a result,
3 approximately 5% of total water supply to customers is provided from purchased, finished
4 water.

5 **7. Q. At present, how many water supply agreements does the Company have?**

6 A. The Company presently has 10 finished water supply agreements and 3 raw water supply
7 agreements. One of the raw water agreements is an annual water use permit with the
8 Delaware River Basin Commission. This agreement is not subject to the PWAC. Costs
9 associated with the remaining 12 agreements are recovered through our PWAC, as depicted
10 in Schedule RRS-1. Copies of all written agreements are attached to the Petition as
11 Appendix A.

12 **8. Q. Have you prepared a schedule for water to be purchased during the PWAC year ending**
13 **March 31, 2015?**

14 A. Yes I have. Schedule RRS-1 reflects the Company's projected purchased water volume and
15 associated rates. As you can see from Schedule RRS-1, it is anticipated that during the
16 PWAC year ending 3/31/15, NJAWC will purchase 57,745,414 thousand gallons of water
17 subject to the PWAC, at a total cost to the Company of \$31,227,569.

18 **9. Q. How did you calculate the volumes and price of water to be purchased during the**
19 **PWAC Year ending March 31, 2015?**

20 A. It is based on existing contract purchase requirements with water purveyors, together with
21 known and measurable changes in rates charged for water and modifications to water supply
22 agreements. Purchase of volumes not under contract was based on customer demand during
23 the PWAC year ending 3/31/14 (Schedule RRS-1, column 2), except as indicated in the
24 adjustments within the footnotes on Schedule RRS-1.

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1 **10. Q. Please explain the efforts that the Company has undertaken to control costs under its**
2 **water supply agreements.**

3 A. The Company supports a formal process to address future price increases. The Company
4 monitors known proposed rate increases by its purveyors and, where appropriate, reviews
5 available financial and operating information which leads to the need for such increases,
6 propounds interrogatories, and attends public meetings where applicable.

7 **11. Q. Did the Company enter into any new water supply agreements during the PWAC year**
8 **ending March 31, 2014?**

9 A. The Company has not entered into any new agreements at the time of this filing. However,
10 the Company is negotiating a new agreement with the Montclair Water Bureau.

11 **12. Q. What has NJAWC done in an effort to control costs incurred under the NJWSA -**
12 **Raritan Basin water supply agreement?**

13 A. The NJWSA Raritan Basin contract is the largest purchased water contract the Company has.
14 The Company is a member of the Raritan Basin User Group ("RBUG"). The RBUG is
15 comprised of water purveyors who contract with the New Jersey Water Supply Authority
16 ("NJWSA") for raw water from the Raritan River basin supply. NJWSA conducts a formal
17 rate review process. The RBUG participates in the annual rate adjustment process, attends
18 associated meetings and has collectively challenged any proposed rate increases.

19 **13. Q. Did NJWSA propose a rate increase for the Raritan Basin supply for FY 2015?**

20 A. At the time of this filing, NJWSA has not proposed a rate increase for the Raritan system.

21 **14. Q. When was the last time NJWSA increased rates for the Raritan supply?**

22 A. The last rate increase was effective July 1, 2008 or FY 2009.

23 **15. Q. Please explain how the pro forma charges reflected in Schedule RRS-1 were derived.**

24 A. Pro forma contract purchases are reflected in Schedule RRS-1 based on the contract
25 minimum take requirements. Purchased water volumes are generally based on the

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1 Company's contractual requirements or its most recent actual experience absent a contract or
2 where purchases generally exceed the contractual minimum purchase requirement. Water
3 rates are generally based on each purveyor's current rates. In the case of the Passaic Valley
4 Water Commission, and the Marlboro Township MUA, rates have been prorated to reflect
5 published rate changes that will occur during the PWAC Year of 4/1/14-3/31/15. The basis of
6 each rate is detailed in footnotes to Schedule RRS-1.

7 **16. Q. Are there any notable adjustments to Schedule RRS-1?**

8 A. Yes. As noted there will be a rate increase imposed by Passaic Valley Water Commission in
9 the amount of 5% based on planning information received from the Commission. Also, the
10 Company has included the proposed rate increase for the Montclair Water Bureau.

11 **17. Q. Did the Company make any efforts to mitigate these rate increases?**

12 A. Yes, the Company propounded numerous interrogatories requesting operating and financial
13 information that supports the need for such a rate increase.

14 **18. Q. Has the Company done anything to encourage water conservation?**

15 A. Yes. The Company has regularly exercised demand side as well as supply side conservation
16 measures. These measures include, but are not limited to, the following: customer education,
17 regionalization and conjunctive use, reuse of process water, water auditing, leak detection
18 programs, infrastructure renewal and pressure management. In each of the last nine years we
19 have implemented a wise water use communications campaign and requested voluntary
20 customer use restrictions to help control demand prior to high demand periods.

21 **19. Q. Does this conclude your testimony?**

22 A. Yes it does.

New Jersey American Water Company
Statement of Pro Forma Purchased Water Expense
PWAC Year 4/1/2014-3/31/2015

New Jersey American Water Company

Schedule RRS-1

BPU Docket No. WR1311 _____

PWAC Filing Year: 4/1/2013 - 3/31/2014

Witness Responsible: Robert R. Schaefer

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Purchased Water Vendor	Actual PWAC Year 4/1/13-3/31/14 Purchases (MGY)	Annual Contract Minimum (MGY)	Pro Forma Purchases (MGY)	Pro Forma Rate per MG	Pro Forma PWAC Year 4/1/2014-3/31/2015 Expense
(1)	(2)	(3)	(4)	(5)	(6)
Passaic Valley Water Commission (PVWC):	4,230.809	3,777.750	4,238.330	\$2,325.95	\$9,858,144
PVWC - power component					\$729,013
Morris County Municipal Utilities Authority	232.919	220.000	232.919	\$2,459.25	\$572,806
Montclair Water Bureau	106.035		130.217	\$6,909.54	\$899,739
New Jersey Water Supply Authority (NJWSA)					
Manasquan:	4,562.500				
Contract @ Initial rate		2,943.725	2,943.725	\$1,031.14	\$3,035,393
Contract @ Delayed rate		1,618.775	1,618.775	\$1,186.02	\$1,919,900
Power component					\$234,054
Overdraft service	5.580		1.860		\$2,267
Raritan:					
Contract	46,209.00	46,209.00	46,209.00	\$234.47	\$10,834,624
Legislative grant	1,062.15	1,062.15	1,062.15	\$0.00	\$0
Overdraft service	0.00		326.68		\$90,555
Retroactive Debt Service					\$200,301
Credit against Retroactive Debt Serv. Pymts					(\$195,721)
Atlantic City Municipal Utilities Authority:					
Base rate	180.000	180.000	180.000	\$3,487.01	\$627,662
Excess rate	371.326	372.822	372.822	\$2,964.03	\$1,105,055
Township of Maple Shade	6.630		6.630		\$47,195
Borough of Seaside Heights	88.340		88.340	\$2,750.00	\$242,935
Shorelands Water Company:					
Union Beach connections:	189.045				
Sale for Resale rate		182.500	182.500	\$2,198.00	\$401,135
Backup bulk sales rate			0.000	\$4,007.00	\$0
Fixed chg:2 - 4" meter (per mo.)				\$237.18	\$5,692
Fixed chg:2 - 6" meter (per mo.)				\$474.38	\$11,385
Union Beach Deficiency bill					\$58,404
Holmdel connection:					
Backup bulk sales rate	8.935		9.605	\$4,007.00	\$38,487
Fixed chg:1 - 6" meter (per mo)				\$474.38	\$5,693
Marlboro Township MUA	96.301	91.250	96.301	\$4,036.89	\$388,756
City of Wildwood	41.189	35.000	44.373	\$2,510.00	\$111,376
East Windsor Municipal Utilities Authority	1.190		1.190		\$2,719
			<u>57,745,414</u>		<u>\$31,227,569</u>

- Notes: (1) Prorated Rate - 9 months of estimated rate effective 1/1/14 - 5% increase to \$2,187.84 (2013 rate) - and 3 months estimated increase of 5% effective 1/1/15.
(1a) 3 year average of usage for the 12 months ended 3/31/12, 3/31/13 and 3/31/14. See Note 1, DMD-1a for explanation for year ended 3/31/14.
(1b) 3 year average of usage for the 12 months ended 3/31/12, 3/31/13 and 3/31/14. See Note 1, DMD-1a for explanation for year ended 3/31/14.
(2) Actual Power costs for PWAC Yr. 4/1/13-3/31/14 per Sch. DMD-1.
(3) Prorated rate effective 1/1/13 for NJ American of 111% times the 2013 base rate of \$2,135 times 3% increase for 2014 (\$2,441) for 9 months and 3 months of rate effective 1/1/15, estimating 3% increase to base rate (\$2,265) times 111% (\$2,514).
(4) Rates effective 1/1/14 - \$4,929/MG for first 70 TG/day, \$7,393/MG for any over 70 TG/day. Blended rate shown reflects proration of the two rates, calculated as follows:
Pro-forma usage of 130.217 MG split as 70 TG * 365 days (25,550 MG) at the \$4,929 rate, remainder at \$7,393.
(4a) 3-year average for the 12 months ended 3/31/12, 3/31/13, and 3/31/14. See Note 1, DMD-1a for explanation for year ended 3/31/14.
(5) Prorated rate - 3 months of actual rate Eff. 7/1/13-6/30/14 \$1,015.90 per mg and 9 mos. of estimated 7/1/14-6/30/15 rate increase, \$1,036.22 per mg.
(5a) Prorated rate - 3 months of actual rate Eff. 7/1/13-6/30/14 \$1,168.49 per mg and 9 mos. of estimated 7/1/14-6/30/15 rate increase, \$1,191.86 per mg.
(5b) Actual Power costs for PWAC Yr. 4/1/13-3/31/14 per Sch. DMD-1.
(5c) Estimated overdraft service charge based upon average of 12 months ended 3/31/12, 3/31/13 and 3/31/14 actual monthly and annual overdraft charges.
See Note 2, DMD-1 for explanation for year ended 3/31/14.
(6) Prorated rate - 3 months of actual rate Eff. 7/1/13-6/30/14 \$231.00 per mg and 9 mos. of NJWSA's estimated 7/1/14-6/30/15 rate \$231.00 per mg.
(6a) Estimated overdraft service charge based upon average of 12 months ended 3/31/12, 3/31/13 and 3/31/14 actual monthly and annual overdraft charges.
See Note 2, DMD-1 for explanation for year ended 3/31/14.
(6b) Actual annual retroactive debt service charge effective January 2008.
(6c) Estimated prior period credit against the debt service charge is based upon a 3 year average of these credits for the 12 months ended 3/2011, 3/2012 and 3/2013.
(7) Effective rates for 1/1/2013 with 2% estimated increase as of 1/1/14.
(8) Actual costs PWAC Year 4/1/13-3/31/14.
(9) Present rates - Effective 1/31/07.
(10) Present rates - Effective 1/19/11, including PWAC rates effective 7/1/12.
(10a) 3 year average of usage for the 12 months ended 3/31/12, 3/31/13 and 3/31/14. See Note 1, DMD-1a for explanation for year ended 3/31/14.
(11) Estimated Union Beach deficiency bill based upon a 3-year average of the dollars associated with the deficiency in PWAC Years ended 3/31/12, 3/31/13 and 3/31/14.
(12) Prorated rate reflects the average of the 12 monthly projected rates during PWAC Yr. 4/1/14 - 3/31/15. The rate incorporates MWC (Middlesex) and MTMUA components. The MWC rate component was based on the current actual rate eff. 7/20/2012 of \$2,752.35 per mg.
The MTMUA component was prorated based on 11 months of the current contractual rate of \$1,282.40 and 1 month of a contractual 2% rate incr. effective 3/1/15 of \$1,308.05. The MTMUA rate increase is effective on the anniversary of the Water Service Effective Date of 3/1/09.
(13) Present rates - Effective 1/1/2012.
(14) Actual costs for PWAC year 4/1/13-3/31/14.