

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

IN THE MATTER OF THE PETITION OF : BPU DOCKET NO.:
NEW JERSEY-AMERICAN WATER :
COMPANY, INC. FOR APPROVAL OF :
INCREASED TARIFF RATES AND : PETITION
CHARGES FOR WATER AND SEWER :
SERVICE, CHANGE IN DEPRECIATION :
RATES, AND OTHER TARIFF :
MODIFICATIONS :

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

New Jersey-American Water Company, Inc. (hereinafter the “Company,” “NJAWC,” or the “Petitioner”), a public utility corporation of the State of New Jersey, with its principal office at 1025 Laurel Oak Road, Voorhees, New Jersey 08043, hereby petitions this Honorable Board (sometimes hereinafter referred to as “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 tariff rates and charges for water and sewer service to change its depreciation rates and to implement certain other tariff revisions. In support thereof, Petitioner states as follows:

I. PETITIONER

1. NJAWC is a regulated public utility corporation, engaged in the production, treatment and distribution of water and collection of sewage 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 612,791 water and fire service customers and 35,987 sewer service customers.

II. THE CONTEXT OF THIS PETITION

2. Petitioner's current base rates were approved by an Order of this Board dated May 1, 2012 in Docket No. WR11070460. Those base rates were based upon a test year ending January 31, 2012. The test year proposed by the Company in this case is the twelve months ending July 31, 2015, a period which is three and one half years from the test period utilized to set current base rates.

3. The drivers of the current case are three-fold. They are: (1) capital investments needed to maintain and improve Petitioner's water and wastewater systems; (2) declining usage per customer which has the effect of evaporating the Company's revenue base by approximately \$4-\$5 million per year; and (3) the need to reset Petitioner's Distribution System Improvement Charge ("DSIC").

4. The Company has added a significant amount of capital, approximately \$775 million, to its water and wastewater systems since the conclusion of the last base rate increase. Petitioner has made these capital improvements in order to allow it to continue to provide safe, adequate and proper service to its customers. It is not possible to make investments at this level without recovering a return on and a return of those investments. In order to continue providing improved water and wastewater service, it is essential for Petitioner to invest in new technology, such as its information technology upgrade ("Business Transformation" or "BT") and to ensure that existing plant is replaced in a timely manner.

5. The Company is very supportive of, and is a leader in, promoting efficient water use and water conservation. The continuing implementation of water-saving devices such as low flow toilets means that water usage per customer is declining. This, of course, is a good thing. However, it also has a cost associated with it. The net effect of reduced usage per customer is an

erosion of revenues to the Company. In order for the Company to earn a fair return, it must be awarded rate relief which recognizes and accounts for the revenue decline.

6. One reason why the Company has been able to forestall a rate petition until this time is the Company's extraordinary record in decreasing operating and maintenance ("O&M") expenses. The Company's O&M expenses have decreased substantially as compared to the amounts recognized in the last base rate case. Total O&M expenses projected for the test year proposed in the current case are about \$19 million less than those which formed the basis for the Company's last rate proceeding. That is, over a period of approximately three and one-half years, the Company's O&M expenses have *decreased* by about \$19 million on an annual basis. By virtue of efficiency implementations, the Company's employees have been able to "do more with less." Employees are working smarter and getting more accomplished. Petitioner believes that it should be commended for the efficiencies that it has achieved, and these efficiencies should be recognized in fair and reasonable rate treatment.

7. Since the conclusion of Petitioner's last base rate proceeding, the Company has reduced the number of its employee positions by approximately 100 as a direct result of process improvements, technology deployment, organizational streamlining, and transfers away from Petitioner.

8. Petitioner believes that it has achieved the maximum possible staffing reductions, and further reductions will jeopardize the Company's ability to provide safe, adequate and proper service to its customers.

9. Petitioner continuously strives to find more efficient and cost-effective ways to operate and maintain its business. As part of that effort, Petitioner strives to maintain its cost structure as efficiently as possible. Petitioner continuously examines operational efficiency and attempts to improve customer service and efficiency of production and field operations.

Operating through and with its parent company, the Company has continued to increase its purchasing power and obtain significant discounts on necessary equipment needed to manage and maintain its system. These efficiencies could not be obtained in a separately-owned water system.

10. These O&M expense reductions have enabled the Company to invest in water and wastewater plant and equipment at reduced cost to customers. For every \$1.00 reduction in O&M expenses, the Company may invest approximately \$6.50 in utility plant and equipment with no change in cost to customers. The Company has striven to make needed investments without unnecessarily burdening its customers.

11. However, the point has been reached at which rate relief is necessary.

12. The Company's Foundational DSIC Filing was approved by the Board in Docket No. WR12070669 on October 23, 2012. The Company made its fourth semi-annual DSIC filing on November 14, 2014, and that filing demonstrated a revenue requirement recovery amount of \$30,902,668, which is equal to the cap on revenues available to the Company pursuant to the 2012 Foundational Filing.

13. In the current proceeding, the Company proposes to roll in to its pro forma test year revenue the revenue requirement recovery amount. The Company proposes to also roll in to rate base the assets related to the DSIC program, which gave rise to that revenue requirement recovery amount. In addition, Petitioner proposes to reset the DSIC rate to \$0, and will be making a new Foundational Filing under separate cover, which it requests to be effective concurrent with the new base rates established in this base rate proceeding.

III. PETITIONER'S PROPOSAL IN THIS CASE

14. In this case Petitioner is proposing to utilize the test year ending July 31, 2015, with post-test year known and measurable adjustments for rate base, O&M expenses, revenues,

and capital structure. Petitioner's presentation in this case demonstrates the need for a revenue increase of \$66.2 million. This represents a 9.96% increase in revenue over projected pro-forma rate revenue of \$664,395,806.

IV. HADDONFIELD

15. Petitioner and the Borough of Haddonfield (the "Borough") have executed an agreement (the "Agreement") dated November 18, 2014 for the sale and purchase of certain water and wastewater mains, pipes and appurtenances (collectively "the Facilities") throughout the geographical area of the Borough. The Agreement provides for the purchase of the Facilities by the Company, subject to various contingencies, including the approval by the Board of a Municipal Consent (the "Municipal Consent") permitting Petitioner to construct, lay, maintain and operate the Facilities throughout the Borough, and to provide water and wastewater services to the Borough.

16. On July 15, 2014 the Borough adopted the Municipal Consent.

17. Pursuant to N.J.S.A. 40:62-5, on November 4, 2014 the Borough held a referendum on whether or not to approve an acquisition by the Company of the Facilities. The referendum resulted in an overwhelming approval of said acquisition, by a vote of 2,553 to 1,400.

18. Thus, the governing body of the Borough has decided that it is in the public interest for the Facilities to be owned and operated by Petitioner. As a result of the acquisition, the governing body realizes that the Facilities will be operated by a company which is part of the largest provider of regulated water services in the United States. The Facilities will be subject to best practices of Petitioner and its parent organization; 24/7 service availability; and the financial wherewithal to maintain and improve the Facilities.

19. In addition to the Municipal Consent, the Borough adopted Ordinance 2014-13.

In pertinent part that Ordinance provides as follows:

WHEREAS, the Borough of Haddonfield in the County of Camden (the “Borough”) currently owns and operates a water and wastewater utility system servicing the residents and property owners (the “Customers”) within the geographic boundaries of the Borough (the “Systems”); and

WHEREAS, the Borough has determined that it is in the best interest of such Customers within the Borough to sell the Systems to an entity with experience and expertise in owning and operating such systems in order to meet all necessary demands associated with such Systems including all present and future requirements of various state and federal regulatory agencies and to make necessary capital improvements to the Systems;

20. The residents of Haddonfield also recognized that this acquisition was in the public interest, and overwhelmingly approved the same, by referendum.
21. The Borough encompasses approximately 20 square miles and has a population of approximately 12,000 people. Upon closing of the purchase of the Facilities, Petitioner will acquire 4,500 additional water and wastewater customers.
22. Under separate Petition, Petitioner has sought approval of the Municipal Consent. However, in that Petition, the Company did not seek any rate making treatment relative to the Facilities.
23. The total purchase price for the Facilities is \$28.5 million. The Company is submitting testimony in this proceeding from Dennis K. Yoder, Director of Engineering for Remington & Vernick Engineers (“Remington”). Remington is the Borough’s engineering firm, and Mr. Yoder performed a valuation analysis of the Facilities.
24. According to Mr. Yoder’s testimony, the original cost less depreciation of the Facilities is approximately \$26.9 million. The Company has reflected this \$26.9 million in pro

forma net Utility Plant in Service, a component of rate base in this case. The balance, of approximately \$1.6 million is proposed for treatment in this case as an acquisition adjustment.

25. The Company is seeking to amortize the acquisition adjustment on its pro forma income statement over a period of forty (40) years. The Company is also seeking to earn a return on the unamortized balance equivalent to the Company's overall cost of capital.

26. By virtue of its acquisition of the Facilities, Petitioner is able to bring about significant avoided cost. The Company is in a unique position, and by virtue of its acquisition of the Facilities it is able to eliminate the need to invest approximately \$5 to 6 million to repair, replace or rebuild certain of these Facilities and avoid these costs.

27. Pursuant to the Agreement, Petitioner agreed to freeze the Borough's water rates in effect at the Closing of the purchase of the Facilities for three years commencing as of the Closing Date. Consistent with this provision, and to avoid customer confusion, Petitioner is proposing no water or wastewater rate changes to customers currently served by the Borough.

V. WATER STORAGE TANK REINVESTMENT PROGRAM

28. Water storage tanks, both steel and concrete, are a vital component of the Company's overall water system. A key component of the Company's asset management approach is programmed revitalization of long-lived assets. A significant factor in the expected useful life of each tank is the coating system. The coating system is not intended merely to improve the overall aesthetics of the tank but rather is critical to protecting against water tank failure. Without the necessary Company reinvestment in a tank's coating system, the tank would fail in a fraction of its intended service life.

29. A tank coating system is most comparable to a building's rooftop. New roofs that are installed after an old roof is fully removed are similar to the reinvestment in tank coating systems. Each extends the useful life of the asset by protecting it from deterioration and from

adverse weather conditions. New roofs are capitalized. Tank coating is also very comparable to main cleaning and lining, which of course, is a capitalized cost.

30. With that backdrop, the Company is proposing that engineered steel structure coating systems be considered a regulatory asset, fully capitalized and be depreciated consistent with its service life. This change in accounting method has been accepted by other states and regulatory commissions.

VI. DEPRECIATION

31. The Company is proposing to update a component of its depreciation rates. The net negative salvage component is currently based upon data from the years 2008, 2009 and 2010. These data are being replaced with data from the years 2011, 2012 and 2013. In all other respects, the Company proposes that the base depreciation rates, exclusive of the net negative salvage component, established in 2008 need no changes. Petitioner is proposing no change to depreciation lives.

VII. RATE DESIGN PROPOSAL

32. Petitioner is presenting in this case a fully allocated cost of service study. It 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.

33. The Company is attempting to moderate increases for public hydrant service. Currently there is a significant under-recovery of the cost to provide public fire service. Nevertheless, the Company proposes an increase to the state-wide rate (M-1) rate for public hydrant service of only 2% or \$0.87 per month, because of sensitivity to these costs borne by local government. For public hydrant rates that are currently less than the state-wide rate, the Company proposes to increase those rates to the proposed state-wide rate or provide an increase

of \$0.87 per month. All other public hydrant rates that are greater than the proposed state-wide rate will be left unchanged, by virtue of the Company's proposal.

34. Consistent with current recovery methods, the Company proposes to roll in current DSIC surcharges into the monthly fixed charge (customer charge). The Company proposes to increase the customer charge for 5/8 inch meters to \$16.50 per month. This will still be significantly below customer cost.

35. The Company's rate design proposal is informed by the principal of rate equalization. In future cases, the Company plans to continue rate equalization by closing the gap among volumetric rates for all classes as well as the remaining private and public fire rates.

36. As to wastewater, the Company proposes that rates for Adelphia, Lakewood and Ocean City will remain unchanged. On an average bill basis, the rates for Pottersville, Applied, Homestead and Jensen's Deep Run will decrease.

37. The effect of these reductions is an overall revenue decrease of approximately \$1,300,000 for wastewater service. Of this amount, \$260,900 is supported by cost of service considerations. It is proposed that the remaining \$1,039,100 be recovered from water customers. The impact of this proposal on water customers is de minimis.

VIII. TESTIMONY AND EXHIBITS INCORPORATED HEREIN

38. Attached hereto, and incorporated herein are the following exhibits, along with the schedules and workpapers incorporated therein:

Exhibit PT-1	William M. Varley, President
Exhibit PT-2	Stephen P. Schmitt, Vice President of Operations
Exhibit PT-3	Donald C. Shields, Vice President Engineering
Exhibit PT-4	Frank X. Simpson, Director of Rates & Regulation for New Jersey and New York

- Exhibit PT-5 Dante M. DeStefano, Manager of Rates & Regulation
- Exhibit PT-6 George Conroy, Rates & Regulatory Analyst III, American Water Works Service Company, Inc.
- Exhibit PT-7 Lori O'Malley, Rates & Regulatory Analyst III in Rate Support, American Water Works Service Company, Inc.
- Exhibit PT-8 Susan E. Krohn, Manager of Rates & Regulatory Support, American Water Works Service Company, Inc.
- Exhibit PT-9 Gary A. Naumick, Senior Director of American Water Engineering
- Exhibit PT-10 Paul R. Herbert, President of Gannett Fleming Valuation & Rate Consultants, LLC
- Exhibit PT-11 Harold M. Walker, Manager, Financial Studies of Gannett Fleming Valuation & Rate Consultants, LLC
- Exhibit PT-12 Paul R. Moul, Managing Consultant, P. Moul & Associates
- Exhibit PT-13 Patrick L. Baryenbruch, President, Baryenbruch & Company, LLC
- Exhibit PT-14 Earl Robinson, Principal of AUS Consultants
- Exhibit PT-15 Robert Mustich, Managing Director, Executive Compensation, Towers Watson Delaware, Inc. (to be filed separately)
- Exhibit PT-16 Dennis K. Yoder, P.E., Director of Engineering, Remington & Vernick
- Exhibit P-1 Proposed Tariff containing rates to be effective February 8, 2015
- Exhibit P-2 Schedule Nos. 1 through 59, containing schedules supporting this Petition.

IX. MISCELLANEOUS

39. 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.

40. Notice of this filing and two copies of this Petition are being served upon the Division of Rate Counsel of the State of New Jersey by personal service made on the date of the filing of this Petition. Notice of this filing and two copies of this Petition are being served upon the Office of the Department of Law and Public Safety by personal service. Both offices will be notified of the time and place of hearing promptly after advice in that regard has been received from the Office of Administrative Law.

41. Notice of this filing and the effect thereof will be served by mail upon the Boards 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 twenty (20) days prior to the date set for 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.

42. Customers will be notified of this filing, and the effect thereof, together with the time and place of hearing by publication at least twenty (20) days prior to the date set for hearing in newspapers published and circulated within the Company's service territory.

43. 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.

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

- A. to establish an income level that will permit the Company to finance essential and continuing plant investment;
- B. to permit the Company to earn a fair and adequate rate of return on its net investment in used and useful property;
- C. 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;
- D. to provide earnings sufficient to attract investors and provide sufficient cash flow to fund the Company's operations; and
- F. to enable the Company to continue to provide safe, adequate and proper service to its customers.

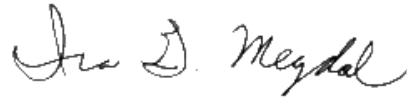
45. The rates proposed by the Company are asserted to be just and reasonable.

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

- A. that the rates presently in effect are unjust and unreasonable;
- B. that the proposed rates submitted with this Petition are just and reasonable;
- C. that the proposed tariff revisions requested herein and herewith are necessary and reasonable; and

D. 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.

COZEN O'CONNOR
Attorneys for New Jersey American Water
Company, Inc.



By: _____
Ira G. Megdal
Stacy A. Mitchell

DATED: January 9, 2015

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

COZEN O'CONNOR
Attn: Ira G. Megdal
Stacy A. Mitchell
457 Haddonfield Road
P.O. Box 5459
Cherry Hill, NJ 08002
(856) 910-5000
Direct Fax: (877) 259-7984
e-mail: imegdal@cozen.com

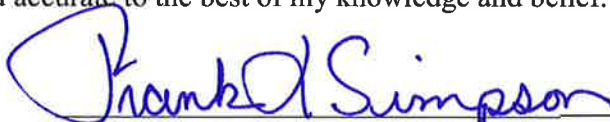
Robert J. Brabston, Esq.
Suzana Duby, Esq.
Corporate Counsel
New Jersey American Water Company, Inc.
167 JFK Parkway
Short Hills, NJ 07078
(973) 564-5716
Fax: (856) 376-4766
e-mail: Robert.brabston@amwater.com

Frank X. Simpson
Director, Rates and Regulation
New Jersey American Water Company, Inc.
1025 Laurel Oak Road
Voorhees, NJ 08043
(856) 782-2351
Fax: (856) 782-2481
e-mail: frank.simpson@amwater.com

VERIFICATION

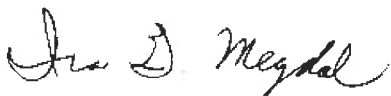
Frank X. Simpson, of full age, being duly sworn, according to law, deposes and says:

1. I am the Director, Rates and Regulation, of New Jersey American Water Company, and am authorized to make this Verification on behalf of those companies.
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.



Frank X. Simpson, Director, Rates and Regulation

Sworn to and subscribed before
me this 9th day of January, 2015



Ira G. Megdal
Attorney-at-Law
State of New Jersey