



COMMUNICATIONS SECTION

OCT 10 2017

MAIL RECEIVED

October 10, 2017  
(Via Messenger)

Honorable Irene Kim Asbury  
Secretary of the Board  
New Jersey Board of Public Utilities  
44 South Clinton Avenue  
3rd Floor, Suite 314, PO Box 350  
Trenton, NJ 08625-0350

WR17101049

Re: In the Matter of Middlesex Water Company for Approval of an Increase in its Rates for Water Service and Other Tariff Changes, and for an Order Authorizing Special Accounting Treatment of Income Tax Refund Proceeds and Future Income Tax Deductions  
BPU Docket No. WR1710\_\_\_\_\_

Dear Secretary Asbury:

Enclosed herewith for filing please find the original and ten (10) copies of Middlesex Water Company's Petition, Exhibits and prepared Testimony in the above-referenced matter.

Two copies of this Petition and Testimony have this day been sent via Federal Express to the Department of Law and Public Safety and the Director of the Division of Rate Counsel and, by first class mail, upon the clerks of the various municipalities comprising the Petitioner's service territory and the clerks of the Boards of Chosen Freeholders in each affected county.

The case may be summarized as a petition for approval of an increase in rates seeking an overall increase of approximately \$15.26 million or 19.76% and approval of other changes to Petitioner's Tariff, and for authorization of special accounting treatment of income tax refund proceeds and future income tax deductions.

Kindly stamp "filed" on the extra copy of the Petition enclosed herewith and return it to our messenger.

CMS  
J. Kane  
DAG  
RPA  
M. Moran  
M. Kammer  
M. Maser  
WATER

JLK:rk  
Enclosures

Very truly yours,

Jay L. Kooper  
Vice President, General Counsel & Secretary

cc: Service List B (without Testimony)

"A Provider of Water, Wastewater & Related Products and Services"



STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES

BOARD OF PUBLIC UTILITIES

OCT 10 2017

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In the Matter of MIDDLESEX WATER : PETITION  
 COMPANY for Approval of an :  
 Increase in its Rates for Water Service : Docket No. WR1710\_\_\_\_  
 and Other Tariff Changes, and for an Order :  
 Authorizing Special Accounting Treatment :  
 of Income Tax Refund Proceeds and Future :  
 Income Tax Deductions :

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

Petitioner, Middlesex Water Company (hereinafter referred to as “Petitioner,”  
“Middlesex” or the “Company”), respectfully submits this Petition pursuant to N.J.S.A. 48:2-  
21, N.J.A.C. 14:1-5.11, 14:1-5.12, 14:9-7.1 et seq. and N.J.A.C. 14:9-10.1 et seq. and shows  
that:

FIRST COUNT  
FOR AN INCREASE IN RATES

1. Middlesex is a corporation organized and existing under the laws of the State  
of New Jersey, with its principal offices located at 1500 Ronson Road, Iselin, New Jersey  
08830. Communications relating to this Petition should be sent to Stephen B. Genzer, Esq.,  
Saul Ewing Arnstein & Lehr LLP, One Riverfront Plaza, 1037 Raymond Boulevard, Suite  
1520, Newark, New Jersey 07102, and copies thereof should also be sent to Jay L. Kooper,  
Esq., Vice President, General Counsel & Secretary, Dennis W. Doll, President and Chief  
Executive Officer, and A. Bruce O’Connor, Vice President, Treasurer and Chief Financial  
Officer, Middlesex Water Company, 1500 Ronson Road, Iselin, New Jersey 08830.

2. Middlesex is a duly organized and existing public utility of the State of New Jersey subject to the jurisdiction of the Board of Public Utilities (the “Board” or “BPU”). Middlesex provides water services to approximately 61,000 retail customers, primarily in eastern Middlesex County, New Jersey. The Middlesex System’s retail customers are located in an area of approximately 55 square miles in Woodbridge Township, the City of South Amboy, the Boroughs of Metuchen and Carteret, portions of the Township of Edison and the Borough of South Plainfield in Middlesex County, and a portion of the Township of Clark in Union County. Retail customers include a mix of residential customers, large industrial concerns and commercial and industrial light facilities. These customers are located in generally well-developed areas of central New Jersey.

3. Middlesex provides water under wholesale contracts to the City of Rahway, Townships of Edison and Marlboro, the Borough of Highland Park and the Old Bridge Municipal Utilities Authority. Middlesex treats, stores and distributes water for residential, commercial, industrial and fire protection purposes. Middlesex also provides water treatment and pumping services to the Township of East Brunswick under contract. The contract customers of the Middlesex System comprise an area of approximately 146 square miles with a population of approximately 300,000. Contract sales to Edison, Old Bridge, Marlboro and Rahway are supplemental to the existing water systems of these customers.

4. Middlesex provides water service to approximately 300 customers in Cumberland County, New Jersey. This system is referred to as Bayview, and is not physically interconnected with the Middlesex System. The Company owns and operates water treatment, supply, transmission and distribution systems for these purposes. The Company also owns subsidiaries that provide utility and utility-related services in Southampton Township in Burlington County, and portions of Delaware and Pennsylvania.

5. This Petition is being filed on a “stand-alone” basis, that is, for the Middlesex Water Company service area only including Bayview, and not the service areas of Middlesex’s subsidiaries.

6. By this Petition, the Company seeks approval of an increase in rates and approval of other tariff changes, pursuant to N.J.S.A. 48:2-21, N.J.A.C. 14:1-5.11, 14:1-5.12, 14:9-7.1 et seq. N.J.A.C. 14:9-10.1 et seq. and other related provisions of the statutes and regulations.

7. The Company is engaged in its ongoing capital program to maintain and improve safe, adequate and proper service to its customers. Since rates were set in the Company’s last rate proceeding, increases have occurred in various expense areas, including operations, maintenance, depreciation and taxes. Additionally, challenges associated with the aging of the Company’s workforce, the retirements of longtime employees who have attained a wealth of knowledge and experience over a long tenure with the Company, and the need to recruit, train and maintain a larger bench of talent to maintain and improve safe, adequate and proper service have also occurred. Additional positions are being added to the Company’s workforce in order to address increased regulatory requirements. All of these changes are contributing to drive the Company’s need for a rate increase.

8. Petitioner’s present rates for water service are inadequate to meet these necessary expenses, support the essential capital improvement program and provide Petitioner with a reasonable return on its investment in utility plant. Without an increase, Petitioner’s financial condition could be jeopardized, as would its ability to continue to render safe, adequate and proper service to the public.

9. The additional revenues requested are required to enable Petitioner to maintain a satisfactory credit position, to preserve its financial integrity, to permit proper maintenance, development and improvement of the utility plant required to furnish safe, adequate and proper service, to encourage continued good management, to prevent confiscation or diminution of its property and to earn a reasonable return upon the fair value of its property used and useful in the public service.

10. Petitioner notifies the Board that, for the reasons stated above, it seeks approval to increase its rates for water service, as provided in Exhibit A attached hereto, for service rendered on and after November 13, 2017, which date is at least 30 days after the filing of this Petition. Petitioner also notifies the Board that it will implement the proposed rates on July 13, 2018, on an interim basis pursuant to law, Board regulations and Board policy if the Board has suspended the effective date of the new rates pursuant to N.J.S.A. 48:2-21 but not finally determined a new just and reasonable tariff prior to that date.

11. Petitioner's rates are being increased for the purpose of producing additional annual revenues of approximately \$15.3 million or approximately 19.76% above the adjusted annual level of revenues for the test year ending December 31, 2017.

12. Notice of this filing, a copy of this Petition and all other annexed exhibits are being served upon the municipal clerk in each of the municipalities in which the Petitioner provides service, the clerk of the Board of Chosen Freeholders in each affected county, and, in duplicate, upon the Department of Law and Public Safety and the Director of the Division of Rate Counsel. Notice of the filing and a statement of its effect will be furnished to Petitioner's customers by publication in newspapers published and circulated in Petitioner's service area pursuant to the rules of the Board and pursuant to the BPU Order entered in Docket No. AO13030252 (dated October 16, 2013).

13. Proof of service of the notices referred to herein will be filed with the Board by Petitioner in accordance with the Board's regulations.

14. Annexed hereto and made a part hereof as if fully set forth herein are the following exhibits:

- Exhibit A - Proposed Changed Tariff Sheets including Rate Schedules.
- Exhibit B - Present Tariff Sheets Corresponding to Exhibit A.
- Exhibit C - Comparative Balance Sheets - December 31, 2016, 2015 and 2014.
- Exhibit D - Comparative Statements of Income for the Twelve Months ended December 31, 2016, 2015 and 2014.
- Exhibit E - Balance Sheet as of June 30, 2017.
- Exhibit F - Pro Forma Statement of Income and Rate of Return for the Twelve Months ending December 31, 2017 at Present and Proposed Rates.
- Exhibit G - Form of Notice to be given of this filing and of Public Hearing.
- Exhibit H - Purchased Water Adjustment Clause.
- Exhibit I - List of Proposed Witnesses to Testify.
- Exhibit J - Affidavit of A. Bruce O'Connor.
- Exhibit K - DSIC Foundational Filing (to be filed under separate cover during the pendency of this proceeding).

WHEREFORE, the Petitioner respectfully requests that the proposed increase in rates be approved pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:1-5.12 and that such other relief, including but not limited to other special accounting treatment, as is just and proper be granted by the Board.

SECOND COUNT  
FOR OTHER TARIFF CHANGES

1. Petitioner repeats and realleges the allegations of the First Count and incorporates them into this Second Count as if fully set forth at length herein.
2. In this proceeding the Company proposes to make changes to its Tariff substantially as set forth in Exhibit A annexed hereto, including changes which do not increase charges to customers. A copy of the pages of the existing Tariff which are proposed to be changed is set forth in Exhibit B.
3. Notice of proposed Tariff changes is to be included in the notices proposed in paragraphs 12 and 13 of the First Count herein. The date on which the Company proposes to make the Tariff changes effective shall be the date on which new rates become effective as set forth in paragraph 10 of the First Count herein unless the Board shall act earlier on any or all of these changes.
4. The Company is also submitting Exhibit H (Purchased Water Adjustment Clause) in order to update the base consumption and base costs which were established in the last base rate proceeding within the meaning of the applicable Purchased Water Adjustment Clause ("PWAC") regulations N.J.A.C. 14:9-7.1 et seq. as referenced in the BPU Order Adopting Initial Decision and Order (BPU Docket No. WR15030391). With this Petition, the Company is requesting that the Board continue the Company's implementation of a PWAC pursuant to the above-referenced regulations and is further requesting that the Board utilize the data set forth in Exhibit H to continue the Company's requested implementation of its PWAC.

WHEREFORE, Petitioner respectfully requests that pursuant to N.J.A.C 14:5-11, the Board approve the Tariff changes proposed herein and that such other relief as is just and proper be granted by the Board.

THIRD COUNT  
ESTABLISHMENT OF A DISTRIBUTION  
SYSTEM IMPROVEMENT CHARGE

1. Petitioner repeats and restates the allegations of the First and Second Counts and incorporates them into this Third Count as if fully set forth at length herein.

2. In this matter, Petitioner seeks to reinstitute a Distribution System Improvement Charge (“DSIC”) to recover a portion of the costs of necessary improvements to the Company’s distribution system. The Company has reserved Exhibit K to be used for the Company’s DSIC Foundational Filing.

3. Specifically, and consistent with N.J.A.C. 14:9-10.4(b)(6), the Company proposes to use this base rate proceeding as a vehicle to accomplish a number of purposes. The Company’s initial foundational filing, approved by the Board in BPU Docket No. WR12111021 (Order dated February 2, 2013), and second foundational filing, approved by the Board in BPU Docket No. WR14050508 (Order dated August 20, 2014), have set the stage for ongoing significant necessary investments in valuable infrastructure by the Company. Additionally, the Company will use this case to make its next foundational filing to reflect planned distribution system investments over the next number of years. Pursuant to the regulations, this base rate case will also provide the opportunity for the Board to review the prudence in the implementation of those qualifying and approved in-service non-revenue producing investments and when confirmed, permanently reflect those investments into rate base.



4. The Company believes a DSIC represents a reasonable approach to addressing the need to replace and/or rehabilitate aging utility infrastructure, and is hopeful DSIC regulations will be implemented to accomplish their purpose by balancing the interests of our customers with the needs of the Company. As the Board's regulations are implemented, the Company intends to continue to update the data the Board requires to fulfill and reinstitute the purposes of the DSIC.

5. The Company intends to supplement this Petition as noted and will furnish such other and additional information as may be required by the Board.

WHEREFORE, the Petitioner respectfully requests that a new Distribution System Improvement Charge be established based on the data established in this proceeding and that the Board authorize a new DSIC Foundational Filing for future eligible investments pursuant to the DSIC regulations, and that such other relief as is just and reasonable be granted by the Board.

FOURTH COUNT  
FOR DEFERRED ACCOUNTING TREATMENT  
OF REGULATORY CASE INTERVENTION COSTS  
ON BEHALF OF MIDDLESEX CUSTOMERS

1. Petitioner repeats and realleges the allegations of the First, Second and Third Counts and incorporates them into this Fourth Count as if fully set forth at length herein.

2. The Company has a contract with New Jersey American Water Company (NJAW) that currently requires a purchase of 3.0 million gallons per day (mgd) of treated water at a minimum annual cost of \$2.62 million under the Board-approved Rate Schedule G – Sales For Resale – Service To Other Systems (Base Rate) in the NJAW tariff.

3. On September 15, 2017, NJAW filed a petition with the Board for approval of an increase in rates and approval of other tariff changes, pursuant to N.J.S.A. 48:2-21 and other related statutory and regulatory provisions. The Board has docketed this matter as Docket No. WR17090985. Under the proposed new rates for Rate Schedule G, the minimum annual cost for water service will increase to approximately \$3.33 million, representing a rate increase of approximately 27.4% for Middlesex's customers.

4. As Middlesex and – most significantly – the Company's customers will be substantially, specifically and directly affected by the outcome of this newly-initiated NJAW base rate proceeding, the Company on September 28, 2017 filed with the Board Secretary a Motion For Intervention in Docket No. WR17090985.

5. As Middlesex's interest in the newly-initiated NJAW base rate proceeding will not be adequately protected by other parties – because as a large-use contract customer, Middlesex is significantly different from the majority of other customers of NJAW represented by other parties to that proceeding – the Company must intervene to protect the interests of its customers vis-à-vis the proposed NJAW rate increase.

6. At present, the Company is reviewing NJAW's petition and direct testimony supporting its proposed rate increase and evaluating the cost of service study filed in that proceeding. In order to adequately defend its interests and protect its customers, Middlesex will likely be required to engage outside resources that will result in incremental costs to the Company.

7. At present, it remains uncertain when or whether the newly-filed NJAW rate case will be resolved through a settlement or full litigation and whether such resolution will occur before the resolution of the rate request Middlesex is seeking in this petition.

8. Given these circumstances, the Company believes that deferred accounting treatment of the regulatory case intervention costs associated with Middlesex's intervention in Docket No. WR17090985 is reasonable and appropriate.

WHEREFORE, the Petitioner respectfully requests the Board authorize, pursuant to N.J.S.A 48:2-16, N.J.S.A. 48: 2-21, N.J.S.A. 48:2-21.1, N.J.S.A. 48:2-23, and other related statutory and regulatory provisions, Middlesex to defer on its books, for accounting purposes only and without interest, actually incurred costs related to the Company's intervention in Docket No. WR17090985 and that the prudence and recovery and the appropriate amortization period for such deferred costs be addressed in the Company's next base rate case.

FIFTH COUNT  
FOR SPECIAL ACCOUNTING TREATMENT  
OF INCOME TAX REFUND PROCEEDS AND  
FUTURE INCOME TAX DEDCUTIONS

1. Petitioner repeats and restates the allegations of the First, Second, Third and Fourth Counts and incorporates them into this Fifth Count as if fully set forth at length herein.

2. On September 9, 2013, the Internal Revenue Service ("IRS") issued final Tangible Property Regulations ("TPR")<sup>1</sup> to provide clarity to the question of whether expenditures to maintain, replace or improve tangible property must be capitalized or charged to expense for income tax purposes.

3. On September 9, 2015, Middlesex adopted the final TPR by timely filing with the IRS a required accounting change form as part of, and included with, the Company's

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<sup>1</sup> Guidance Regarding deduction and Capitalization of Expenditures related To Tangible Property, 78 Fed.Reg. 57685, 57747(Sept. 19, 2013) (amending 26 C.F.R. parts 1 and 602) <<https://www.gpo.gov/fdsys/pkg/FR-2013-09-19/pdf/2013-21756.pdf>> ("TPR").

2014 federal income tax return. IRS rules allow taxpayers changing their accounting method to apply the change retroactively or apply it prospectively only. Middlesex elected to apply the change retroactively.

4. The initial net income tax refund requested and received by Middlesex from the IRS resulting from the change in accounting is currently subject to review as part of an audit examination by the IRS of the Company's 2014 federal income tax return. The refund amount could change based on the findings of the current IRS audit examination. As detailed and supported in the Direct Testimony of A. Bruce O'Connor submitted with this Petition, Middlesex is requesting special accounting treatment of the income tax refund proceeds associated with the change in accounting pertaining to all relevant tax years before the tax year of adoption of the final TPR ("Look Back Period"), the tax year of adoption (2014), and the subsequent tax years (2015, 2016, etc.). Specifically, Middlesex proposes to defer the refunds for the Look Back Period, and subsequent tax years, as a regulatory asset and amortize the balance as a reduction of income tax expense over specific time periods.

5. By specifically authorizing the special accounting treatment described in Paragraph 4 of this Fifth Count herein, Middlesex expects to be able to adjust prospectively the frequency and impact of future rate increase filings.

WHEREFORE, the Petitioner respectfully requests that the Board specifically authorize the foregoing special accounting treatment to reflect the Company's tax accounting change for the repair and maintenance expenditures discussed in this Fifth Count and supporting Direct Testimony and Exhibits herein and that such other relief as is just and proper be granted by the Board.

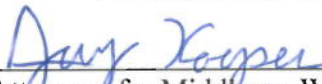
Respectfully Submitted,

SAUL EWING ARNSTEIN & LEHR LLP  
One Riverfront Plaza  
1037 Raymond Boulevard, Suite 1520  
Newark, New Jersey 07102

By: Stephen B. Genzer, Esq.

MIDDLESEX WATER COMPANY  
1500 Ronson Road  
Iselin, New Jersey 08830

By: Jay L. Kooper, Esq.  
Vice President, General Counsel & Secretary

  
\_\_\_\_\_  
Attorneys for Middlesex Water Company

Dated: October 10, 2017  
Iselin, New Jersey

STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES

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	:	CERTIFICATE OF SERVICE
In the Matter of MIDDLESEX	:	
WATER COMPANY for Approval	:	
of an Increase in its Rates for	:	
Water Service and Other Tariff Changes	:	
and for Authorization of Special	:	
Accounting Treatment of Income Tax	:	
Refund Proceeds and Future Income	:	
Tax Deductions	:	
	:	
	:	

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Jay L. Kooper, an Attorney at Law of New Jersey, hereby certifies the following:

On October 10, 2017, I caused to be served by first class mail, postage prepaid, a copy of the within Petition and Exhibits, to each party on the attached Service List B, and by Federal Express, two copies thereof to the Department of Law and Public Safety at its address at 124 Halsey Street, Newark, New Jersey 07102, and by hand delivery to the Director, Division of Rate Counsel, at its address at State of New Jersey, Division of Rate Counsel, 140 East Front Street - 4th Floor, Trenton, NJ 08625.

  
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Jay L. Kooper

Dated: October 10, 2017