BEFORE THE
STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF
NEW JERSEY-AMERICAN WATER COMPANY, INC.
FOR APPROVAL OF INCREASED TARIFF RATES AND
CHARGES FOR WATER AND WASTEWATER SERVICE, AND
OTHER TARIFF MODIFICATIONS

BPU Docket No. WR2201____

Direct Testimony of

JAMIE D. HAWN

January 14, 2022

Exhibit P-7

NEW JERSEY-AMERICAN WATER COMPANY, INC.

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NEW JERSEY-AMERICAN WATER COMPANY, INC.

1. Q. Please state your name and business address.

A. My name is Jamie D. Hawn, and my business address is 1 Water Street, Camden, New Jersey 08102.

2. Q. By whom are you employed and in what capacity?

A. I am employed by American Water Works Service Company, Inc. ("Service Company") as Senior Manager of Rates and Regulatory for New Jersey-American Water Company, Inc. ("NJAWC," "New Jersey-American Water" or the "Company").

3. Q. What are your responsibilities in this position?

A. My responsibilities as Senior Manager of Rates and Regulatory include: 1) leading rates and regulatory activity for the Company, including coordinating with finance, engineering, and legal; 2) supporting the Company in regulatory proceedings, such as rate change applications; 3) preparing rate analyses and studies to evaluate the effect of proposed rates on the revenues, rate of return, and tariff structures; 4) executing the implementation of rate orders, including development of the revised tariff pricing necessary to produce the authorized revenue level; 5) overseeing the preparation of revenue and capital requirements analyses; 6) providing support for financial analyses, including preparing applicable regulatory commission filings; and 7) ensuring compliance with Generally Accepted Accounting Principles ("GAAP"), regulatory requirements, and Company policies.

4. Q. Please describe your educational background and business experience.

A. Please refer to Appendix A for a summary of my educational background and business experience.

5. Q. Have you previously testified in regulatory proceedings?

A. Yes. I have testified before the New Jersey Board of Public Utilities ("BPU" or the "Board") in NJAWC's previous rate case, BPU Docket No. WR19121516. I also testified in BPU Docket Nos. WR19110465 and WR20110719 regarding NJAWC's Purchased Water Adjustment Clause ("PWAC") and the Purchased Wastewater Treatment Adjustment Clause ("PSTAC"). I have also testified before the regulatory commissions in New York, Pennsylvania and West Virginia.

6. Q. What is the purpose of your testimony in this proceeding?

A. I will support the Company's request for recovery of expenses in this proceeding, as well as the Company's pro forma adjustments for the following items: 1) Operations and Maintenance ("O&M") expenses; 2) Taxes other than Income; and 3) Income Taxes. I will also discuss the Company's regulatory asset for its incremental costs associated with the COVID-19 public health emergency as well as the Company's proposed tariff modifications, including the Uncollectible Adjustment Clause ("UAC").

7. Q. Do you sponsor any schedules in your Direct Testimony?

A. Yes. I sponsor the Schedules listed below, which were prepared by me or under my supervision and direction. These Schedules support the Company's calculation of expenses:

- Schedule 6 Statement of Operating and Maintenance Expenses
- Schedule 7 Uncollectible Expense
- Schedule 10 Statement of Taxes Other than Income Taxes
- Schedule 11 Gross Receipts and Franchise Tax
- Schedule 12 Utility Assessments
- Schedule 13 Water Monitoring Tax
- Schedule 14 Federal Income Tax Calculation
- Schedule 18 Schedule of Payments to Affiliated Companies

I. OPERATION AND MAINTENANCE EXPENSES

8. Q. What is the Company's overall O&M expense, which it seeks to recover through this proceeding?

A. The Company is seeking recovery of approximately $230.1 million in O&M expense. Although this represents an increase over the level of O&M expense requested in the Company's last base rate case, Mr. Tomac explains that New Jersey-American Water's O&M per customer expense (excluding purchased water and wastewater costs) of $320 has increased 4.23% over the average per customer cost of $307 for the period 2010 through 2020. This compares favorably to inflation which has increased 15.78% over the same period.

9. Q. What is the Company's test year period in this proceeding?

A. The Company's test year period is the twelve months ending June 30, 2022 (the "Test Year"). As Mr. Tomac explains in his Direct Testimony, this filing is based on five months of actual financial data, for the period July 1, 2021 through November 30, 2021, and seven months of projected financial data for the period December 1, 2021 through June 30, 2022. Test Year data was used to calculate the adjustments proposed in Exhibit P-2, Schedule 6. The Company will update its filing to reflect actual data when the information becomes available.

10. Q. What is the Company's proposed post-test year period for O&M expense adjustments?

A. Consistent with Board precedent in *Elizabethtown*,[1] the Company is proposing certain known and measurable expense adjustments through March 31, 2023 (*i.e.*, nine months after the end of the Test Year (the "Post-Test Year")).

11. Q. How did the Company formulate its pro forma adjustments to expenses?

A. Depending on the expense, the Company used either actual expense from the twelve-month period ended June 30, 2021, and annualized such expenses for known operating conditions, or a three-year average of the expense. Since certain expenses can vary annually, the Company used a three-year average using the twelve months ended June 30, 2019, June 30, 2020, and June 30, 2021 ("June Three Year Average") for pro forma adjustments to normalize these annual variances. For certain other expenses particularly impacted by COVID-19 (*e.g.,* vacancy rate,

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[1] Final Order, *Re Elizabethtown Water Company*, BPU Docket No. WR8504330 (May 23, 1985).

uncollectible expense) as discussed in greater detail below, a three-year average using the twelve months ended December 31, 2017, December 31, 2018 and December 31, 2019 (the "December Three Year Average") was used to exclude the effects of COVID-19. Additionally, for certain other expenses, the Company made adjustments for known and measurable conditions and/or applied an inflation factor based on the Consumer Price Index Urban ("CPI-U"). All adjustments are detailed on the Schedules addressed above in Exhibit P-2, filed as part of this case.

12. Q. Please explain why a different three-year average was used for certain expenses particularly impacted by COVID-19.

A. The Company used a different three-year average to exclude the impacts of COVID-19 on certain items, such as the vacancy rate and uncollectible expense. Specifically, the 2020 period was excluded because in March 2020, the Company voluntarily implemented a number of measures aimed at assisting customers during the COVID-19 public health emergency, including, but not limited to, suspending service disconnections for non-payment and suspending late fees and interest penalties on past-due accounts.[2] Due to the moratorium, arrearages started to increase, causing uncollectible expense to spike as customers were experiencing financial hardships. Accordingly, the Company's uncollectible expenses in 2020 were higher than historical averages.

The Company's 2020 vacancy rate was also higher than historical averages

[2] The Company elected to implement these protective measures prior to Governor Murphy's issuance of executive orders mandating a moratorium on utility shutoffs, late fees and reconnection fees. *See* Executive Order No. 190 (Mar. 9, 2020); Executive Order No. 246 (June 30, 2021).

with businesses and employees adapting to the work from home mandates and, as a result, hiring activities were temporarily suspended. Thus, the Company's use of the December Three Year Average using pre-COVID-19 years is a reasonable approach to developing pro forma expense for uncollectibles and for the calculation of the vacancy rates used to compute compensation expense.

13. Q. Did the Company make any pro forma adjustments to expenses that reflect the proposed acquisitions of new water and wastewater systems?

A. Yes. As discussed in the testimony of Company Witness John S. Tomac, the Company is proposing as part of this rate case the acquisition of Egg Harbor City's ("EHC") water and wastewater systems as well as the wastewater system of the Borough of Bound Brook ("BB"). The Company expects to close on both of these acquisitions before new rates go into effect.

Accordingly, since the EHC water and wastewater systems and BB wastewater system will be included in future expenses, an adjustment was made for pro forma purposes which is identified on the workpapers associated with the relevant O&M expenses. The additional expense was determined by dividing the pro forma expense by the current number of New Jersey customers, excluding the EHC and BB customers, to determine a per customer cost. This per customer amount was then multiplied by the current customer count for EHC and BB to account for the additional expense amounts for the respective line items.

Production Costs

14. Q. Please explain which of the Company's operating expenses are considered "Production Costs".

A. Production Costs include purchased water, power, chemicals, and waste disposal. Production Costs vary depending on the amount of water purchased or produced by the Company's treatment plants (*i.e.,* system delivery or water obtained), and delivered to NJAWC's network of water mains. NJAWC's proposed Production Costs are reflected in Exhibit P-2, Schedule 6, lines 2 – 5.

15. Q. Please explain the system delivery impact on Production Costs.

A. System delivery is the amount of treated water that the Company's treatment plants produce and is delivered to NJAWC's network of water mains. Water sales as well as other factors impact the amount of water delivered and therefore the amount of water that needs to be purchased or produced by the plants. This directly impacts the expenses associated with treating and distributing that water. Accordingly, the Company's power, chemical, and waste disposal costs were adjusted to reflect the same level of water sales used in its pro forma revenue adjustments. Thus, if pro forma system delivery is adjusted, either up or down, during this proceeding, the pro forma expense will be adjusted accordingly. Company witness Charles B. Rea supports the Company's pro forma revenue adjustments, among other items in his Direct Testimony.

16. Q. How did the Company prepare the pro forma expense for Production Costs?

A. For purchased water, which includes only water diversion fees (as discussed below), the Company used the June Three-Year Average to establish the pro forma expense. For power, chemicals and waste disposal expenses, the Company annualized actual expenses for the twelve-month period ended June 30, 2021, to account for changes in contract pricing, tariff increases, or Company experience based on the June Three-Year Average to develop the pro forma expense. To calculate the Company's expense, a cost per thousand gallons of water was established and applied to the pro forma system delivery to arrive at the total pro forma power, chemical and waste disposal expense.

17. Q. Please describe the types of expenses that are included in Purchased Water costs as shown on Exhibit P-2, Schedule 6, line 2.

A. The costs in this line item include: 1) the water purchased by the Company from third parties; and 2) the Company's expenses for water diversion fees. In this case as well as other previous base rate cases, the Company has excluded all third party purchased water costs as these costs are recovered through the PWAC. The Company has removed these costs since 2007 per Order dated April 2, 2007, in BPU Docket No. WR06030257, which required that all purchased water costs be removed from base rates and recovered through the PWAC. The pro forma expense reflected in Exhibit P-2, Schedule 6, line 2 represents the pro forma expense related only to NJAWC's water diversion fees, which are levied by the State of New Jersey for processing, monitoring, administering and enforcing the water supply allocation program. They also include Delaware River Basin Authority diversion permit fees for water withdrawal. The water diversion fees expense proposed in this case is based on the June Three-Year Average.

18. Q. Please explain the components of purchased power costs.

A. The purchased power costs category includes electricity, natural gas, and diesel expenses (collectively, "Power"), purchased for treating, pumping, and delivering water through over 500 of NJAWC's production and distribution facilities, as well as the collection and treatment of wastewater. The Company contracts with third party suppliers for its electric and gas supplies. The Company's current contract vendor for electric supply is Constellation Power. The delivery of the electric supply contracted with Constellation Power is provided by each facility's local distribution company ("LDC"). Power expense also includes annual costs associated with the Zero Emission Certificate ("ZEC") program, which became effective in April 2019 to maintain the State's carbon-free nuclear fleet.

Gas supply contracts remain with Direct Energy. Gas delivery is provided locally by Elizabethtown Gas Company, New Jersey Natural Gas Company, Public Service Electric and Gas, and South Jersey Gas Company.

19. Q. Please explain the Company's adjustments to power expense.

A. The Company made several adjustments to power expense. The Company annualized the Test Year rates and pricing for certain suppliers and LDCs.[3] Additionally, the Company made two reductions to the pro forma power expenses. The first reduction reflects credits that the Company expects to receive from the New Jersey Clean Energy Program for demonstrating efficient energy usage. The credit adjustment is based on the Company's June Three-Year Average. The second reduction reflects rebates from NRG Curtailment Solutions which manages our participation in the demand response market. The Company will receive rebates in exchange for reducing load during peak times. The proposed credits in this petition are also based on a June Three-Year Average. Total credits and rebates reflected in this case total $496,186.

20. Q. Please explain how the pro forma chemical expense was calculated.

A. Pro forma chemical expense was calculated by modifying the June Three-Year Average usage level for current production methods (*e.g.*, the addition or elimination of certain chemicals) and multiplying the usage levels by the price of the relevant chemicals. The chemical prices are based on the contracted prices for 2022, then increased for the three-year average trend analysis (based on calendar

[3] The Company made the following adjustments to its pro forma expense for Production Costs to reflect tariff increases: 1) 3.6% due to Atlantic City Electric Company rate increase approved in July 2021 in BPU Docket No. ER20120746; 2) 17% due to Jersey Central Power & Light's rate increase approved in April 2021 in BPU Docket ER20020146; 3) 11.4% due to New Jersey Natural Gas Company's rate increase approved in November 2021 in BPU Docket GR21030679; 4) 7.7% due to Rockland Electric Company's rate increase approved in December 2021 in BPU Docket No. ER21050823; and 5) 3% due to South Jersey Gas Company's rate increase approved in September 2020 in BPU Docket No. GR20030243.

years 2020, 2021 and 2022) of annual price changes to bring the 2022 prices to March 2023 levels. The Company will update chemical prices at the time of the 9&3 and 12&0 updates to reflect the latest known prices.

21. Q. What are the major exceptions to using the June Three-Year Average quantity for this calculation?

A. A major exception to using the June Three-Year Average would be a change in the type of chemicals used at a particular location. Several changes involve adjustments to quantities based on current usage trends and the switching and discontinuance of various chemicals. In many instances, these chemical changes are driven by changes in water quality regulations and source water quality. Due to increased water quality regulations, which include new and revised limits for both raw and finished water, and for emerging compounds, the pro forma expense reflects such changes in the use of chemicals. Please see the Direct Testimony of Company witness Donald Shields for further discussion on this matter.

22. Q. What are the different types of waste disposal costs?

A. Waste disposal expense includes the costs related to the processing and disposal of sludge, solids and residuals at the Company's water and wastewater treatment plants, as well as hauling, permitting, and sampling expenses in its water and wastewater operations. Additionally, waste disposal includes charges from municipalities and authorities for the treatment and release of waste from the Company's collection system sent to their treatment plants. However, waste disposal costs for wastewater associated with Ocean City Sewer, Lakewood Sewer and Adelphia Sewer are recovered by the Company through its PSTAC and thus, are not included in pro forma expenses.

23. Q. Please explain the costs for waste disposal related to water operations.

A. The Company's waste disposal expense is based on different methods for processing water treatment waste at various sites: 1) de-watering and pressing, blending, and hauled offsite; 2) storing sludge for future transportation to a local facility; 3) discharging residuals directly into the local sewer system; 4) wet hauling; and 5) de-watering and pressing, blending, and sold as residential topsoil. Additionally, basin or lagoon sludge removal takes place approximately annually or every fall and spring depending on the residual build-up. All these various methods are contracted to third parties. Waste disposal expense is based on the volume of tons or gallons removed and hauled to a disposal site.

In NJAWC's Central Operations, certain location residuals are de-watered and pressed but instead of being hauled to a landfill for disposal, they are combined with subsoil in a 50/50 ratio by a vendor and sold as residential topsoil (known as "beneficial reuse"). This is an environmentally-friendly process producing beneficial reuse which provides an alternative for the Company to dispose of the residuals and reduces costs for customers.

24. Q. Please explain the costs for waste disposal related to the Company's wastewater operations.

A. The wastewater waste disposal expenses are for handling and disposing, including hauling and permitting in the statewide sewer operation, the Pottersville operation, and the Elk Township operation. Additionally, there are also charges for dumpster hauling at the Hawk Point, Homestead, Morris Chase and Beacon Hill locations.

Compensation and Compensation-Related Expense

25. Q. Please describe total compensation expense at New Jersey-American Water.

A. NJAWC's compensation and compensation-related expenses are for employees who support the operations of NJAWC exclusively. Compensation expense is based on the number of full- and part-time employees, which translates into a number that equates to full-time equivalent employees ("FTEs"). There are three classifications of NJAWC employees: union hourly employees, non-union hourly employees, and exempt employees. Union and non-union hourly employees receive base pay and overtime pay (and in some cases, shift premiums and meals), and are eligible for performance pay. Exempt employees receive base pay and are eligible for performance pay. Compensation and compensation-related costs include:

i. Salaries and Wages
   a. Base Pay
   b. Overtime
   c. Shift Premiums and Meals
   d. Performance Pay
ii. Payroll Taxes
iii. Pension
iv. Group Insurance and Other Post-Retirement Employee Benefits ("OPEBs")

v. Other Benefits, including:

a. 401k
b. Defined Contribution Plan ("DCP")
c. Retiree Medical
d. Employee Stock Purchase Plan ("ESPP")
e. Miscellaneous

NJAWC's proposed compensation and compensation-related pro forma expense is reflected in Exhibit P-2, Schedule 6, lines 6 - 9.

26. Q. Please describe the overall approach to calculating compensation and compensation related expenses.

A. As discussed by Company Witness Shroba, the Company has identified 898.9 FTEs as the appropriate staffing level for the Company to continue to provide safe and reliable service to NJAWC's customers. The Company recognizes, however, that it may not have all positions filled at all times due to employee turnover that the Company experiences in the normal course of business. Thus, for purposes of this filing, the Company has reduced its compensation expense by applying a vacancy rate of 3.7% which reduces the number of FTEs by 33.3. The vacancy rate was calculated using the December Three-Year Average which was used to exclude the impacts from COVID-19, as discussed above. At this time, the gross amount for each of the compensation components was calculated using 898.9 as the FTE count. From that, the Company aggregated the compensation amounts and made two adjustments. The first adjustment was to reduce overall compensation by the vacancy rate of 3.7%, as mentioned above. The second adjustment was to deduct the portion of gross compensation charged to capital with the ratio of 45.24%, as set forth in Table 1 below.

27. Q. Please describe how the capitalization ratios in Table 1 were calculated.

A. The Company calculated a capitalization rate for each category of compensation and compensation-related expenses based on the same methodology from the Company's last rate case. To calculate the capitalization ratios by expense category, the Company used three years of actual capital costs divided by the associated gross costs for the June Three-Year Average period. The resulting capital ratios used in this filing are provided in Table 1 below:

Table 1: Capitalization Ratios

Expense Category	Workpaper Reference	3-Yr Average Capital Ratio
Compensation	Schedule 6-6	45.24%
Pension	Schedule 6-7	45.55%
Group Insurance	Schedule 6-8	42.79%
Other Post-Retirement Employee Benefits (OPEB)	Schedule 6-8	51.83%
401K	Schedule 6-9	44.13%
Defined Contribution Plan (DCP)	Schedule 6-9	41.00%
Retiree Healthcare (VEBA)	Schedule 6-9	35.98%
Transportation	Schedule 6-12	46.76%
Workers Compensation	Schedule 6-16	45.11%

28. Q. Please describe how the various components of pro forma Salaries and Wages were calculated.

A. Salaries and Wages expense is composed of four components: 1) base pay; 2) overtime expense; 3) shift premiums and meal compensation required by union contract; and 4) short- and long-term performance pay for eligible employees. Each component is discussed in greater detail below.

Base Pay is the cost related to regular time hours for all employees. To calculate base pay and consistent with the Company's approach in its last rate case, the Post-Test Year hourly rate was multiplied by 1) 2,088 regular hours for all non-union and union hourly employee groups; and 2) 2,080 for all non-union exempt employee groups. For union employees, the Post-Test Year hourly rate was based on the collective bargaining agreement wage rates and effective dates through the end of the Post-Test Year multiplied by 2,088 hours to establish an annual compensation expense by position. For non-union hourly and exempt employees, the Company for pro forma purposes increased the actual 2021 hourly wage rate to account for the annual merit-based wage increase effective in March of each year.

Overtime represents the costs associated with non-regular time hours worked by the Company's hourly employees. Overtime was calculated using a June Three-Year Average of actual overtime hours multiplied by a Post-Test Year average pro forma wage rate.

Shift Premiums and Meals represents the shift differential paid to union employees and meals paid when a union employee works beyond their normal hours. To determine pro forma Shift Premiums and Meals expense, a June Three-Year Average of each was calculated.

Performance Pay represents the short- and long-term performance compensation for employees paid under the Company's Annual Performance Plan ("APP") for all employees, and Long-Term Performance Plan ("LTPP") paid for eligible employees, respectively. Performance pay was calculated on a position-by-position basis and was based on each position's target percent for both APP and LTPP. The target percent was multiplied by each eligible employee's Post-Test Year base pay to determine the APP and LTPP cost. Company Witnesses Shroba and Mustich support the performance pay program in their direct testimonies.

29. Q. Please describe the Company's request for payroll taxes.

A. NJAWC is seeking recovery for its payroll tax pro forma expense as reflected in Exhibit P-2, Schedule 10, line 4.

30. Q. What do Payroll Taxes represent?

A. Payroll taxes are directly associated with salaries and wages and represent the federal and state taxes imposed on the Company to be paid based on the employee's wages. Payroll taxes include the Federal Insurance Contributions Act, which is divided into two pieces: Old Age and Survivors & Disability Insurance (commonly known as "FICA"), and Hospital Insurance (commonly known as "FICA Medicare"). Payroll taxes must also be paid for Federal Unemployment Tax ("FUTA") and State Unemployment Tax ("SUTA").

31. Q. How was Payroll Tax expense calculated?

A. Each of the four taxes described above (*i.e.*, FICA, FICA Medicare, FUTA and SUTA) were calculated using the current tax rate. Additionally, the June

Three-Year Average increase for the FICA wage limit was applied to the 2021 FICA wage limit to estimate the pro forma FICA wage limit.

Payroll Taxes are applied to all components of salaries and wages. Base pay and performance pay are calculated by applying the tax rates on a position-by-position basis. Overtime, shift premiums and meals were calculated by applying the tax rates to the gross costs. This gross payroll tax expense was further reduced to account for the 3.7% vacancy rate. Finally, an adjustment was made to deduct the portion of payroll taxes charged to capital projects which is 45.24% (*i.e.*, the capitalization ratio).

32. Q. Please describe the Company's Pension expense.

A. Certain Company employees are eligible for a defined benefit plan/pension benefits upon their retirement. This includes non-union employees hired before January 1, 2006, and union employees hired before January 1, 2001.

NJAWC's resulting annual pension expense has two components. The first component is the annual pension cost recognition. NJAWC records pension expense according to Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 715 or "ASC 715" (formerly Statement of Financial Standards 106). This results in a certain amount of annual cost which is accrued throughout the year. The Company used the 2021 ASC 715 amounts, as provided by Towers Watson, as the basis for the service and non-service costs for pension expense in this application. The service cost portion was reduced by the June Three-Year Average capital ratio of 45.55%.

The second component of pension expense relates to the amortization of a deferred pension asset due to the conversion from contribution accounting (often called "ERISA" accounting) to accrual accounting (formerly FAS 87 accounting). This portion of pension expense continues to be amortized at the levels authorized in BPU Docket No. WR17090985, which are set to expire in 2024.

33. Q. What costs are included in Group Insurance expense as shown on Schedule 6?

A. The costs on this line include both Group Insurance and OPEB expenses.

34. Q. What does Group Insurance expense represent?

A. Group Insurance represents the Company's costs for providing employees with health, dental and vision coverage, as well as basic life, short- and long-term disability, and accidental death and dismemberment insurances. The Company's cost for health, dental, and vision plans are partially offset by employee contributions. The costs and contributions vary by plan type.

35. Q. How did you calculate the Company's Group Insurance expense?

A. The Company calculated Group Insurance expense on a position-by-position basis, according to actual employee plan selections, current plan costs and employee contributions, resulting in a gross cost. To bring the Group Insurance plan costs to the March 2023 level, a three-year average trend analysis (based on calendar years 2020, 2021 and 2022) of the changes in the annual plan costs was applied to the 2022 prices. The gross pro forma Group Insurance expense was then reduced for the 3.7% level of vacancy and the portion of Group Insurance charged to capital (*i.e.*, 42.79%).

36. Q. What does OPEB expense represent?

A. OPEB expense represents the accrual cost recognized under ASC 715. Depending on an employee's start date, certain New Jersey-American Water employees are eligible for OPEB upon their retirement. This includes non-union employees hired before January 1, 2006, and union employees hired before January 1, 2001.

37. Q. How did the Company calculate OPEB expense?

A. OPEB expense is based on the Company's 2021 ASC 715 service and non-service cost amounts, provided by Towers Watson. A 51.83% adjustment was made to the service cost component to remove the portion of OPEB expense that will be charged to capital.

38. Q. Please describe the components of Other Benefits expense and how each was calculated.

A. Other Benefits expense includes programs such as 401k, DCP, Retiree Medical, ESPP and Miscellaneous Benefits. These costs, except for Miscellaneous Benefits were calculated on a position-by-position basis. The calculations are described below.

<u>401k</u> - New Jersey-American Water incurs 401k expense when it matches employee contributions to 401k retirement accounts. For union employees hired before January 1, 2001, and non-union employees hired before January 1, 2006, the Company matches 50% of the first 5% of the employee's contribution (for a maximum match of 2.5%). For the remaining employees, there are two other plans: 1) the Company matches 100% of the first 3% and 50% of the next 2% of the

employee's contribution (for a maximum match of 4%); or 2) the Company matches 60% of the first 6% of the employee's contribution (for a maximum match of 3.60%). To compute the gross pro forma 401k costs, the base pay for each participating employee was multiplied by such employee's current match election for their eligible plan. The Company then adjusted the gross pro forma 401k costs by applying a reduction for vacancy level of 3.7% and the 44.13% attributed to capital.

DCP - The DCP is a Company-funded retirement savings program for employees not eligible for the defined benefit pension program. Under the DCP program, the Company contributes 5.25% of an employee's Base Pay into a retirement account. DCP expense was calculated on a position-by-position basis. To calculate the DCP expense, the Company multiplied 5.25% by the employee's pro forma Base Pay. The Company then made two adjustments to account for the 3.7% vacancy level and the 41.00% attributed to capital.

Retiree Medical - Union employees who are not eligible for OPEBs are entitled to Company-provided retiree medical benefits. The Company contributes \$600 a year per eligible employee to a retiree plan funded through a trust referred to as the Voluntary Employee Benefits Association ("VEBA"). The Company multiplies its current VEBA-eligible number of employees by \$600. Next, the Company applies a 3.7% vacancy level and a deduction of 35.98% to eliminate the portion of VEBA charged to capital.

ESPP - ESPP expense is the Company-funded 15% discount of American Water stock purchases made through payroll deductions by enrolled employees. The pro forma expense was calculated by multiplying each employee's pro forma base pay by their individual contribution amount and applying the 15% Company discount.

Miscellaneous Benefits - Miscellaneous benefits refer to various benefits offered to employees such as tuition aid, safety awards and training. Pro forma Miscellaneous Benefits were calculated using a June Three-Year Average.

Service Company

39. Q. What services does NJAWC obtain from the Service Company?

A. The services provided by the Service Company include, among others, customer service, water quality testing, innovation and environmental stewardship, human resources, communications, information technology and cyber security, finance, accounting, payroll, tax, legal, engineering, accounts payable, supply chain, and risk management service (collectively, the "Support Services"). The Service Company operates customer service centers in Alton, Illinois and Pensacola, Florida that handle customer calls, billing, collection activities for NJAWC and its public utility affiliates, customer inquiries and correspondence, and service order requests, as well as two Field Resource Coordination Centers responsible for tracking and dispatching service orders for our field representatives and distribution crews and a central laboratory located in Belleville, Illinois.

40. Q. How are Support Services charged to NJAWC?

A. Support Services are charged to NJAWC in two ways: 1) directly to NJAWC at 100% of the cost; or 2) a percentage allocation based on factors such as a per customer allocation across the American Water regulated subsidiaries. Company Witness Patrick Baryenbruch's testimony contains an analysis which demonstrates the reasonableness of the Service Company costs.

41. Q. How were the Support Services calculated for the Post-Test Year?

A. NJAWC's proposed Support Services pro forma expense is reflected in Exhibit P-2, Schedule 6, line 10 which incorporates the annualization of Test-Year expenses as well as known and measurable changes through the Post-Test Year. For example, the Alton, Illinois service center will close in July of 2022 when the building lease expires, and the savings associated with closing that facility are incorporated in the Service Company expense in this case.[4] Another example includes adjustments to the compensation and related expense portion of Support Services. The Company annualized a base pay increase effective March of each year, then the three-year average merit increase (based on 2019, 2020 and 2021) of 2.88% was applied to non-union employees. For union employees, the actual contract rate increases were applied to derive the pro forma compensation and related expense levels. Lastly, the Company removed certain expenses or one-time costs from its requested pro forma expense, including but not limited to charitable contributions, injuries and damages, and penalties.

[4] All employees that operate from the Alton facility will continue to work remotely or at another Company location while performing the same functions as they do today

Rental Expense

42. Q. Please explain NJAWC's rent expense.

A. Rental expense includes rental fees for property, equipment, and other rental costs. Pro forma rental expense contains adjustments for new and terminated leases, as well as known and measurable increases to existing lease contracts. NJAWC's proposed rental pro forma expense is reflected in Exhibit P-2, Schedule 6 – line 11.

43. Q. How was the pro forma rental expense developed?

A. Each rent expense was categorized as property, equipment, or miscellaneous. Through a review of leases/contracts for pricing changes, expiration, or new items, rental charges were analyzed to determine if such costs qualified for the FASB issued Accounting Standards Update 2016-02 – Leases (Topic 842) ("ASC 842") or a non-right-of-use asset. This information was used to develop pro forma expense by category and vendor.

44. Q. Please explain the accounting changes applicable to lease expense.

A. In 2016, FASB issued ASC 842, with an effective date in 2019. FASB issued this update to increase transparency and comparability among entities by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASC 842, leases are accounted for based on the FASB's "right of use model." This model reasons that a lessee has a financial obligation to make lease payments to the lessor for its right to use the underlying asset during the lease term. Lessees are required to classify leases as either operating or financing.

45. Q. What impact does ASC 842 have on the pro forma rental expense?

A. The income statement presentation and expense recognition pattern, for leases that qualify as an operating lease under the standard, is such that a single lease cost is typically recognized on a straight-line basis.

46. Q. Please identify leases in the pro forma expense that qualify as an operating lease under ASC 842.

A. The Nero Equipment Co., Inc. property lease qualifies as an operating lease under ASC 842. Pro forma costs were derived from a single lease cost recognized on a straight-line basis. The Canon Solutions, Quadient Leasing USA, Airgas, and Linde LLC equipment leases qualify as operating leases under ASC 842. Pro forma costs were also derived from a single lease cost recognized on a straight-line basis.

47. Q. Are there any other material adjustments you wish to explain?

A. Yes. The Company intends to improve existing property, which is planned to occur by November 2022, that will eliminate the Tinton Industrial Park LLC lease. Additionally, the Company has begun construction to build a facility for its Southwest Operations, which is planned to be complete by the end of 2022 and will eliminate the VCC Oak Avenue lease. These leases have been removed from the pro forma Rent Expense.

<u>Transportation</u>

48. Q. Please explain the computation of the Company's pro forma transportation expense.

A. Transportation expense includes the costs associated with operating the Company's fleet. Transportation costs include titling, registration, and fleet administration service fees, as well as the fuel, maintenance and repairs for the fleet. For pro forma adjustment purposes, a portion of transportation expense was capitalized based on a capital ratio of 46.76%. NJAWC's proposed transportation pro forma expense is reflected in Exhibit P-2, Schedule 6 - line 12, column 10.

49. Q. Was there a pro forma adjustment that specifically relates to the cost of gasoline used to operate the fleet?

A. Yes. The Company proposes an increase for the cost of gasoline due to information obtained from the Energy Information Administration, which contains the official energy statistics of the U.S. Government.[5] The Company used the East Coast (PADD 1) for the Weekly East Coast All Grades All Formulations Retail Gasoline Prices (dollar per gallon) as of November 29, 2021 over the average annual price for the twelve months ended June 30, 2021 to obtain an increase of $0.937 per gallon, or 37.70%.

50. Q. How was the fleet maintenance expense calculated for pro forma purposes?

A. Pro forma maintenance expense is based on the June Three-Year Average of maintenance expense.

[5] *See* https://www.eia.gov/petroleum/gasdiesel/

Uncollectible Expense and Customer Accounting

51. Q. How was the Company's pro forma adjustment to uncollectible expense calculated?

A. NJAWC seeks recovery for its uncollectible pro forma expense as reflected in Exhibit P-2, Schedule 6, line 13. The pro forma uncollectible expense was developed using the December Three-Year Average of net write-offs to billed water and sewer revenues. The December Three-Year Average is 0.41%, which is a reduction from 0.43% used in the Company's last base rate case. The December Three-Year Average is applied to total proposed rate revenues to obtain the full amount of Post-Test Year pro forma uncollectible expense. The December Three-Year Average is used to nullify the effect of the COVID-19 pandemic on the most recent uncollectible data as discussed above. The calculation for this adjustment can be found in Exhibit P-2, Schedule 7.

52. Q. Please describe the types of costs included in customer accounting expenses.

A. Customer accounting expense collectively includes items related to customer invoice mailings, bill inserts, collection notices, third party collection agency fees, lock box fees for payment collection, mailing of water quality reports, etc. NJAWC is seeking recovery for its Customer Accounting pro forma expense as reflected in Exhibit P-2, Schedule 6 - line 14.

53. Q. How did the Company calculate its pro forma adjustment to Customer Accounting expense?

A. To calculate the expense adjustment, except for postage and forms as discussed below, the Company utilized the actual expense for the twelve-month period ended June 30, 2021, then inflated it by the CPI of 3.0% which represents inflation through June 30, 2022, and then again by inflation of 2.25% representing nine months of inflation (3.0% CPI/12*9) through March of 2023.

54. Q. Please explain why the application of inflation is appropriate for the Customer Accounting expense (excluding postage and forms) pro forma adjustment.

A. The categories of expenses, such as shipping/delivery services, included in these accounts are included in the consumer price index of services for urban consumers which has reflected an increase over the actual expenses. Therefore, the Company believes it to be appropriate to annualize an increase for the Test Year and additionally apply the CPI in the Post-Test Year.

55. Q. How was the Company's pro forma adjustment to postage expense calculated?

A. Postage is measured by the amount of presorted and non-presorted mail that is tracked as it runs through the postage meter each day. The quantities of each category of mailing (dunning and correspondence was based on the calendar 2019 to remove any impacts associated with the moratorium) were multiplied by the unit price for that category. No prospective change was made for future rates to be charged by the U.S. Postal Service since no rate increases have been formally announced. In the event the Postal Rate Commission increases rates, the Company will update accordingly. Additionally, the Company adjusted the pro forma expense to reflect customer growth through the Post-Test Year.

56. Q. How does the Company derive the expense for bill forms?

A. The expense for bill forms is based on the invoices received from the vendor, Transcentra, Inc., based on the percentage of printed materials shipped to addresses within the same state.

57. Q. Is the Company including credit card fees as a cost in this application?

A. Yes. Currently, customers making payments using a credit card, pre-paid debit card or a one-time e-check, pay $1.95 per transaction. The Company has a contracted rate with a third-party vendor for processing the transactions, which the vendor bills directly to the customer. NJAWC is proposing to provide a no-fee option to customers who make a payment using these methods. Under this proposal, the Company would pay for the third-party vendor fees which would be recovered through the Company's base rates.

58. Q. Do other utility companies in New Jersey offer customers the option of paying with a credit card without a fee?

A. Utilities have taken a varied approach. Some, like NJAWC, use vendors that charge a fee and others offer customers the credit card payment option free of charge if the customer enrolls in automatic payment via credit card or for residential only customers.

59. Q. How does the Company's proposal benefit customers?

A. Providing customers with another payment option without a fee will ease the payment process for customers, incentivize paperless billing, and increase customer satisfaction. It also supports the Company's efforts to encourage customers to use online payment platforms. In addition to being a "green alternative" to submitting payments by mail, the Company anticipates that customer satisfaction will improve with this option.[6]

Regulatory Expense

60. Q. Please describe the Company's request for Regulatory Expense.

A. NJAWC is seeking recovery for its regulatory pro forma expense as reflected in Exhibit P-2, Schedule 6 - line 15. The detailed calculation for this adjustment can be found in the Company's workpaper, Schedule 6-15. The Company will update the estimate throughout this proceeding. Per Board precedent, one half of this expense is amortized over a 24-month period. In the Company's last base case, a 36-month period was used, and those costs will have approximately 12-months remaining when the current base case concludes. Therefore, the remaining regulatory costs associated from the Company's last base case are also included in this case. The remaining unamortized balances of these regulatory costs will also be amortized over a 24-month period. Additionally, the Company is continuing to amortize the expense associated with the 2019 BPU Management Audit Order issued in BPU Docket No. WA18080849, amortized over a 10-year or 120-month period, the expected interval between management audits.

[6] The 2022 J.D. Power & Associates Water Utility Residential Customer Satisfaction Study found that customers who were given the option of paying by credit card without a fee were more satisfied than those who are charged a credit card fee. The study typically recommends removing the fee to improve customer satisfaction and also suggests "Fee-Free Card Payment" options as a "Best Practice."

61. Q. What type of costs are included in regulatory expense?

A. Regulatory expense includes the costs associated with the Company's consultants, outside legal counsel, and other support associated with this proceeding. Additionally, customer communications, mailings, legal notices, administrative fees, and miscellaneous expenses associated with this application proceeding are also included in regulatory expense.

Insurance Other Than Group

62. Q. Please explain the Company's Insurance Other Than Group expense.

A. New Jersey-American Water incurs costs related to several types of insurance coverage, including Auto Liability, General Liability, Worker's Compensation and Property. The insurance costs are collectively known as Insurance Other Than Group ("IOTG"). The Company's General Liability, Auto Liability and Workers Compensation premiums are based upon the combination of loss experience (50%) and exposure (50% estimated annual revenue and payroll). Exposure for Auto Liability is based on estimated annual revenues, payroll, and the number of vehicles. Consistent with the underwriting practices of the commercial insurance market, the loss experience is based upon a five-year average of historical loss experience. A five-year average is used to normalize any anomalous years of claims experience.

Property insurance is based on the total insured asset values for New Jersey-American Water as a percentage of total American Water insured asset values. This is also consistent with commercial insurance market underwriting practices. Other insurances include the Company's directors/officer's liability policies, employed lawyers, pollution, consultation fee, executive risk, information technology policies, aviation of unmanned vehicles, aircraft hull, flood and environmental policies. NJAWC is seeking recovery for its IOTG pro forma expense as reflected in Exhibit P-2, Schedule 6 - line 16.

63. Q. Please explain how the Company quantified its IOTG expense.

A. The majority of the Company's IOTG policies renew annually. The Company has prepared the pro forma expense with the most recent premiums for the policies. For those policies that are scheduled to renew in 2022, the Company will update with the actual 2022 premiums as that information becomes available as part of our 9&3 and 12&0 updates.

64. Q. Have you made any other adjustments to compute pro forma expense for IOTG?

A. Yes. The Company made additional adjustments that reflect a 10% increase projected by the Company's broker based on the insurance program and property insurance markets to derive the Post-Test Year expense. Specifically, first, we increased the Property and Excess Liability premiums by 10% over the current premium to project anticipated 2022 premiums. As noted above, the Company will update with actual 2022 premium information throughout the Test Year. The projected 10% increase will also be applied to bring the expense to Post-Test Year levels. Second, we applied an adjustment to include the incremental costs associated with the Company's recent acquisitions (*i.e.*, EHC and BB). Finally, the

Workers Compensation premium was capitalized based on the June Three-Year Average capital ratio of 45.11% as set forth in Table 1 above.

Engineered Coating of Steel Structures

65. Q. Please explain the Company's Engineered Coating of Steel Structures expense.

A. The expense for engineered coating of steel structures reflects the normalized annual cost of coating the Company's numerous tanks and standpipes, as explained in Mr. Shields's testimony. The Company's steel and concrete structures store potable water for fire protection, peak demand equalization and emergency storage throughout the Company's system. As Mr. Shields explains, the Company has prioritized the tanks that require engineered coating. The Company's pro forma expense is based on planned tank rehabilitation projects at a total cost of $48.6 million, or $6.9 million each year over seven years. NJAWC seeks recovery for its Engineered Coating of Steel Structures pro forma expense as reflected in Exhibit P-2, Schedule 6 - line 17.

Property Sales

66. Q. Has the Company included in this case any gains from the sale of properties that will be shared with the customers?

A. Yes. The Company continues to amortize the recognized gains from its last base case of its former Voorhees location as per BPU Docket No. WM19070825. In accordance with the Order, the gain will be shared 50/50 between customers and the Company. Therefore, the Company proposes to amortize the remaining unamortized balance over a 24-month period to return to customers 50% of the gain. Additionally, the Company also sold a parcel at Aldrich Drive and Lake

Drive, which resulted in a gain of $74,723. The amount of $37,362 or 50% of the gain will be amortized over a 24-month period. NJAWC seeks to return the gain to customers as a reduction to operating expense as reflected on Exhibit P-2, Schedule 6 - line 18.

Other Operating Expense

67. Q. Please discuss Other Operating expenses.

A. Other Operating Expenses, which is a grouping of over 155 small accounts, consist of contracted services, building and maintenance supplies, telecommunication expenses, office supplies and services, advertising and marketing, employee-related expenses, miscellaneous, and maintenance expense. NJAWC seeks recovery for its Other Operating pro forma expense as reflected in Exhibit P-2, Schedule 6 – line 19.

68. Q. How did the Company calculate its pro forma adjustment to Other Operating Expenses?

A. For the majority of the Other Operating expenses, the Company utilized the June Three-Year Averages[7] minus expenses relating to advertising, charitable contributions, and community relations. Because these Other Operating expenses are both too small to individually forecast and are included in the CPI-U, the Company increased these expenses to reflect inflation by applying: 1) the CPI of

[7] Specifically, the Company used the June Three-Year Average for all Other Operating expenses except for: 1) three expenses related to Markout Contract Services and Software Licenses & Maintenance where the actual expense was determined to be more indictive of the future expenses than a three-year average; and 2) Low Income Program expense where the Company used actual expenses minus the Company's grant contributions to the H20 Help to Others Program which provides financial assistance to qualifying water and wastewater customers.

3.0% which represents inflation through June 30, 2022; and 2) an inflation factor of 2.25% to represent nine months of inflation through March 2023 (3.0%/12*9).

Property Tax Expense

69. Q. Please explain the Company's Property Tax expense.

A. Property Taxes are owed to the municipalities in which the Company owns real property and buildings. Property taxes are assessed annually and paid quarterly. These payments are recorded through the Company's balance sheet as pre-payments and amortized monthly to expense. NJAWC seeks recovery for its Property Tax pro forma expense as reflected in Exhibit P-2, Schedule 10 – line 3.

70. Q. Please describe how the pro forma adjustment to Property Tax expense was calculated.

A. The pro forma property tax expense was calculated by annualizing the August 2021 quarterly payment amount. The Company then applied a June Three-Year Average percentage of -0.25%, which was the year over year decrease in annual property tax expense to account for anticipated reductions for the Post-Test Year period. Additionally, adjustments were made to increase property taxes for property and land that is expected to be purchased, as well as for the new southwest operation center that is being constructed in Lawnside, New Jersey. Lastly, the Company decreased the pro forma expense to remove the property taxes for certain tax savings relating to appeals.

71. Q. Please explain the Company's revenue-based taxes.

A. The Company pays state and municipal Gross Receipts and Franchise Excise Taxes ("GRAFT") at a combined rate of approximately 14% on gross revenues, as well as general assessment fees for the BPU Staff and Division of Rate Counsel based on annual gross revenues. Additionally, the Company pays a water monitoring tax of $0.01 per thousand gallons for all its metered consumption less the amount sold for resale customers. NJAWC seeks recovery for its revenue-based pro forma expense as reflected in Exhibit P-2, Schedule 10 line 5 through line 7, and Schedules 11 through Schedule 13.

72. Q. Please explain the Company's request for Income Taxes.

A. Exhibit P-2, Schedule 14 calculates pro forma current and deferred income expenses under both present rates and proposed rates. Current Tax Expense is calculated as pro forma Operating Revenues less pro forma Tax Deductions. The tax deductions include a reduction for permanent, non-deductible items and an increase for tax depreciation over book depreciation. Deferred Tax Expense is equal to Tax Depreciation Over Book Depreciation times the statutory tax rate of 21%. Deferred Tax Expense was also adjusted for the following amortizations: excess deferred tax liabilities under the Reverse South Georgia method, excess deferred taxes associated with the Tax Cut and Jobs Act, deferred taxes associated with investment tax credits, and excess flow through of income tax regulatory assets.

II. COVID-19 REGULATORY ASSET

73. Q. Has the Board addressed the deferral of COVID-19 related costs for utilities?

A. Yes. On July 2, 2020, the Board issued its Order Authorizing Establishment of a Regulatory Asset for Incremental COVID-19 Related Expenses which, in relevant part, authorized each of the State's regulated utilities to create a COVID-19 related regulatory asset by deferring their prudently incurred incremental costs related to COVID-19. Pursuant to the Board's order issued on September 14, 2021, in Docket No. AO20060471, the regulatory asset period is currently set to expire on December 31, 2022.[8]

74. Q. Please summarize the Company's incremental costs due to the COVID-19 public health emergency.

A. Since March 2020, the Company has experienced increased costs attributable to COVID-19, including increased uncollectible expense, incremental O&M expenses and costs related to financing activity to ensure adequate liquidity during the public health emergency as discussed in greater detail below.

In addition, through a series of regulatory and legislative actions beginning on March 9, 2020,[9] a moratorium was enacted on service disconnections for unpaid bills.[10] Late fees were also waived for non-residential customers. As a result, the

[8] *See* Order, *In the Matter of the New Jersey Board of Public Utilities' Response to the COVID-19 Pandemic*, Docket No. AO20060471 (Sept. 14, 2021).
[9] *See* Executive Order No. 190 (Mar. 9, 2020).
[10] On June 14, 2021, Governor Murphy issued Executive Order 246 which declared that the moratorium will end as of June 30, 2021, subject to a "grace period" that will preclude utility service terminations through December 31, 2021.

Company experienced uncollected revenues due to the suspension of late fees as a result of the public health emergency.

Pursuant to the Board's order dated July 2, 2020 in Docket No. AO20060471, NJAWC has been submitting quarterly reports with the Board regarding its COVID-19 deferred costs.

75. Q. How does the Company propose to recover its deferred costs associated with the COVID-19 public health emergency?

A. The Company has deferred COVID-19 related costs of $14,825,245, net of savings as of November 30, 2021. The Company has projected costs through December 31, 2021 of $15,967,435 and seeks to recover this amount over a three-year period. The annual amortization amounts to $5,322,478 and will be updated with actuals through December 31, 2021. Please see the pro forma amortization as reflected in Exhibit P-2, Schedule 8, Line 5.

<u>Reconnection and Late Fees</u>

76. Q. Is it reasonable to allow the Company to recover uncollected late and reconnection fees?

A. Yes. If not for the moratorium on disconnections for non-payment and late fees, non-residential customers would have incurred late and reconnection fees under the Company's Board-approved tariff. The Company notes that late fee and reconnection fee revenues are a component of our current authorized revenue requirement and therefore not allowing recovery would require higher base rates and charges. The Company is only seeking to recover the late fees and reconnection fees not collected because of the COVID-19 moratorium which amount to $1,065,106 and $1,792, respectively, as of November 30, 2021.

Uncollectible Expense

77. Q. Please discuss the Company's increased uncollectible expense during COVID-19.

A. The Company has experienced an increase in uncollectible expense during COVID-19. Prior to COVID-19, uncollectible expense for the calendar years 2017 through 2019 averaged $2,109,782. As of November 30, 2021, the Company's deferred uncollectible expense is $11,898,071.

Direct Costs

78. Q. How has the Company determined the incremental expenses it has incurred due to COVID-19?

A. Specific tracking numbers were created to capture certain increased O&M expenses related to the public health emergency, such as facility preparedness, personal protective equipment, sanitizers, signage, rental equipment, enhanced cleaning in areas where positive COVID-19 cases have been confirmed, etc. This ensures that only incremental costs are included in the Company's deferral and that these costs are not reflected in the accounts used to establish new rates in this proceeding. These direct costs total[11] $1,971,786 as of November 30, 2021.

[11] Direct costs include both the NJAWC and Service Company costs that would have been charged to NJAWC.

The Company proposes to offset incremental expenses with the cost savings the Company experienced due to decreased travel and conference costs during COVID-19 which amount to $1,444,440 as of November 30, 2021.[12]

Liquidity Availability Costs

79. Q. Has the Company deferred any other costs relating to the COVID-19 public health emergency for which it seeks recovery as part of this proceeding?

A. Yes. On March 20, 2020, American Water Capital Corp. ("AWCC") entered into a $750,000,000 364-day term loan credit facility (the "Term Loan") and immediately executed a $500,000,000 draw to ensure adequate liquidity for its regulated operating utilities by retaining that amount in cash. The Company recorded a receivable of $102,143,810 of the $500,000,000 loan amount, representing NJAWC's share of total American Water regulated customers as of March 31, 2020.

80. Q. Regarding the Term Loan, what does NJAWC seek to recover in this proceeding?

A. The Company seeks to recover its allocated portion of the interest expense related to the Term Loan, which was paid off effective March 19, 2021. The total principal amount of the loan – $500,000,000 – carried an interest rate of London Interbank Offered Rate ("LIBOR") plus 80 basis points, or approximately 1.752% for the first six months of the loan and carried a rate ranging between approximately 0.918% and 0.976% for the remaining months. The monthly interest was allocated based

[12] Travel and conference savings include both NJAWC expenses and Service Company costs that would have been charged to NJAWC.

upon the Company's share of total American Water customers as of March 31, 2020. Total interest charges amounted to $1,332,930 which have been deferred to the COVID-19 regulatory asset account.

81. Q. Why did American Water enter into the Term Loan?

A. American Water determined that based on its operating cash flow needs, enhanced liquidity in the amount of $500 million was necessary in the event other sources of financing, particularly commercial paper and AWCC's credit facility of $2.25 billion, were not available at reasonable rates or in sufficient quantity to meet the operating needs of the business. To put this figure into perspective, American Water invests approximately $1.6 billion annually in capital investments for its regulated utilities. The execution of a term loan during this emergency period was an approach utilized by other utilities and was viewed favorability by rating agencies in 2020 to address the uncertainty and market risk.[13]

82. Q. Why is the interest expense associated with the Term Loan appropriate for deferral as a COVID-19 related expense?

A. The enhanced liquidity obtained through this term loan was akin to an insurance policy to protect the Company in the event the COVID-19 public health emergency created an inability to access funds needed to continue to provide safe and reliable service in New Jersey. The interest expense on the Term Loan is equivalent to

[13] COVID-19: While Most of the U.S. Is Shut Down, Utilities are Open for Business (S&P Global, May 4, 2020).

insurance premiums (or to an availability fee), which are paid to mitigate risk and are reasonable whether or not a claim is ever made.

83. Q. Will the Company continue to defer COVID-19 related costs beyond December 31, 2021?

A. Yes. The Company's incremental COVID-19 related costs incurred after January 1, 2022 through the end of the COVID-19 deferral period (*i.e.*, December 2022)[14] will continue to be deferred for recovery in the Company's next rate proceeding.

As discussed in greater detail below, the Company proposes to account for variability in uncollectible expense through an Uncollectible Adjustment Clause ("UAC"). Under the UAC, the Company proposes to defer its incremental uncollectible expense incurred between January 1, 2022 through the time new base rates are implemented for recovery in this base rate proceeding. Incremental uncollectible expense incurred after new rates are implemented would be deferred and reconciled through the subsequent UAC filing.

III. UNCOLLECTIBLE ADJUSTMENT CLAUSE

84. Q. Why is the Company seeking a mechanism to address uncollectibles (or bad debt) expense in this proceeding?

A. The Company is seeking the UAC to address fluctuations in bad debt expense on a going forward basis to protect both our customers and the Company. Consistent with its prior base rate cases, the Company has included a pro forma level of

[14] *See* Order, *In the Matter of the New Jersey Board of Public Utilities' Response to the COVID-19 Pandemic*, Docket No. AO20060471 (Sept. 14, 2021).

uncollectible expense within its proposed revenue requirement, using historical write-off experience as the basis for the adjustment. In this case, pro forma uncollectible or bad debt expense is based on the December Three-Year Average. The average amounts for those three years were chosen to eliminate the uncertainty in the current environment as it relates to uncollectibles. In addition, the exclusion of 2020 from the calculation is due to the suspension of disconnections starting in 2020, which resulted in a level of net write-off activity for 2020 that is not representative of the Company's historical or projected activity. Because of that uncertainty, and with 2020 and 2021 not being representative of historical or projected activity, the Company proposes the UAC to protect both customers and the Company from unknown but expected fluctuations in this expense going forward. The UAC will reconcile actual incurred uncollectible expense to the base level established in this rate case, with any variance recovered from (or credited to) customers over a subsequent period.

85. Q. Please provide an example of how the UAC will operate, starting with the initial filing.

A. The UAC will be a historical mechanism, with any deviation from the authorized base level for the prior twelve-month period included in the mechanism to be collected (or credited) over the subsequent nine-month period. The initial filing will represent more than a full year, dependent upon the effective date of base rates in this proceeding. Based on the end of the anticipated suspension period in this filing, we will assume November 1, 2022, as the effective date of new base rates.

As such, the initial UAC filing would be made with the BPU on January 25, 2024. The filing will reconcile actual uncollectible expense activity against the level authorized in this proceeding for the period of November 1, 2022 through December 31, 2023. Due to a period of more than one year of new base rates, the authorized level of uncollectible expense will be prorated by month.

Once filed with the Board and after its 60 day review, the UAC would be implemented no later than April 1, 2024, collecting the difference, or passing a credit, between the actual and authorized costs for November 1, 2022, through December 31, 2023, over a nine-month period (April 1, 2024, through December 31, 2024).

On January 25, 2025, the Company would make its second UAC filing, with rates effective no later than April 1, 2025. This filing will include: 1) the difference between the actual uncollectible expense activity for calendar year 2024 against the level authorized, and 2) a true up of the actual amount collected from customers versus the amount authorized in the first UAC filing, for the period November 1, 2022, through December 31, 2023.

86. Q. Have any of NJAWC's affiliates implemented a similar mechanism?

A. Yes. Illinois-American Water Company implemented a Bad Debt Expense ("BDE") Rider, effective April 1, 2021. The BDE Rider was initially approved under a two-year pilot, as a direct result of the COVID-19 emergency, with agreement to extend through calendar year 2022.

IV. PROPOSED TARIFF CHANGES – EXHIBIT P-1

87. Q. Please explain Exhibit P-1 attached to the Petition related to the Company's proposed tariff.

A. A clean copy of the proposed Tariff and a redline against the existing Tariff reflecting the Company's proposed changes as a result of this filing are attached to the Petition as Exhibit P-1.

88. Q. Does the proposed Tariff include any new Rate Schedules?

A. Yes. As mentioned above, the Company is adding Rate Schedule O-2 related to the UAC. Additionally, the Company added new Rate Schedules for the newly acquired water and wastewater systems related to EHC and BB.

89. Q. Have other changes been made to the content and/or structure of the Rate Schedules in the Tariff?

A. Yes. Rate Schedule A-10 and Rate Schedule L-4 have been eliminated. The Service Areas 1B and 1C have been merged into the Rate Schedule A-1 and Service Area 2 for Private Fire have been merged in Rate Schedule L-3 in this case. Changes have also been made to reduce differences in public fire rates. These rate design changes are discussed more fully by Company Witness Mr. Rea.

In addition, the Company has made changes to reflect rate increases authorized by the agreements of sale between: 1) the Company and the Borough of Mount Ephraim, and 2) the Company and Long Hill Township. Changes have also been made to reflect the shifting of certain customers from Private Fire Protection Service in the Townships of Logan and Woolwich.

90. Q. What additional Tariff changes are being proposed by the Company?

A. The Company is proposing clarifying language updates which are reflected in Exhibit P-1.

91. Q. Does this conclude your Direct Testimony?

A. Yes, it does.

NEW JERSEY-AMERICAN WATER COMPANY, INC.

Appendix A

1. Q. Please describe your educational background and professional associations.

A. I am a 2001 graduate of Rowan University where I earned a Bachelor of Science Degree in Business Administration with a specialization in Accounting. I have also attended the Utility Rate School sponsored by the National Association of Regulatory Utility Commissioners ("NARUC").

2. Q. What has been your business experience?

A. Prior to my employment with Service Company, my work history included an accounting internship with Alloy, Silverstein, Shapiro, Adams, Mulford & Co. in Cherry Hill, New Jersey, an audit position with M.D. Oppenheim & Co., PC, in Cherry Hill, New Jersey, and a staff accountant position with A.C. Moore Arts and Crafts, Inc. in Berlin, New Jersey. I began my employment with the Service Company in September 2006 as a General Tax accountant in the General Tax Department. My duties included developing, preparing, and maintaining the general tax account reconciliations for all American Water affiliates, developing general tax Sarbanes-Oxley practices and policies, and making monthly closing journal entries. In June 2007, I transferred to the role of Accountant in the General Accounting/Financial Reporting Department. My duties included preparing quarterly and annual financial reports, monthly closing financials, and monthly account reconciliations for multiple regulated companies of American Water and Service Company. My responsibilities also included external audit coordination and internal controls task management. In October 2010, I transferred to the role of Supervisor in the Accounts Payable

NEW JERSEY-AMERICAN WATER COMPANY, INC.

Appendix A

Department and was responsible for overseeing the end-to-end operations and transaction processing of accounts payable for multiple regulated companies of American Water. In October 2011, I transferred to the position of Financial Analyst II in Rates and Regulation. In July 2013, I was promoted to Financial Analyst III. In January 2017, I was promoted to Senior Manager in Regulatory Services where I supported rate applications and other regulatory filings for American Water's West Virginia and Pennsylvania operating companies. Effective August 2018, I became the Senior Manager of Rates and Regulatory for New Jersey-American Water.