BEFORE THE
STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE NEW JERSEY BOARD OF PUBLIC UITLITIES' RESPONSE TO THE COVID-19 PANDEMIC	: : : : :	**COMMENTS OF NEW JERSEY-AMERICAN WATER COMPANY, INC.** **BPU DOCKET NO.: A020060471**

COMMENTS OF NEW JERSEY-AMERICAN WATER COMPANY, INC.
IN RESPONSE TO QUESTIONS PROPOUNDED
IN ORDER ISSUED ON JULY 20, 2022 REGARDING
REGULATORY ASSET COST RECOVERY

TO: THE HONORABLE COMMISSIONERS OF THE BOARD OF PUBLIC UTILITIES

New Jersey-American Water Company, Inc. ("New Jersey-American," the "Company" or "NJAWC"), a public utility corporation of the State of New Jersey, with its principal office at 1 Water Street, Camden, New Jersey 08102, hereby submits these Comments in response to the New Jersey Board of Public Utilities' ("BPU" or the "Board") July 20, 2022 Order Setting Comment Schedule in the above-referenced docket soliciting input from the public and interested parties on the 13 questions regarding Regulatory Asset Cost Recovery for costs incurred by the utilities as a result of the COVID-19 pandemic.

1. **Has the utility received any insurance payments or any Federal funding or State funding that can be used to offset the deferred expenses? Should the uncollectibles / arrearages be treated differently from costs such as Personal Protective Equipment, etc.?**

   New Jersey-American has not received any insurance payments to cover incremental expenses. As of August 31, 2022, the Company has received a total of $1,212,407 in funding from various municipal and county programs, including: the Mercer County Board of Social Services ($2,534), the Monmouth County Emergency Rental Assistance Program (ERAP) ($76,924), the Camden County RECOVERS Rental Assistance Grant ($32,022), and the City of Plainfield ($1,100,927), which were applied to customer accounts. In addition, the Company has received $327,805 in Low Income Household Water Assistance Program ("LIHWAP") payments, which were also applied to customer accounts.

With respect to cost recovery, all of the deferred expenses, including incremental uncollectible accounts expense, are appropriate for cost recovery purposes. Uncollectible expense, which represents over 80% of the total regulatory asset account, has only been partially offset by federal, county and municipal funding. Due to the size and continued uncertainty associated with uncollectible expense and offsetting assistance program funding, the Company believes it is best to treat recovery of this cost separately through an uncollectible adjustment clause ("UAC") similar to the component of the societal benefits charge ("SBC") available to some electric and gas utilities. The Company proposes a UAC that will both (1) collect the deferred uncollectible expense as of the end of the deferral period, amortized over a period yet to be defined, and (2) reconcile actual annual incurred uncollectible expense to the base level established in its most recent rate case, with any variance reconciled and recovered from (or credited to) customers over a subsequent period.

The remainder of the COVID-related costs should be recovered through a special purpose rider to allow for timely cost recovery of all prudently incurred incremental financial impacts related to COVID-19. This special purpose rider could cover expenses such as: (i) any incremental and direct expenses incurred related to COVID-19 including, but not limited to, safety, cleaning, personal protective equipment ("PPE"), customer and employee communications, employee benefits and accommodations, and any one-time costs incurred to enable remote work; (ii) any savings or credits directly related to COVID-19, including federal, state or local government grants or aid, and cost reductions as a result of Company-instituted travel restrictions during the COVID-19 emergency; (iii) any foregone late fees and reconnection fees not charged to customers but authorized under the utility's approved tariff during the moratorium period; and (iv) any incremental financing costs necessary to maintain and enhance Company liquidity as a result of impacts to the financial markets due to COVID-19.

2. **Should customer arrearages be treated differently from other expenses?**

   No. Customer arrearages, in the form of uncollectible expense, have always been recognized as a valid utility expense. Please see response to No. 1 above.

3. **Should the deferred expenses be recovered in rates and amortized? If yes, how long should that amortization period be for? Should the amortization period vary and be dependent on the type of utility, size and its financial situation?**

   Yes, the deferred expenses should be recovered in rates and amortized. The composition of each utility regulatory asset account may be slightly different. As such, each utility should have the opportunity to propose an amortization period that considers its individual regulatory asset account balance to be recovered. Under current circumstances, NJAWC proposes a 3-year amortization period as a reasonable recovery period for its deferral.

4. **Should the unamortized balance be subject to carrying charges?**

   Although the Company has not specifically included carrying charges on the unamortized balance, the Company is not opposed to carrying charges being applied to unamortized balances. The Company did not originally defer carrying charges because when the Company first established the COVID-19 deferral account, it could not fully anticipate the magnitude or duration of the pandemic. Given the length of time between the authorization of the deferral and the likely cost recovery of that deferral amount, it makes sense to allow carrying charges at the current weighted average cost of capital for any unamortized balances.

5. **Currently, the EDCs recover uncollectibles via the Societal Benefits Charge ("SBC"). Should gas and water utilities be permitted to collect uncollectibles through a SBC-type recovery mechanism?**

   Yes, the Company believes it is appropriate for all utilities, including gas and water utilities, to have access to similar cost recovery mechanisms. Accordingly, the Company proposes a UAC as described above in the response to No. 1 in order to mitigate the variability in uncollectible expense and the Company's ability to collect arrearages during continued challenging times.

6. **Should the SBC-type recovery mechanism be limited just to COVID-related arrearages, or should it include all arrearages?**

   Like the current SBC, a similar mechanism implemented for gas and water utilities should include all arrearages. Not only should parity be maintained among the utilities, but it would also be difficult (if not impossible) to specifically determine what arrearages are attributable to COVID-19 related hardships, particularly when considering the length of the moratorium and the effect of post-moratorium inflation and other rising costs on customers. The Company's proposed mechanism would identify an annual amount for bad debt expense that is part of base rates, compare that amount on an annual basis to the actual costs, and compute a true up for the difference. This may result in a surcharge or surcredit that would be applied to a customer's bill.

7. **Should the deferred COVID related expenses, including the arrearages, be shared between shareholders and ratepayers? If yes, what would the accounting treatment be?**

   No. The Company believes it would be inappropriate to implement a sharing mechanism in this instance.

   The Company's shareholders have contributed substantially to customers and the state in response to the pandemic, thereby mitigating the overall amount of arrearages that could have been realized and thus, deferred. For example, NJAWC expanded its H2O Help to Others ("H2O") program on July 1, 2020 to increase ease of applying and qualifying for assistance, in response to increased need driven by COVID-19. In addition, while the Company has historically contributed $50,000 annually to its H2O grant program, NJAWC provided over $300,000 in donations to the H2O grant program during 2020 and 2021 to assist customers in need during this time. Since COVID-19 began, the Company has also provided over $100,000 in charitable donations to nonprofit organizations in the state that provided response, relief and recovery.

   From a ratemaking perspective, prudently incurred expenses, including uncollectibles expense, have historically been fully recoverable through base rates and that should not change. Moreover, as the New Jersey Utilities Association ("NJUA") discusses in greater detail in its comments, there are unassailable legal arguments prohibiting mandatory shareholder contribution, including the Takings Clause of the U.S. Constitution.

8. **Should the COVID-related deferral be recovered in base rates or in a special purpose rider? Should the recovery mechanism be case specific dependent on the type of utility, size and its financial situation?**

The type of utility, its size, and its financial situation should not determine the utility's ability to recover prudently incurred costs. Each utility's situation and preferences, however, may vary and the BPU should maintain flexibility and openness to varying options in determining how best to address cost recovery for each utility.

Recovery through base rates or a rider is appropriate depending on timing. In the case of New Jersey-American, while NJAWC included recovery of its deferred costs (other than uncollectible expense) through base rates in its recent rate case filing due to the timing of its filing, the ultimate recovery of COVID-related costs were deferred to a later date as part of the stipulation of settlement approved by the Board in that case. As such, recovery through both the UAC and a special purpose rider discussed above would be appropriate to help ensure timely cost recovery of the regulatory asset in between rate cases.

9. **Should a utility carry the COVID-related expenses and arrearages into a subsequent Rate Case or file a separate petition to recover through a clause?**

Subject to Board review and approval, the Company believes it should be up to the individual utility to determine what path of recovery is best for them. With NJAWC's recent rate case now complete, it is appropriate for NJAWC to address the COVID-related expenses and arrearages through a separate cost recovery petition to ensure timely recovery of this years-long deferral.

10. **When filing for relief should the utility provide proof that it did not receive any COVID related financial support, either in the form of Federal or State grants, insurance payouts, and/or customer repayment invoices?**

The Company would support including in its cost recovery filing a certification that it did not receive any COVID related financial support, either in the form of federal or state grants, insurance payouts, and/or customer repayment invoices (as the case may be) or identifying any support received.[1]

11. Does there need to be a true-up of the COVID arrearages, due to pay downs, Federal funds received, State funds received, Insurance funds received, etc.?

The Company would support a true-up. The Company's proposed UAC mechanism would automatically account for any pay downs as a result of any such funds received.

12. If a shareholder contribution were approved for the COVID-related uncollectibles, what should the appropriate sharing be for ratepayers and shareholders?

As the Company indicated in response to No. 7 above, prudently incurred costs, including uncollectibles expense, have historically been fully recoverable through base rates and should remain that way.

13. Should there be a true-up of the COVID arrearages?

Please see the Company's response to No. 11, above.

CONCLUSION

NJAWC respectfully thanks the Board for considering these Responses to the questions propounded in the July 20, 2022 Order.

Respectfully submitted,

Bruce V Miller

Bruce V. Miller
Cullen and Dykman, LLP
The Legal Center
One Riverfront Plaza
Newark, NJ 07102
P: (973) 849.0220
C: (203) 803-3541
bmiller@cullenllp.com

Attorney for New Jersey-American Water Company, Inc.
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[1] The Company already provides information to the BPU regarding federal and state grants to customers in its monthly BPU reports.