

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

**IN THE MATTER OF THE PETITION OF :
NEW JERSEY-AMERICAN WATER : PETITION
COMPANY, INC. FOR APPROVAL OF :
INCREASED TARIFF RATES AND : BPU DOCKET NO.: WR2201_____
CHARGES FOR WATER AND :
WASTEWATER SERVICE AND OTHER :
TARIFF MODIFICATIONS :**

TO: THE HONORABLE COMMISSIONERS OF THE BOARD OF PUBLIC UTILITIES

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

I. BACKGROUND

1. NJAWC is engaged in the production, treatment and distribution of water and collection of wastewater within its defined service territory within the State of New Jersey. Said service territory includes portions of the following counties: Atlantic, Bergen, Burlington, Camden, Cape May, Essex, Gloucester, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Salem, Somerset, Union, and Warren. As of December 31, 2021, Petitioner serves approximately 660,000 water and fire service customers and 49,900 wastewater service customers.

2. The rate schedules and other tariff provisions that NJAWC proposes to modify by virtue of this filing are those currently effective rate schedules and tariff provisions now on file

with the Board, designated “Tariff for Water and Wastewater Service, B.P.U. No. 8 – Water and Wastewater” (the “Existing Tariff”).

3. The Existing Tariff was issued pursuant to Board Orders in Docket Nos. WR10040260, effective January 1, 2011, WR15010035, effective September 21, 2015, WR16111065, effective April 1, 2017, WR18111241, effective March 26, 2018, WR17090985, effective October 29, 2018, WM18080904, effective January 1, 2019, WR17111183, effective July 1, 2019 and WR19121516, effective October 28, 2020.

4. The proposed rate schedules and other tariff provisions that Petitioner seeks to make effective as a result of this filing are those contained in the tariff sheets, which are blacklined against the Existing Tariff to reflect proposed changes (the “Proposed Tariff”), a copy of which is attached as Exhibit P-1. It is requested that the Proposed Tariff be made effective February 13, 2022, a date which is no less than thirty (30) days from the date of this filing.

II. BASE RATES

5. The Company’s proposed revenue requirement, equal to the cost of providing water, fire and wastewater service to NJAWC’s customers, is approximately \$903.1 million.

6. The Company’s revenue deficiency is \$94.7 million or approximately 11.7%.

7. The proposed increase will produce additional revenues of \$94.7 million per year or 11.22% over existing annual revenues.

8. The impact of this Petition on the bill of an average customer using 5,520 gallons per month would be \$6.78 or 10.86%. The actual percentage increase applicable to specific customers will vary according to the applicable rate schedule and the level of each customer’s usage.

9. Petitioner’s test year ends June 30, 2022. Petitioner is proposing to reflect changes in capital expenditures through December 31, 2022, and changes in certain revenues and expenses through March 31, 2023.

10. Petitioner’s filing in this case is based on five months of actual and seven months of estimated data. During the proceeding, the Company will update its Direct Testimony, Exhibits and Schedules, as appropriate, to reflect actual results. It is anticipated that by the conclusion of this case, the entire test year ending June 30, 2022 will reflect actual results.

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

III. THE NEED FOR THE REQUESTED RATE RELIEF

12. The primary driver of the proposed rate increase is the capital investment to maintain and improve the Company’s infrastructure to continue providing safe, reliable and adequate service to its customers. Nearly 68% of the Company’s proposed revenue increase is driven by investment in the Company’s infrastructure. In total, the Company will have invested approximately \$985 million in capital improvements since the effective date of rates in the Company’s last rate case (Docket No. WR19121516) (the “2019 Rate Case”). Specifically, the Company has invested or plans to invest over \$454 million during the test year, and an additional \$272 million by December 31, 2022. Those investments total \$726 million, of which \$301 million is DSIC eligible investments.

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

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

15. Many of these projects, which are described in the Company's Direct Testimony, Exhibits and Schedules, are necessary to comply with environmental or water quality regulations, address aging facilities, and increase system resiliency and reliability. Additional capital improvement projects address emerging compounds such as perfluorooctanoic acid ("PFOA"), 1,4-dioxane, and hexavalent chromium, the reduction of non-revenue water, and climate variability. In each instance, these projects support the Company's continued provision of safe, adequate and reliable service to customers.¹

16. It is not possible to continue to make investments at this level without a reasonable opportunity to earn a reasonable return on the Company's capital invested in the system.

17. While not a significant driver in this rate case, the Company seeks to recover \$230.1 million in O&M expenses, which represents a modest increase. The Company's O&M expenses over the past decade have increased at a rate significantly less than the rate of inflation.

¹ The Company acknowledges recent New Jersey legislation that requires public water systems to inventory and replace lead service lines ("LSLs") within 10 years. See P.L. 2021, Chapter 183 ("LSL Legislation"). Pursuant to the LSL Legislation, the Company must submit its LSL replacement plan "at its next general rate proceeding." Contemporaneously with the filing of this rate case, the Company will submit its LSL replacement plan in accordance with the LSL Legislation.

IV. COVID-19 REGULATORY ASSET

18. Like all utilities in the State, NJAWC has been impacted by the COVID-19 pandemic. Through a series of voluntary initiatives by the Company, Board actions, and Executive Orders issued by Governor Murphy, the Company has taken and continues to take action to help protect all customers, including its most vulnerable, during the COVID-19 emergency.

19. Specifically, in March 2020, the Company voluntarily implemented a number of measures aimed at protecting customers including: 1) suspending service disconnections for non-payment; 2) suspending notices of disconnection; 3) reconnecting customers previously disconnected for non-payment; 4) waiving reconnection fees; and 5) suspending late fees and interest penalties on past-due accounts. The Company also temporarily waived certain eligibility requirements for its H2O Help to Others Program which provides: 1) emergency bill-paying assistance to customers; 2) qualifying water customers up to a 100% discount on their monthly fixed service charge for water customers; and 3) wastewater customers with service charge discounts.

20. As a result of COVID-19 and the Company's measures to mitigate its impact on customers, the Company has experienced increased costs attributed to COVID-19, including, but not limited to, increased uncollectible expense, incremental O&M expenses, costs related to financing activity to ensure adequate liquidity during the public health emergency and foregone reconnection and late fees.

21. On July 2, 2020, the Board issued an order in Docket No. AO20060471² which authorized each of the State's regulatory utilities to create a COVID-19 related regulatory asset by

² *I/M/O New Jersey Board of Public Utilities' Response to the Covid-19 Pandemic, Order Authorizing Establishment of a Regulatory Asset for Incremental COVID-19 Related Expenses (BPU Docket No. AO0060471) ("July 2 Order").*

deferring their prudently incurred incremental costs related to the COVID-19 pandemic beginning on March 9, 2020. The regulatory asset period is currently set to expire on December 31, 2022. Consistent with the terms of the July 2 Order, the Company has projected deferred COVID-19 related costs of \$15,967,435 through December 31, 2021, as discussed further in the testimony of Company witness Jamie Hawn.

22. Pursuant to the July 2 Order which provides that a utility may seek recovery of its deferred COVID-19 related costs in a base rate case, the Company seeks to recover its COVID-19 regulatory asset costs as part of this proceeding and respectfully requests that such recovery be amortized over a three-year period. The annual amortization amounts to \$5,322,478.³

V. UNCOLLECTIBLE ADJUSTMENT CLAUSE

23. As a result of the COVID-19 pandemic, the Company has recently experienced volatility in its uncollectibles expense. Accordingly, the Company seeks to implement an Uncollectible Adjustment Clause (“UAC”) to protect itself and customers from such variations on a going-forward basis.

24. Under the UAC, the Company proposes to reconcile its actual uncollectible expense to the base level of uncollectibles authorized by the Board in this proceeding, with any variance to be recovered from or credited to customers over a subsequent period.

25. This symmetrical reconciliation serves the interests of both the Company and customers by safeguarding against the variability and uncertainty of the Company’s uncollectibles expense.

³ The Company will update with actuals as part of this proceeding.

VI. REVENUE NORMALIZATION AND DECLINING USAGE

26. The declining consumption trend among water companies is well supported and has a material and ongoing impact on the Company's ability to recover the revenues authorized in setting rates. As discussed in the Direct Testimony of Company witness Charles B. Rea, after normalization of the impacts of weather and COVID-19, the statistical analysis of residential and commercial water usage indicates a downward trend for both classes.

27. Specifically, the Company's analysis demonstrates a continuing annual system-wide decline of 1.2% and 0.4% per year in residential and commercial usage, respectively, and a trend of declining usage into the foreseeable future.

28. Therefore, the Company proposes to normalize revenues in this case to account for these downward trends.

VII. PERFORMANCE PAY

29. Petitioner is seeking full cost recovery of its employee expenses, including its market-based total compensation. The Company's total compensation philosophy aligns the interests of our customers, employees and investors. The plan emphasizes operational goals, including customer service, environmental compliance, and a safe work environment, as well as certain financial goals.

30. As discussed in the Direct Testimonies of Messrs. Thomas Shroba and Robert Mustich, the Company's market-based total compensation package, including performance pay, is necessary for the Company to attract, retain, and motivate the talent needed to run the Company successfully and efficiently. Performance pay also benefits both the Company and customers by providing incentives to employees to continue delivering excellent service to customers. The operational components of the Company's performance compensation plans measure performance

that can most directly influence customer satisfaction, health and safety, and environmental excellence. Customers derive direct and demonstrable benefits from the Company's focus on these key measures in the plan.

31. As part of this case, the Company is submitting a study of the Company's market-based total compensation conducted by a third-party consultant, Willis Towers Watson, and supported by Company witness Robert Mustich (the "Compensation Study"). The Compensation Study assessed the Company's total compensation philosophy, including its short-term and long-term performance pay programs; comparing them to peer utilities and industry generally. The Compensation Study is confidential, trade secret and/or proprietary and will be provided to parties after execution of an NDA.

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

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

VIII. RATE DESIGN PROPOSAL

34. Petitioner is presenting in this case a cost of service study which was prepared by Company witness Mr. Rea.

35. The Company proposes to complete the alignment of Rate Schedules A-1, and A-10 that was agreed to in the settlement approved by the BPU in the 2019 Rate Case by aligning the volumetric rates in those two schedules. As a result, Rate Schedule A-10 will be eliminated.

36. The Company also proposes to increase the monthly service charge in Schedule A-15 from \$14.00 per month for a 5/8" meter to \$17.59 per month to close the gap between the monthly service charges for Haddonfield customers and the rest of the NJAWC's customer base.

37. With respect to monthly meter charges, the Company seeks to increase such charges for Schedule A-16 (Roxbury) to \$13.30 per month for a 5/8" meter and to increase the volumetric charge for Roxbury customers from \$3.7150 per thousand gallons to \$4.8622 per thousand gallons.

38. The Company proposes to merge Service Area 2 for Private Fire into Rate Schedule L-3 in this case. As a result, Rate Schedule L-4 will be eliminated.

39. In addition, the Company proposes to reduce the variation in public fire rates which currently range from \$26.83 per month for Schedule M-11 to \$74.50 for Schedules M-9 and M-5.

IX. AFFORDABILITY

40. Water and wastewater services are essential and the Company acknowledges the need for such services to be affordable. To that end, the Company has conducted an affordability study regarding the impact on customer bills as a result of the proposed rates in this case (the "Affordability Study").

41. As discussed in the Direct Testimony of Company witness Mr. Rea, the Affordability Study concludes that the Company's water service is currently affordable for most residential customers. The Affordability Study also indicates that the Company's water service will remain affordable under proposed rates.

X. TARIFF PROPOSALS

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

XI. TESTIMONY AND EXHIBITS INCORPORATED HEREIN

43. 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.

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

- a. Mark McDonough, President, NJAWC, whose testimony includes an overview of the Company and the primary issues driving the Company's filing (Exhibit P-3);
- b. Thomas Shroba, Vice President of Operations, NJAWC, whose testimony includes an overview of the Company's operations, its commitment to water quality, environmental compliance, safety, improving water efficiency, as well as the Company's proposed staffing levels and compensation philosophy (Exhibit P-4);
- c. Donald C. Shields, Vice President, Engineering for the Eastern Division, American Water Works Service Company "Service Company", whose testimony addresses the recovery of capital expenditures incurred since the Company's last rate case, the Company's plan regarding the engineered coating of steel structures, and some of the risks and challenges for water utilities associated with increased regulation and climate variability (Exhibit P-5);
- d. John S. Tomac, Senior Director of Rates and Regulatory for the Eastern Division, whose testimony supports the Company's revenue requirement calculation, rate base and capital structure, as well as the Company's proposal for an uncollectible adjustment clause and the rate base value of assets expected to be acquired by the Company during the pendency of this proceeding (Exhibit P-6);
- e. Jamie D. Hawn, Senior Manager of Rates and Regulatory for NJAWC, whose testimony includes the Company's request for recovery of expenses in this proceeding, the Company's pro forma adjustments to Operations and Maintenance ("O&M") expense, Taxes other than Income, Income Taxes, proposed recovery for deferred COVID-related expenses and the proposed tariff modifications and (Exhibit P-7);

- f. Charles B. Rea, Director, Rates and Regulatory for Service Company, whose testimony sponsors a cost of service study, rate design for both water and wastewater service, the determination of Post-Test Year revenues at present and proposed rates, the Company's analysis of residential, commercial, and public authorities water consumption as it relates to the impact of the COVID-19 pandemic on water usage and long-term trends in water usage and the Company's affordability analyses for water and wastewater service(Exhibit P-8);
- g. Ann Bulkley, Principal of The Brattle Group, whose testimony discusses cost of capital issues including the proposed return on equity, capital structure and overall cost of capital (Exhibit P-9);
- h. Patrick L. Baryenbruch, President of Baryenbruch & Company, LLC, whose testimony discusses the reasonableness of the Service Company costs (Exhibit P-10);
- i. Robert V. Mustich, Managing Director and East Region Rewards Business Leader for Willis Towers Watson, whose testimony addresses the reasonableness of the Company's compensation program, and benchmarks the Company's compensation expense against national and regional peer groups (Exhibit P-11); and
- j. Harold M. Walker, Manager, Financial Studies for Gannett Fleming Valuation and Rate Consultants, LLC, whose testimony presents the Company's cash working capital allowances (Exhibit P-12).

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

XII. PROPOSED PROCEDURAL SCHEDULE

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

February 28, 2022	Service of first round discovery
March 21, 2022	Responses to first round discovery due
April 6, 2022	Public Hearings
April 11, 2022	Service of second round discovery
April 26, 2022	Second round discovery responses due
April 28, 2022	Company files 9+3 update
May 9, 2022	Service of 9+3 update discovery
May 20, 2022	Responses to discovery on 9+3 update due

Week of May 23, 2022	Discovery/Settlement Conferences
Week of May 30, 2022	Discovery/Settlement Conferences
June 20, 2022	Rate Counsel and Intervenor Direct Testimony Due
June 27, 2022	Serve discovery on Rate Counsel and Intervenor Direct Testimony
July 11, 2022	Responses to discovery on Rate Counsel and Intervenor testimony due
July 21, 2022	Company files 12+0 update
July 25, 2022	Company, Rate Counsel and Intervenors file Rebuttal Testimony
August 1, 2022	Serve discovery on Rebuttal Testimony
August 8, 2022	Responses to rebuttal discovery due
August 15, 2022	Surrebuttal Testimony
August 22, 2022	Evidentiary Hearings begin (subject to ALJ's availability)

XIII. MISCELLANEOUS

47. Petitioner is serving notice and a copy of this Petition, together with a copy of the exhibits and schedules annexed hereto on the Division of Rate Counsel and the Department of Law and Public Safety, as well as via electronic mail. Due to the COVID-19 pandemic, and in accordance with the BPU's March 19, 2020 and May 20, 2020 Orders issued in BPU Docket No. EO20030254, hard copies will not be provided to the Board at this time, but can be provided at a later time, as needed. Notice of this filing and the effect thereof will be served by mail upon the clerk of the Board of Chosen Freeholders and County Executive Officers of those counties in the Company's service territory, as well as upon the clerks of the respective municipalities within the Company's service territory. Such notice will be given at least 20 days prior to the date set for the initial public 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.

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

49. 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.

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

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

b. To recover increased costs, not previously recovered in rates.

c. To provide the Company with an opportunity to earn a reasonable return on its net investment.

d. To establish rates which will be sufficient to enable the Company, under efficient and economical operation, to maintain and support its financial integrity and to raise such funds as may be necessary for the proper discharge of its public duties.

e. To provide earnings sufficient to attract investors and provide sufficient cash flow to fund the Company's operations.

f. To enable the Company to continue to provide safe, adequate and proper service to its customers.

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

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

a. that the proposed rates submitted with this Petition are just and reasonable and should be made effective;

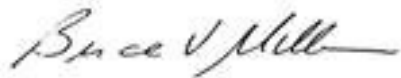
b. that the proposed tariff revisions requested herein and herewith are necessary and reasonable; and

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

Respectfully submitted,

CULLEN AND DYKMAN

Attorneys for New Jersey-American Water
Company, Inc.

By: 

Bruce V. Miller

DATED: January 14, 2022

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

Bruce V. Miller
Cullen and Dykman LLP
The Legal Center
One Riverfront Plaza
Newark, New Jersey 07102
(516) 296-9133
bmiller@cullenllp.com

Sarmili Saha
Cullen and Dykman LLP
The Legal Center
One Riverfront Plaza
Newark, New Jersey 07102
(518) 788-9404
Ssaha@cullenllp.com

Debbie C. Albrecht
Vice President, General Counsel
New Jersey-American Water Company, Inc.
1 Water Street
Camden, New Jersey 08102
(856) 955-4135
debbie.albrecht@amwater.com

Christopher M. Arfaa
Director, Corporate Counsel
American Water Works Service Company, Inc.
1 Water Street
Camden, New Jersey 08102
(856) 955-4116
chris.arfaa@amwater.com


John S. Tomac
Senior Director, Rates & Regulatory
American Water Works Service Company, Inc.
1 Water Street
Camden, New Jersey 08102
(856) 955-4876
john.tomac@amwater.com

VERIFICATION

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

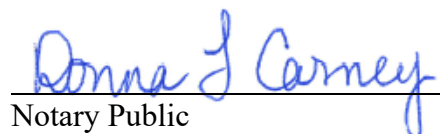
1. I am the Senior Director, Rates and Regulatory, of New Jersey-American Water Company, Inc., and am authorized to make this Verification on behalf of this company.

2. I have read the contents of the foregoing Petition and hereby verify that the statements therein contained are true and accurate to the best of my knowledge and belief.



John S. Tomac
Senior Director, Rates and Regulatory

Sworn to and subscribed before
me this 14th day of January, 2022



Notary Public



Donna Carney
Notary Public
State of New Jersey
My Commission Expires May 24, 2023