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Director

October 18, 2019

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Via Hand Delivery

Honorable Jacob S. Gertsman
Administrative Law Judge
Office of Administrative Law
9 Quakerbridge Plaza
Mercerville (Hamilton Twp.), New Jersey 08619

**Re: THE PETITION OF SUEZ WATER NEW JERSEY INC. FOR APPROVAL OF A
PILOT PROGRAM TO FACILITATE THE REPLACEMENT OF LEAD
SERVICE LINES AND A RELATED COST RECOVERY MECHANISM
BPU DOCKET NO.: WO19030381
OAL DOCKET NO.: PUC 07138-2019S**

Dear Judge Gertsman:

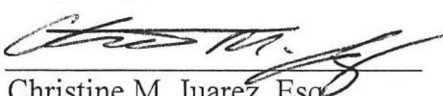
Enclosed is one copy of the testimony and exhibits of Howard J. Woods being filed on behalf of the Division of Rate Counsel ("Rate Counsel"), in connection with the above-referenced matter. Hard copies are being provided to attorneys of record, and are available to others upon request.

We are enclosing one additional copy of the materials transmitted. Please stamp and date the copy as "filed" and return it to our courier. Thank you for your attention to this matter.

Very truly yours,

STEFANIE A. BRAND, DIRECTOR
DIVISION OF RATE COUNSEL

By:


Christine M. Juarez, Esq.
Assistant Deputy Rate Counsel

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**IN THE MATTER OF THE
PETITION OF SUEZ NEW
JERSEY INC. FOR APPROVAL
OF A PILOT PROGRAM TO
FACILITATE THE
REPLACEMENT OF LEAD
SERVICE LINES AND**

**SERVICE LIST
BPU DOCKET NO.: WO19030381**

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STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE JACOB S. GERTSMAN

RECEIVED
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OCT 18 2019
BOARD OF PUBLIC UTILITIES
TRENTON, NJ

In the Matter of:

THE PETITION OF SUEZ WATER NEW
JERSEY, INC. FOR APPROVAL OF A
PILOT PROGRAM TO FACILITATE THE
REPLACEMENT OF LEAD SERVICE
LINES AND A RELATED COST
RECOVERY MECHANISM

BPU Docket No. WO19030381

OAL Docket No. PUC07138-2019S

DIRECT TESTIMONY AND EXHIBITS OF

HOWARD J. WOODS, JR., P.E.

ON BEHALF OF THE
NEW JERSEY
DIVISION OF RATE COUNSEL

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Filed: October 18, 2019

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TRENTON, NJ

SUEZ Water New Jersey, Inc.
BPU Docket No. WO19030381
Direct Testimony of Howard J. Woods, Jr., P.E.

TABLE OF CONTENTS

A. STATEMENT OF QUALIFICATIONS.....	1
B. SCOPE AND PURPOSE OF TESTIMONY	3
C. FINDINGS AND CONCLUSIONS.....	3
APPENDIX 1: RESUME OF HOWARD J. WOODS, JR., P.E.....	21

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BOARD OF PUBLIC UTILITIES
TRENTON, NJ

A. STATEMENT OF QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Howard J. Woods, Jr. and my address is 49 Overhill Road, East Brunswick, New Jersey 08816-4211.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am an independent consultant and the New Jersey Division of Rate Counsel ("Rate Counsel") has engaged me in this matter.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS.

A. I hold a Bachelor of Civil Engineering from Villanova University (1977) and a Master of Civil Engineering with a concentration in water resources engineering also from Villanova University (1985). I am a registered professional engineer in New Jersey, New York, Maryland, Pennsylvania, Delaware and New Mexico. I am also licensed to perform RAM-WSM security assessments of public water systems. I am an active member of the American Society of Civil Engineers, the National Ground Water Association, the American Water Works Association, the Water Environment Federation and the International Water Association.

1 **Q. HAVE YOU PROVIDED TESTIMONY IN UTILITY MATTERS ON PRIOR**
2 **OCCASIONS?**

3 A. Yes. I have testified in numerous rate setting proceedings and quality of service
4 evaluations in matters before the Public Utility Commissions in New Jersey, New York,
5 Connecticut, Delaware, Pennsylvania and Kentucky. The focus of my testimonies is on
6 matters involving utility operations, planning and engineering.

7
8 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

9 A. A detailed description of my professional experience is provided in Appendix A of this
10 Testimony. In summary, I have over 40 years' experience in the planning, design,
11 construction and operation of water and wastewater utility systems. I have worked for a
12 Federal regulatory agency, a large investor-owned water and wastewater utility, a firm
13 engaged in contract operations of municipally owned water and wastewater utilities, and
14 in engineering and operational consulting for the water and wastewater industry. During
15 my career, I have been responsible for all operations functions including regulatory
16 compliance, water production, distribution and maintenance services as well as wastewater
17 collection and treatment. I have evaluated numerous water and wastewater acquisitions
18 and I have advised clients on the sale or acquisition of these systems.

B. SCOPE AND PURPOSE OF TESTIMONY

Q. MR. WOODS, PLEASE DESCRIBE YOUR AREA OF RESPONSIBILITY IN THIS MATTER.

A. Rate Counsel has engaged me to review SUEZ Water New Jersey, Inc.'s ("Company") proposal to replace lead service lines and to implement a cost recovery mechanism for unreimbursed expenses associated with replacing customer-owned connecting lines. I am offering an opinion regarding the technical aspects of the Company's proposal.

Q. WHAT MATERIALS HAVE YOU REVIEWED IN DISCHARGING THIS ASSIGNMENT?

A. I have reviewed the Company's initial filing, testimonies and responses to discovery requests in this matter. In addition, I have also reviewed various U.S. Environmental Protection Agency, New Jersey Department of Environmental Protection ("NJDEP") and New Jersey Board of Public Utilities rules applicable to specific aspects of the Company's proposals. I have also reviewed the current American Water Works Association ("AWWA")/American National Standards Institute ("ANSI") national standard on the replacement of lead service lines.

Q. HAVE YOU REVIEWED SUEZ WATER NEW JERSEY'S FILING FOR APPROVAL OF A PILOT PROGRAM FOR LEAD SERVICE REPLACEMENTS?

A. Yes, I have.

C. FINDINGS AND CONCLUSIONS**Q. WHAT DOES THE COMPANY'S FILING REQUEST?**

A. The Company's March 22, 2019 filing and the clarification dated April 8, 2019 proposes to accelerate the replacement of lead service lines in Bogota, Hackensack, North Bergen, Ridgefield Park, Rutherford, Teaneck, Union City and West New York. Other communities with known areas with lead service lines will also be included in the program and these include Alpine, Lodi, Old Tappan, River Vale, Upper Saddle River and Wallington. (Petition, Para. 18). The Company's proposal is attempting to develop an incentive for customers to replace customer-owned lead connecting lines at the same time the Company replaces the lead or lead containing components of its service lines. The Company proposes to charge customers who opt to participate in the program a flat fee of \$1,000 toward the cost of replacing the customer-owned connecting line with the Company's ratepayers bearing the actual cost in excess of this amount. The excess amount would be recorded as a regulatory asset and amortized over seven years. According to the Company's proposal, the un-amortized balance of the regulatory asset would earn the authorized rate of return. (Petition, Para. 20). The program costs incurred for administration, surveys and other required costs, along with the costs incurred in excess of the \$1,000 customer payment would be recovered in a surcharge to all General Metered Service customers. (Petition, Para. 21). The Company has also presented a calculation of the proposed surcharge that would recover the cost of the customer connecting line replacements along with the cost of the Company-owned service replacements. (Petition, Exhibit C). The Company-owned replacements are rate base items that would otherwise be eligible for recovery in the Distribution System

Improvement Charge ("DSIC") and ultimately in base rates. In other words, the proposed surcharge would recover from ratepayers rate base items, such as the cost of replacing Company-owned services, along with non-rate base costs (e.g., the cost of replacing the customer-connecting lines not paid for by the customer).

Q. HOW MANY COMPANY-OWNED LEAD SERVICE LINES ARE KNOWN AND IDENTIFIED IN THE COMPANY'S SYSTEM?

A. There are 8,354 company-owned lead service lines and an additional 32,042 company-owned service lines that contain known lead components (e.g., flexible lead goosenecks that connect the water main to a rigid service material that is not lead).¹ This is a total of 40,396 lead services out of a total of 199,927 services in the Company's Bergen and Hudson County service areas. At this point, only 4% of the Company-owned services are actually lead service pipes. Another 16% of the Company's service lines contain lead goosenecks, which are segments of lead pipe that connect rigid service pipe materials (e.g., galvanized iron, cast iron, etc.) to the Company's water mains. In the cases where a gooseneck is used, the majority of the Company-owned service line may be some material other than lead.

Q. WHY DOES THE COMPANY NEED TO REPLACE THESE SERVICE LINES?

A. For the first time in December 2018, the Company concluded a six-month monitoring period where the Lead Action Level of 0.015 milligrams per Liter (mg/L) was exceeded.² The Federal Lead and Copper Rule (the "Rule"), which NJDEP has incorporated in its

¹ Company response to RCR-E-8.

² Company response to RCR-E-18.

1 rules, requires a public water supplier to replace lead services when its corrosion control
2 program is not optimized and the Lead Action Level is exceeded.³

3
4 **Q. DOES THE RULE REQUIRE THE COMPANY TO REPLACE THE PORTION**
5 **OF THE SERVICE LINE, KNOWN AS A CONNECTING LINE, THAT IS**
6 **OWNED BY THE CUSTOMER?**

7 A. No, the Rule does not require the Company to bear the cost of replacing the customer-
8 owned connecting line nor does the Rule require the Company to replace the customer-
9 owned connecting line when the customer refuses to pay the cost of replacing the
10 customer-owned portion. The Rule requires the Company to replace the portion of the
11 line that it owns and controls, and to offer to replace the customer-owned portion at the
12 customer's expense to minimize the partial replacement of lines that are known to be lead
13 from the water main to the structure.⁴

14
15 **Q. IN CASES WHERE A PARTIAL REPLACEMENT IS PERFORMED, WHAT**
16 **DOES THE RULE REQUIRE?**

17 A. The Rule requires the utility to:

18 a) provide a notice to the customer regarding the potential increase in lead
19 concentration that could result after a partial replacement is complete;

³ 40 CFR 141.84.

⁴ 40 CFR 141.84(b)

b) collect a representative sample of water from the lead connecting line when the line has not been used for six hours and collect the sample within 72 hours after completion of the partial replacement;^{5,6} and

c) report the results of the testing to the property owner and residents within three business days of receiving the results.

Q. DOES A MECHANISM EXIST TO ALLOW THE COMPANY TO TIMELY BEGIN THE RECOVERY OF EXPENSES IT INCURS IN REPLACING COMPANY-OWNED LEAD SERVICE LINES?

A. Yes; the Distribution System Improvement Charge ("DSIC") rule allows for the recovery of service line replacements.⁷ Under this Board of Public Utilities rule, the Company can replace lead services it owns and recover the cost, including the costs associated with engineering and surveys, in a surcharge that is adjusted every six months to reflect the amount of work completed and transferred to utility plant in service. Furthermore, the Company could also recover such costs through the traditional base rate case process.

Q. WHAT IS THE AVERAGE CONSTRUCTION COST TO REPLACE A COMPANY-OWNED LEAD SERVICE LINE?

⁵ 40 CFR 141.84d(1) and 40 CFR 141.86(b)(3)

⁶ A partial replacement could occur when the customer moves to replace the customer-owned lead connecting line before the Company replaces the company-owned lead service line or the lead gooseneck and associated service material that is not lead. In this case, the sampling and flushing protocol of the Rule and AWWA C810-17 would still apply.

⁷ N.J.A.C. 14:9-10.2.

1 A. The average cost reported by the Company in this proceeding is \$6,500 per Company-
2 owned service.⁸

3
4 **Q. HOW MANY LEAD SERVICES WILL THE COMPANY BE REQUIRED TO**
5 **REPLACE ANNUALLY UNDER THE RULE?**

6 A. The Rule requires the Company to replace 7% of its lead services annually.⁹ The number
7 of Company-owned lead services that must be replaced under the Rule is estimated to be
8 2,338 services per year.¹⁰

9
10 **Q. AT THE AVERAGE COST OF \$6,500 PER SERVICE AND A REPLACEMENT**
11 **RATE OF 2,338 SERVICES PER YEAR, WHAT IS THE ANNUAL COST OF**
12 **THIS PROGRAM?**

13 A. The cost of the replacement of Company-owned lead services will be approximately
14 \$15,197,000 per year.

15
16 **Q. WILL THIS COST BE CAPITALIZED AND RECOVERED THROUGH THE**
17 **DSIC AND BASE RATES?**

18 A. This appears to be the case, at least initially. In its initial DSIC rate filing in Docket
19 WR18101158, the Company indicated that it has spent \$8,764,759 replacing 1,271
20 Company-owned lead services between October 1, 2018 and August 31, 2019 and the
21 Company expects to begin charging its customers the DSIC surcharge associated with
22 these replacements beginning October 30, 2019. In its next base rate proceeding, the

⁸ Company response to RCR-E-9.

⁹ 40 CFR 141.84(b)(1).

¹⁰ Petition; Para. 14.

1 DSIC surcharge rate will be reset to zero and the cost being recovered in the DSIC
2 surcharge will be rolled into base rates. However, given the current Petition, it appears
3 the Company is attempting to create a new surcharge to recover these costs, instead of
4 using the DSIC that is already available. The Company seems to want to shift recovery
5 of Company-owned lead service lines away from the DSIC to the new surcharge
6 proposed in this case. This is unnecessary because the Company already has DSIC
7 available for its use. It is also troubling because the proposed new surcharge constitutes
8 single-issue ratemaking. Single-issue ratemaking is to be avoided because it fails to
9 address all issues associated with the utility's revenue requirement. This has the potential
10 to adversely affect ratepayers by failing to reflect cost reductions that flow from the
11 activity addressed by the single-issue rate adjustment.

12
13 **Q. IS THERE A NEED FOR ANY PILOT PROGRAM TO TEST THE RECOVERY**
14 **OF COMPANY-OWNED LEAD SERVICE LINE REPLACEMENTS?**

15 **A.** No; the DSIC program is in place and the Company is already using this mechanism and
16 will soon begin charging its customers for the return of and return on its investment in
17 lead service replacements done through August 31, 2019. The surcharge will be adjusted
18 again in six months to reflect any additional lead service line replacements done after
19 August 30, 2019. There is no need or justification for creating a second surcharge in
20 addition to the DSIC.

Q. WHY DO YOU BELIEVE THAT THE COMPANY SEEKS TO SHIFT EXPENSES FROM THE DSIC TO A NEW LEAD SERVICE REPLACEMENT SURCHARGE?

A. If the Company were to shift expenses associated with lead service line replacements from the DSIC to a new Lead Service Line Replacement Surcharge, these expenses and the associated rate recovery would no longer be governed by the 5% revenue cap that is part of the DSIC rule. Using the current DSIC rate filing as an example, the Company claims an investment of \$8,764,759 in lead service line replacements. This amount is included with other DSIC investments to determine the revenue requirement to be recovered in the DSIC surcharge. Ultimately, the amount recovered through the DSIC is capped at 5% of water revenues set in the last base rate proceeding. By shifting the lead service replacement costs out of the DSIC to a separate Lead Service Line Replacement Surcharge, the Company would "free-up" additional investment dollars for other DSIC related investments under the revenue cap. There is nothing in the Company's proposal to suggest that the Lead Service Line Replacement Surcharge would be governed by any sort of revenue cap.

Q. HOW MANY KNOWN CUSTOMER-OWNED LEAD CONNECTING LINES EXIST IN THE SYSTEM?

A. There are 3,055 customer-owned connecting lines known to contain lead.¹¹ However, the Company's records of the material making up the customer-owned connecting lines are incomplete. The Company is currently engaged in a program to survey the customer

¹¹ Company response to RCR-E-20.

1 connecting lines, as required by the Rule, along with a number of Company-owned
2 service lines of an unknown material. As a result, the numbers of Company-owned
3 services and customer-owned connecting lines that are lead are likely to rise as the survey
4 is completed.

5
6 **Q. WHAT IS THE ESTIMATED AVERAGE COST TO REPLACE THE**
7 **CUSTOMER-OWNED CONNECTING LINE?**

8 A. The Company has estimated the average cost at \$3,000 per customer-owned connecting
9 line.¹² If 1,000 customers chose to replace the lead connecting lines that they own, a cost
10 of \$3 million would be incurred. However, the average cost is based on a limited sample
11 and this estimate could increase depending on the distance between the curb stop and the
12 customer's meter, among other factors.

13
14 **Q. WHAT HAS THE COMPANY PROPOSED TO DO TO ENCOURAGE**
15 **CUSTOMERS TO REPLACE THEIR LEAD CONNECTING LINES?**

16 A. The Company proposes to cap the individual customer's cost at \$1,000 per service and
17 allow the customer to pay that cost to the Company through its utility bill over twelve
18 months. This amount would be deducted from the actual cost of replacing the connecting
19 line. The remaining cost, which would be on the order of \$2,000 per service would be
20 accounted for as a regulatory asset and amortized with interest over seven years. The
21 costs associated with paying for these customer-owned lines would be included in the
22 Lead Service Line Replacement surcharge. All customers, not only those with lead

¹² Company response to RCR-E-61.

1 connecting lines, would be charged a Lead Service Line Replacement program surcharge.
2 This surcharge would also include the recovery of the cost of Company-owned lead
3 service replacements that would no longer be included in the DSIC. In addition, all
4 customers would be charged a DSIC surcharge for the recovery of DSIC eligible plant,
5 including routine non-lead service line replacements.
6

7 **Q. DOES THE COMPANY PROPOSE TO EARN A RETURN ON THE**
8 **REPLACEMENT OF LEAD SERVICE LINES UNDER THE PROPOSED LEAD**
9 **SERVICE LINE REPLACEMENT SURCHARGE?**

10 Yes, the Company proposes to earn a return on the cost of the Company-owned service
11 line replacements and the cost of the customer-owned connecting line replacements not
12 paid for by the customer. The Company proposes to receive a return of its investment in
13 customer-owned connecting lines over a period of seven years, and a return on the
14 unamortized balance of customer-owned connecting lines at its overall rate of return. In
15 terms of the company-owned portion of lead lines, the Company proposes rate base
16 treatment, also to be recovered through the surcharge.
17

18 **Q. WILL THE CUSTOMER-OWNED PORTION OF LEAD SERVICE LINE**
19 **REPLACEMENTS BE USED AND USEFUL IN THE PUBLIC SERVICE?**

20 No they will not. The Company does not own or control the customer-owned portion of
21 the lines, nor will it own these lines following replacement. The customer-owned portion
22 of the line will continue to be privately owned by the customer, who will continue to be

1 responsible for all maintenance of the line. The customer-owned portions will never be
2 utility property and never be used and useful in the public service.

3
4 **Q. ARE THERE ANY CUSTOMERS WHO WOULD BE EXCLUDED FROM THIS**
5 **SUBSIDY PROGRAM?**

6 A. Yes; customers who have lead customer-owned connecting lines that are supplied by
7 company-owned services that are not lead would not be offered the \$1,000 cap on costs
8 nor would the excess cost be included in the proposed surcharge. Essentially, these
9 customers would be on their own. This includes any customer with a lead service line
10 connected to a Company-owned service that has already been replaced.

11
12 **Q. DO YOU BELIEVE THAT THE BOARD SHOULD APPROVE THE**
13 **COMPANY'S PROPOSAL?**

14 A. No, I do not.

15
16 **Q. PLEASE EXPLAIN WHY YOU BELIEVE THIS.**

17 A. The Lead and Copper Rule clearly limits the obligation of the Company and its
18 ratepayers to replace only those lead services that the Company owns and controls.¹³ The
19 Company does not own or control customer-owned connecting lines. In addition, the
20 Rule also clearly leaves the decision to replace or not replace a lead pipe that he or she
21 owns up to that individual customer. Furthermore, while the Rule encourages full
22 replacements where the Company and the customer replace their respective portions of

¹³ 40 CFR 141.84(d)

1 the service at the same time, the Rule does not obligate the Company to pay for the
2 customer-side replacement and subsequently cause its general customer base to pay for
3 the replacement of the customer-owned lead connecting lines. That is a cost clearly left
4 to the individual customer who owns a lead service line.

5
6 **Q. WILL THE COMPANY'S PROPOSAL SOLVE THE ISSUE OF LEAD IN THE**
7 **INFRASTRUCTURE IN THE COMPANY'S SERVICE AREA?**

8 No, it will not. The Company's proposal only addresses the accounts where the Company
9 owns a lead service line, including a service line with a lead gooseneck, and the customer
10 also owns a lead connecting line. In cases where the Company has already replaced its
11 lead service line, but the customer continues to own a lead connecting line (e.g., an
12 existing partial replacement), no element of the Company's proposal addresses how these
13 replacements will be done. Essentially, the customer with an existing lead connecting
14 line who receives service from a Company-owned, non-lead service line will need to
15 decide to replace their connecting line on their own and at their own expense. The
16 program offered by the Company also will not address other plumbing components (e.g.,
17 lead solder, brass fixtures, or internal lead plumbing) that contain lead. To the extent that
18 these other plumbing components are on private property and are owned and controlled
19 by the customer, Rate Counsel agrees with the Company that the replacement of these
20 privately-owned lead components should not be funded by existing ratepayers through
21 any form of surcharge.

Q. IN WHAT OTHER WAYS DOES THE RULE LIMIT THE COMPANY'S OBLIGATION TO REPLACE LEAD SERVICE LINES?

A. A water utility is not required to replace an individual lead service line if the lead concentration in all service line samples from that line are less than 0.015 mg/L. The Rule specifies the sampling method to be used for this exemption.¹⁴ So, even though a specific service line is known to be lead, and a utility is required to replace lead services because its sampling shows an Action Level Exceedance, lead lines where the sample results are below the Action Level may not need to be replaced. So, even though the Company has exceeded the lead Action Level and is obligated to replace 7% of its lead services, a specific lead service that has test data showing compliance with the Action Level does not need to be replaced. This provision in the Rule encourages the replacement of services that show elevated levels of lead over those services that have low levels.

Q. IF THE COMPANY OPTIMIZES ITS CORROSION CONTROL TREATMENT SYSTEMS AND RETURNS TO COMPLIANCE WITH THE LEAD ACTION LEVEL, WILL IT BE REQUIRED BY THE RULE TO CONTINUE REPLACING COMPANY-OWNED LEAD SERVICES?

A. No; once corrosion control treatment is optimized and compliance is achieved for two consecutive six-month monitoring periods, the obligation to continue replacing Company-owned lead services ceases.¹⁵

¹⁴ 40 CFR 141.84(c) and 141.86(b)(3)

¹⁵ 40 CFR 141.84(f)

Q. IN ADDITION TO THE RULE, ARE THERE ANY STANDARDS OF PRACTICE THAT SUPPORT YOUR CONCLUSION REGARDING THE COST OF THE CUSTOMER CONNECTING LINES?

A. Yes, the American Water Works Association provides a standard titled "Replacement and Flushing of Lead Service Lines" ("AWWA C810-17") that details a procedure to follow when partial replacements of lead services occur. AWWA C810-17 favors complete replacement over partial replacement, but also recognizes the reality that customers and the utility may not always be in a position to complete a simultaneous replacement and it also contemplates the situation where a customer simply chooses not to replace his or her lead connecting line. Finally, the standard recognizes that the cost of replacing the customer-owned lead connecting line is a cost to be borne by the customer, not the utility and its customer base.

Q. ARE YOU AWARE OF ANY OTHER BOARD REGULATED WATER UTILITIES THAT ARE REPLACING CUSTOMER-OWNED LEAD CONNECTING LINES THROUGH A SURCHARGE LIKE THAT PROPOSED BY THE COMPANY?

A. I am not. I believe the other Board regulated utilities including New Jersey American, Middlesex Water Company and Aqua NJ are following the Rule and AWWA C810-17.

Q. ARE THERE ANY OTHER STATE REQUIREMENTS THAT WOULD REQUIRE LEAD SERVICE LINE REPLACEMENTS?

1 A. The Water Quality Accountability Act¹⁶ requires utilities with more than 500 connections
2 to develop asset management procedures to “inspect, maintain, repair, and renew its
3 infrastructure consistent with standards established by the American Water Works
4 Association.”¹⁷ This broad requirement could be interpreted to mean that AWWA C810-
5 17 should be used to define a lead service line replacement program that is part of an
6 overall asset management plan. In that case, utilities with more than 500 services and a
7 Lead Action Level Exceedance condition should optimize corrosion control and begin
8 replacing Company-owned lead services until Action Level compliance is achieved.
9

10 **Q. WHAT DO YOU BELIEVE THE BOARD SHOULD DO WITH RESPECT TO**
11 **THE COMPANY’S PROPOSAL ON LEAD CONNECTING LINES?**

12 A. I believe the Board should reject the Company proposal and direct the Company to
13 comply with the requirements of the Rule and to follow the guidance of AWWA C810-17
14 regarding partial replacements.
15

16 **Q. WHILE YOU ARE OPPOSED TO THE USE OF THE LEAD SERVICE LINE**
17 **SURCHARGE, ARE THERE ANY SPECIFIC ISSUES YOU WOULD LIKE TO**
18 **COMMENT ON WITH RESPECT TO THE STRUCTURE OF THE COMPANY’S**
19 **PROPOSAL?**

20 A. Yes; I believe the proposal creates a great deal of potential confusion between the
21 proposed Lead Service Line Surcharge, the DSIC and the calculation of future base rates.

¹⁶ N.J.S.A.58:31-1 et.seq.

¹⁷ N.J.S.A.58:31-7.

Also, some costs included in the Lead Service Line Surcharge should not be capitalized under any circumstances but should instead be recovered as operating expenses.

Q. PLEASE EXPLAIN YOUR OPINION FURTHER.

A. Exhibit C in the Petition provides a calculation of the Lead Service Line surcharge. This calculation includes the cost of Company-owned lead service line replacements. These are expenses that could be recovered in the existing DSIC. These costs do not need to be part of a separate surcharge. These costs are ultimately transferred to UPIS and rate base. In the Company's next rate case, these costs, which would be carried in the DSIC, would be rolled into base rates. As the Company has proposed the structure of the Lead Service Line surcharge, the costs to replace Company-owned lines would not be in the DSIC but instead would be in a separate Lead Service Line surcharge that would be added to the customers' bills (Petition, Exhibit D). While these costs are part of the Lead Service Line surcharge, they would also be recorded to UPIS. So, the Board will need to exercise care that the costs are not inadvertently included in the Lead Service Line surcharges and included in the calculation of rate base. At the time of the next base rate case, the Board will need to be careful that even though these replacements represent rate base items, the cost must be removed for rate setting purposes only because the costs are part of the Lead Service Line surcharge.

The Company has not proposed a mechanism to remove the cost of Company-owned lead service replacements from the calculated Lead Service Line surcharge at the time of any future base rate case. If these costs continue to be recovered in the Lead Service Line surcharge as opposed to being rolled into base rates as they would be if the DSIC were

1 used to account for these costs, the Lead Service Line surcharge will need to remain in
2 effect until the cost of the Company-owned lead services are fully depreciated. Given
3 that the current depreciation rate for services is 1.73% as established in Docket
4 WR18050593, the company-owned services included in the initial regulatory asset will
5 not be fully depreciated for 58 years. The Rule requires 7% of lead services to be
6 replaced each year, giving the Company 15 years to replace all of its lead services.
7 Assuming that the Company satisfies this production rate, the last lead services will be
8 replaced in the year 2034. These lines will not be fully depreciated until 2092. At this
9 point, it appears the Lead Service Line surcharge will exist for more than seventy years.
10 So this confusion will exist for the foreseeable future.

11
12 **Q. WOULD YOU CHARACTERIZE THE COMPANY'S PETITION AS SEEKING**
13 **APPROVAL OF A PILOT PROGRAM, AS ITS PETITION CLAIMS?**

14 No. Pilot programs generally include initiatives of a limited duration designed to educate
15 stakeholders about a particular topic. The Company's Petition requests approval of a
16 Lead Service Line surcharge that will be on customers' bills for more than seventy years.
17 Even if a way is found to move the rate base portions of the surcharge back to base rates,
18 the proposed surcharge will impact customer bills for the next twenty-two years until the
19 last connecting line replacements are fully amortized. Because it will affect the rates that
20 ratepayers pay for the foreseeable future, the Company's Petition should not be
21 considered a Pilot Program.
22

Q. ARE THERE COSTS INCLUDED IN EXHIBIT C THAT YOU BELIEVE SHOULD NOT BE PART OF THE SURCHARGE UNDER ANY CIRCUMSTANCES?

A. Yes; the cost of water quality sampling should not be capitalized. This is an operating expense. Also, the calculation in Exhibit C applies carrying charges to this expense and this is not appropriate. Similarly, expenses associated with customer education are included in the Exhibit C calculation and thus accrue carrying charges. These are not capital expenses and should not be part of the surcharge.

Q. IS THERE AN IMPACT ON RATES THAT RESULTS FROM MOVING AN OTHERWISE DSIC ELIGIBLE EXPENSE INTO THE LEAD SERVICE LINE REPLACEMENT SURCHARGE?

A. Yes; the depreciation rate applied to the calculation of the surcharge will bear a higher depreciation rate in the Lead Service Line Replacement calculation.¹⁸ This will temporarily increase the cost over that which would be recovered in the DSIC. Also, as I previously noted, the Lead Service Line surcharge would enable the Company to collect up to the 5% revenue cap through DSIC and also collect an un-capped revenue amount through the Lead Service Line surcharge.

Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A. Yes.

¹⁸ Exhibit C shows a depreciation rate of 1.73% for services while the DSIC rate calculation uses a composite depreciation rate of 1.3188% (RCR-E-3 in Docket WR18101158). Thus, for the period of time under which the Lead Service Line surcharge is in effect and before DSIC rates are reset to zero in the next base rate proceeding, additional depreciation expense will be charged to customers.