

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE
REVISION OF RATES FILED BY
PINELANDS WASTEWATER COMPANY

PREFILED TESTIMONY

OF

MICHELE L. TILLEY
DIRECTOR of BUDGET & RATES

SEPTEMBER 2022

**PINELANDS WASTEWATER COMPANY
PETITION FOR APPROVAL OF AN INCREASE IN RATES FOR WASTEWATER
SERVICE AND OTHER TARIFF CHANGES
SEPTEMBER 2022
DIRECT TESTIMONY OF MICHELE L. TILLEY**

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

2 A. Michele L. Tilley, 485C Route One South, Suite 400, Iselin, New Jersey 08830.

3 **Q. Please state your professional qualifications and experience.**

4 A. I am the Director of Budget and Rates for Middlesex Water Company (“Middlesex”), the
5 sole shareholder of Pinelands Wastewater Company (“Pinelands” or “the Company”). I have
6 been employed with Middlesex since July 2007. My present duties consist of preparing and
7 assisting in all regulatory and rate planning related activities for Middlesex and its
8 regulated water and wastewater utilities. My responsibilities include the preparation and
9 review of financial statements, work papers, exhibits, pre-filed testimony and other activities
10 in support of the regulatory and planning activities for Middlesex. I have prepared exhibits
11 and analysis for every rate matter for Middlesex and its regulated water and wastewater
12 utility companies since my employment began in 2007. My responsibilities also include
13 managing the budget process and income tax compliance filings for Middlesex and its
14 affiliated companies, including Pinelands. Prior to 2007, I held various financial positions
15 in publically traded companies, primarily within the retail industry. I earned a Bachelor of
16 Science Degree in Accounting from Rutgers University in 1989.

17 **Q. Have you ever testified before or submitted testimony to the New Jersey Board of**
18 **Public Utilities (“NJBPU” or “Board”)?**

19 A. Yes. I submitted testimony and supporting exhibits in the Middlesex 2013, 2015, 2017 and
20 2021 base rate proceedings before the Board in BPU Docket Numbers WR13111059,

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1 WR15030391, WR17101049 and WR21050813, the Pinelands Water Company 2019 base
2 rate proceeding before the Board in BPU Docket Number WR19030417, the Pinelands
3 Wastewater Company 2019 base rate proceeding before the Board in BPU Docket Number
4 WR19030418. I also submitted testimony and supporting exhibits in Middlesex’s Purchased
5 Water Adjustment Clause (“PWAC”) proceedings before the Board in BPU Docket
6 Numbers WR16040306, WR17050524, WR18080948, WR19111463, WR20110722 and
7 WR22030138.

8 **Q. Have you prepared a pro forma income statement for the twelve months ended**
9 **December 31, 2022?**

10 A. Yes, I prepared, under the supervision, direction and control of Mr. Robert J. Capko,
11 Pinelands Controller, an Exhibit entitled “Statement of Income for the Twelve Months
12 Ended December 31, 2022,” which includes adjustments at present and proposed rates,
13 designated as Exhibit F to the Petition and as Exhibit P-5 to my testimony. Please refer to
14 the pre-filed testimony of Mr. Capko for further description of Exhibit P-5.

15 **Q. Please explain the change in customer accounts expenses as shown on Exhibit P-5.**

16 A. The charges for services provided by Middlesex have been increased for a 5 % wage
17 increase effective March 25, 2023. The same 5.0% wage increase is also reflected as an
18 adjustment to labor charges under Administrative & General costs.

19 **Q. How are you proposing to adjust the allowance of bad debts?**

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1 A. The allowance for bad debts, which has been included as a factor in the tax gross up
2 calculation, increases by the proposed rate increase percentage in this matter.

3 **Q. Please explain the rate case expenditures in the adjustment to Administrative &**
4 **General expenses as shown on Exhibit P-5.**

5 A. These expenses are the estimated costs to prosecute this rate proceeding. Due to the
6 relatively large increase being requested, the Company anticipates significant concern by
7 intervening parties, which could inhibit the Company's ability to earn a fair return under a
8 settlement scenario for the investments and other costs the Company has or will incur in
9 order to provide safe and reliable utility service. The Company assumes this rate matter will
10 be a fully litigated proceeding. Therefore, the full estimated cost of such litigation is
11 reflected in the Test Year adjustment calculation. A three year amortization period has been
12 selected as our best estimate at this time for the life of these rates.

13 **Q. Have you included an adjustment for employee health benefits?**

14 A. The Company's Health Plan insurance policies, which includes medical, prescription and dental
15 coverage, renew annually on January 1st. This adjustment reflects the expected cost of the
16 various policy premiums net of employee contributions and capitalized benefits, that will be in
17 effect as of January 1, 2023. Employees who have access to an alternate source of medical
18 coverage may elect to opt-out of that component of the Company Health Plan. This option allows
19 for savings to the Company and therefore, to its customers. The Company's insurance broker
20 generally notifies the Company approximately six to eight weeks before the new insurance

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1 policy period begins. As more accurate information becomes available, the Company will update
2 its pro forma medical insurance expense.

3 **Q. Was an adjustment included for the defined benefit pension and nonpension**
4 **retirement plan plans?**

5 A. I have included the proforma cost for defined benefit pension and nonpension retirement
6 plans which were provided to me by Mr. Robert Capko and is more fully described in his
7 pre-filed direct testimony.

8 **Q. What is the business insurance adjustment?**

9 A. The Company is in various stages of migrating its business insurance policies to align with a
10 1/1-12/31 annual policy period. This adjustment reflects projected changes in the various
11 policies' annual premiums. The renewals for the Company's business insurances will likely
12 be known prior to the conclusion of this rate matter. As additional information becomes
13 available, the Company will update its pro forma business insurance expense.

14 **Q. What is the general (shared) overhead charged to affiliates adjustment?**

15 A. Middlesex provides various professional support services for the benefit of Pinelands
16 customers. This includes accounting, customer service, legal, metering, engineering,
17 treatment and other operational disciplines. This adjustment represents the proposed
18 overhead costs associated with such services provided to Pinelands by Middlesex.

19 **Q. What is the MWC (Contract) labor charges to affiliates adjustment?**

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1 A. Middlesex provides various professional support services for the benefit of Pinelands
2 customers. Middlesex employees record and charge the time expended to provide these
3 direct services to the Pinelands. The Test Year charges have been adjusted for the projected
4 5.0% wage increase effective March 25, 2023.

5 **Q. Please explain the depreciation and amortization expense adjustment on Exhibit P-5.**

6 A. The adjustment brings the Test Year depreciation expense to the pro forma depreciation
7 expense by applying depreciation rates approved in BPU Docket No. WR96020126 to the
8 expected pro forma Net Depreciable Utility Plant in Service (“UPIS”) balance used to set
9 rates. This adjustment will be impacted by whatever is determined to be plant in service.

10 **Q. Please explain the adjustment for salaries & wages- payroll adjustment on Exhibit P-5.**

11 A. The first adjustment is for budgeted wage increases for employees who are on a wage
12 progression schedule. These increases are designed to bring an entry level employee to pay
13 parity with other employees performing similar jobs over a 36-month period, assuming
14 acceptable job performance. The second and third adjustments represent the annualized
15 effect of an anticipated March 25, 2023 average wage increase of 5.0% on base payroll and
16 overtime payroll. The fourth adjustment represents the effect of applying the expected
17 capitalized labor and subsidiary labor allocation percentages to the adjusted Test Year
18 payroll.

19 **Q. How does the payroll tax adjustment on Exhibit P-5 correlate to the payroll increase?**

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1 A. The adjustment for payroll taxes shows the calculation of the social security tax increase on
2 the taxable portion of the pro forma increase in payroll. I have not made any allowance at
3 this time for unemployment or disability taxes because it is likely the payroll increase is
4 above the taxable wage base for those taxes.

5 **Q. Please explain the gross receipts & franchise taxes adjustment on Exhibit P-5.**

6 A. The adjustment sets forth the calculation of gross receipts and
7 franchise taxes at present and proposed rates. Column one represents the effect of the
8 revenue adjustments on test year amounts. Column two represents the increase in revenue
9 taxes based upon the proposed revenue increase.

10 **Q. Please explain the real estate tax adjustment on Exhibit P-5.**

11 A. The Township of Southampton (“Township”) has not issued its real estate tax bills for their
12 Fiscal Year of 2022. The Company received first and second quarter preliminary bills and
13 expects to receive the final full year bill before the end of the Township’s fiscal year. The
14 adjustment was based on the preliminary bills issued by the Township. Pinelands will
15 provide updates to the parties as they become available over the course of this proceeding.

16 **Q. Can you explain the NJBPU and Division of Rate Counsel regulatory assessments
17 adjustment on Exhibit P-5?**

18 A. The first adjustment is the result of the change in NJBPU and Division of Rate Counsel
19 assessment rates, as indicated on the 2022 assessment invoices applied to adjusted Test Year

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1 revenue. The second adjustment is reflects the proposed rate increase percentage affect on
2 the NJBPU and Division of Rate Counsel assessments.

3 **Q. Can you explain the adjustment to Federal income taxes on Exhibit P-5?**

4 A. Please refer to the pre-filed direct testimony of Mr. Capko.

5 **What is the tax gross-up calculation shown on Exhibit P-5, page 18?**

6 A. The tax gross-up calculation is used to account for the impact of additional tax and other
7 expenses that will be incurred on the proposed revenue increase. The gross-up factor is applied to
8 the proposed operating income deficiency shown on Exhibit P-5, page 12 to determine the total
9 revenue requirement.

10 **Have you prepared an Exhibit entitled rate base calculation?**

11 A. Yes, an Exhibit entitled Rate Base Calculation, designated as Exhibit P-6, was prepared by me,
12 under the direct supervision of Mr. Capko.

13 **Q. Please describe how the rate base was calculated as shown on Exhibit P-6.**

14 A. The beginning point of the rate base calculation is the projected UPIS as of June 30, 2023.
15 The detail of the additions and retirements for the Test Year and post-Test Year UPIS is
16 shown in Exhibit P-2 and will be addressed in the pre-filed direct testimony of Mr. Brian
17 Carr. Next, the reserve for depreciation was calculated. Beginning with the Reserve for
18 Depreciation balance as of March 31, 2022, the remaining nine months of Test Year
19 Depreciation Expense was added. Annual depreciation expense can be found in Exhibit P-5,

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1 page 5. Next, I subtracted Test Year retirements to arrive at a Test Year Reserve for
2 Depreciation.

3 **Q. Please explain the next component of rate base.**

4 A. As part of the asset purchase of the utility system in 1995, an acquisition adjustment was
5 recorded on the books. The acquisition adjustment and the amortization of said
6 adjustment was approved in BPU Docket No. WR96020126. The amount shown in the
7 schedule represents the net remaining balance in the account.

8 **Q. How did you calculate the working capital allowance?**

9 A. I developed this amount by utilizing the 1/8 of operation and maintenance expense
10 methodology. This is the methodology used by Pinelands in its last six base rate cases
11 before the Board. I believe it is appropriate to continue to utilize this method.

12 **Q. Please explain the adjustment for unamortized regulatory liabilities (property related)?**

13 A. This component of rate base represents the projected unamortized balance as of December 31,
14 2022 of the Regulatory Liability which was established following the enactment of the Tax Cuts
15 and Jobs Act of 2017 (“2017 TCJA”). The Regulatory Liability represents the portion of
16 accumulated deferred income taxes (“ADIT”) collected at the higher pre-2017 TCJA tax rate at
17 the time the customer rates were approved prior to the 2017 TCJA. The annual amortization of
18 the Regulatory Liability is reflected as a reduction in Federal Income Tax expense shown on
19 Exhibit P-5, page 10. This adjustment is further described in the pre-filed testimony of Mr.
20 Capko.

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1 **Q. What are the remaining line items?**

2 A. I have adjusted rate base for Contributions in Aid of Construction, Customer Advances
3 for Construction and ADIT. ADIT represents taxes collected from customer current rates,
4 but not currently due to the Internal Revenue Service since the Company elects to depreciate
5 its property on an accelerated basis for income tax purposes. These amounts represent the
6 projected balances as of December 31, 2022 and will be updated as additional information
7 becomes available.

8 **Q. Is the company proposing any solutions to reduce the cost to prosecute this base rate
9 increase application?**

10 A. One area within this rate matter for which rate case costs can be mitigated is the cost of
11 retaining a cost of capital expert witness to develop and support the appropriate capital
12 structure and fair return.

13 **Q. How can that cost be mitigated?**

14 A. For cost of capital, in particular the appropriate return on equity (ROE) for the Company, if
15 a relevant benchmark agreeable to all parties in this rate matter could be employed to set
16 ROE, the need for each party, be it Rate Counsel or the Company, to retain expert witnesses
17 could be eliminated. The Company is proposing to utilize 9.60% as the appropriate and
18 reasonable ROE benchmark in this rate matter and represents the ROE approved by the BPU
19 in the most recent base rate decision for Middlesex (See BPU Docket No. WR21050813,
20 Order, dated December 15, 2021) as well as the ROE approved in recently settled base rate

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1 cases for other non-affiliated water utilities. If financial market conditions were to affect the
2 level of ROE authorized in other base rate matters before the Board during the pendency of
3 the Pinelands base rate case, I believe it is reasonable for the parties to consider the new
4 level of ROE as the appropriate ROE benchmark in this rate matter.

5 **Q. Please quantify the cost related to cost of capital testimony to be potentially mitigated.**

6 A. Based on the historical costs incurred from other rate matters, expert witnesses fees could
7 reach up to \$35,000, plus legal and other costs. I cannot project the amount of further
8 savings if the utilization of this type of expert witness could be avoided by Rate Counsel.

9 **Q. Please explain how the debt cost rate of 7% shown on Exhibit P-5 was developed.**

10 A. The 7% debt cost rate was used in Pinelands' four most recent base rate cases as a
11 component of the approved rate of return. Pinelands has been unable to establish a
12 reasonable credit arrangement with any financial institution. This is because of its inability
13 to demonstrate that it has the net income and cash flow to support debt repayment. As such,
14 Middlesex acts as Pinelands' financing vehicle.

15 **Q. Does this conclude your testimony?**

16 A. Yes.

PINELANDS WASTEWATER COMPANY
STATEMENT OF INCOME FOR THE TWELVE MONTHS ENDED
DECEMBER 31, 2022
(5 Months Actual + 7 Months Projection)
BPU DOCKET NO. WR2209XXXX

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR	26.76% PROPOSED ADJUSTMENT	AT PROPOSED RATES
OPERATING REVENUES	\$ 1,558,672	\$ -	1,558,672	417,160	\$ 1,975,832
TOTAL OPERATING REVENUES	\$ 1,558,672	\$ -	\$ 1,558,672	\$ 417,160	\$ 1,975,832
OPERATING EXPENSES:					
COLLECTION EXPENSE	60,184	-	60,184		60,184
PUMPING EXPENSE	126,355	-	126,355		126,355
TREATMENT AND DISPOSAL EXPENSE	184,107	-	184,107		184,107
CUSTOMER ACCOUNTS	41,362	1,111	42,472	1,606	44,078
ADMINISTRATION & GENERAL	268,757	20,883	289,640		289,640
DEPREC & AMORTIZATION	222,457	24,801	247,258		247,258
SALARIES & WAGES	177,577	15,645	193,222		193,222
SUB TOTAL	1,080,800	62,440	1,143,240	1,606	1,144,846
TAXES OTHER THAN INCOME TAXES:					
PAYROLL	16,755	1,197	17,952	-	17,952
GRAFT	211,461	-	211,461	56,846	268,307
OTHER	15,960	704	16,664	1,257	17,921
TOTAL TAXES OTHER	244,176	1,901	246,077	58,103	304,180
TOTAL OPERATING EXPENSES	1,324,976	64,341	1,389,317	59,709	1,449,026
OPERATING INCOME BEFORE FIT	233,696	(64,341)	169,355	357,452	526,807
INCOME TAXES	6,530	(13,380)	(6,849)	75,065	68,215
NET OPERATING INCOME	\$ 227,166	\$ (50,961)	\$ 176,204	\$ 282,387	\$ 458,591
RATE BASE	\$ 5,472,727	\$	\$ 5,472,727	\$	\$ 5,472,727
RATE OF RETURN	4.15%		3.22%		8.38%

PINELANDS WASTEWATER COMPANY

CUSTOMER ACCOUNTS

	TEST YEAR DECEMBER 31, 2022		ADJUSTMENTS		ADJUSTED TEST YEAR
	\$ 41,362	\$	1,111	\$	42,472

ADJUSTMENTS

	TEST YEAR UNADJUSTED		ADJUSTED TEST YEAR ADJUSTMENT		PROPOSED RATES ADJUSTMENT
MWC (CS CONTRACT) LABOR CHARGED TO AFFILIATES	\$ 22,210				
MARCH 25, 2023 WAGE INCREASE @ 5.0%	1,111				
			23,321		
LESS: TEST YEAR PRO FORMA ADJUSTMENT			(22,210)	\$	1,111
TOTAL PRO FORMA ADJUSTMENTS - CUSTOMER ACCOUNTS				\$	1,111

BAD DEBT					
REVENUE	\$ 1,558,672	\$	-	\$	417,160
BAD DEBT	6,000				
BAD DEBT % OF REVENUE	0.38494%		0.38494%		0.38494%
				\$	1,606

**PINELANDS WASTEWATER COMPANY
ADMINISTRATIVE & GENERAL EXPENSES**

	TEST YEAR			ADJUSTED
	DECEMBER 31, 2022	ADJUSTMENTS		TEST
				YEAR
	\$ 268,757	\$ 20,883	\$	289,640

ADJUSTMENTS

REGULATORY COMMISSION EXPENSES

2022 RATE CASE EXPENDITURES	\$	55,000		
3 YEAR AMORTIZATION PERIOD		3		
		18,333		
50% SHARING		50%		
			9,167	
LESS TEST YEAR			(8,929)	
PROFORMA ADJUSTMENT - RATE CASE EXPENSES				\$ 238

EMPLOYEE BENEFITS

MEDICAL, PRESCRIPTION & DENTAL PLANS (Net of Contributions)	\$	85,844		
LESS: CAPITALIZED		(12,702) -14.80%		
			73,142	
LESS: TEST YEAR			(61,151)	
PRO FORMA ADJUSTMENT MEDICAL AND PRESCRIPTION PLANS				\$ 11,991

NONPENSION RETIREMENT PLAN VALUATION	\$	(1,729)		
LESS: CAPITALIZED		256 -14.80%		
			(1,473)	
LESS TEST YEAR			4,740	
PRO FORMA ADJUSTMENT NONPENSION RETIREMENT PLANS				\$ 3,267

PENSION PLAN VALUATION	\$	(7,597)		
LESS: CAPITALIZED		1,124 -14.80%		
			(6,473)	
LESS TEST YEAR			560	
PRO FORMA ADJUSTMENT PENSION PLAN				\$ (5,913)

**PINELANDS WASTEWATER COMPANY
ADMINISTRATIVE & GENERAL EXPENSES**

OTHER

BUSINESS INSURANCE	\$	24,827	
LESS: TEST YEAR		(20,307)	
PRO FORMA ADJUSTMENT			\$ 4,521
GENERAL (SHARED) OVERHEAD CHARGED TO AFFILIATES	\$	39,666	
LESS: TEST YEAR		(36,713)	
PRO FORMA ADJUSTMENT			\$ 2,953
MWC (CONTRACT) LABOR CHARGED TO AFFILIATES	\$	76,547	
MARCH 25, 2023 WAGE INCREASE @ 5.0%		3,827	
LESS: TEST YEAR		80,375	
PRO FORMA ADJUSTMENT		(76,547)	\$ 3,827
TOTAL PRO FORMA ADJUSTMENTS - ADMINISTRATIVE & GENERAL			\$ 20,883

**PINELANDS WASTEWATER COMPANY
DEPRECIATION AND AMORTIZATION EXPENSE**

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 222,457	\$ 24,801	\$ 247,258
PRO FORMA/ADJUSTED TEST YEAR DEPRECIATION EXPENSE		229,237	
TOTAL ACQUISITION ADJUSTMENT	600,713		
AMORTIZATION RATE	3.00%		
PRO FORMA AMORTIZATION EXPENSE		18,021	
TOTAL TEST YEAR DEPRECIATION & AMORTIZATION EXPENSE			247,258
LESS: TEST YEAR DEPRECIATION & AMORTIZATION EXPENSE			(222,457)
PRO FORMA ADJUSTMENT			\$ 24,801

**DEPRECIATION EXPENSE
DEPRECIABLE PLANT (NET OF CIAC & CAC)**

	DEPRECIABLE PLANT 3/31/22	NET PLANT ADDITIONS PER P-2	TOTAL DEPRECIABLE PLANT	DEPRECIATION RATE	TEST YEAR DEPRECIATION EXPENSE
301 ORGANIZATION	\$ 970	\$ -	\$ 970	0.00%	\$ -
303 MISC INTANGIBLE PLANT	5,208		5,208	0.00%	-
TOTAL INTANGIBLE PLANT	6,178	-	6,178		-
311 PUMPING SYSTEM LAND	4,000		4,000	0.00%	-
312 TREATMENT & DISPOSAL LAND	106,498		106,498	0.00%	-
TOTAL LAND & LAND RIGHTS	110,498	-	110,498		-
320 SERVICE CONNECT TRAPS & ACCESSORIES	40,212	3,750	43,962	1.81%	796
321 COLLECTING MAINS & ACCESSORIES	328,901	28,750	357,651	1.42%	5,079
323 FORCE MAINS	64,620		64,620	1.42%	918
324 STRUCTURES & IMPROVEMENTS	6,853		6,853	1.42%	97
325 OTHER COLLECTING SYSTEM EQUIPMENT	36,670		36,670	1.42%	521
TOTAL COLLECTION SYSTEM	477,254	32,500	509,754		7,411
330 STRUCTURES & IMPROVEMENTS	350,264	9,540	359,804	3.01%	10,830
331 ELECTRIC PUMPING EQUIPMENT	525,721	33,742	559,464	3.38%	18,910
332 OTHER PUMPING SYSTEM EQUIPMENT	80,065		80,065	3.78%	3,026
333 MISC PUMPING SYSTEM EQUIPMENT	46,906		46,906	3.16%	1,482
TOTAL PUMPING	1,002,956	43,282	1,046,238		34,248
340 STRUCTURES & IMPROVEMENTS	1,344,929	19,422	1,364,351	2.74%	37,383
342 SEDIMENTATION TANKS & ACCESSORIES	929,584		929,584	2.67%	24,820
344 SLUDGE & EFFLUENT REMOVAL EQUIPMENT	546,844	56,446	603,290	0.00%	- (1)
344 SLUDGE & EFFLUENT REMOVAL EQUIPMENT	92,242		92,242	3.36%	3,099
345 SLUDGE DIGESTION TANKS & ACCESSORIES	498,979		498,979	0.00%	- (1)
345 SLUDGE DIGESTION TANKS & ACCESSORIES	75,808		75,808	2.69%	2,039
346 SLUDGE DRYING & FILTERING EQUIPMENT	134,235		134,235	0.00%	- (1)
347 SECONDARY TREATMENT & ACCESSORIES	1,217,000	916,684	2,133,685	2.71%	57,823
349 OTHER SEWAGE REMOVAL EQUIPMENT	14,908		14,908	3.17%	473
350 CHEMICAL TREATMENT PLANT	36,211		36,211	2.82%	1,021
351 CHEMICAL CONTACT TANKS	163,564		163,564	0.00%	- (1)
351 CHEMICAL CONTACT TANKS	6,044		6,044	2.82%	170
352 OUTFALL PIPES & ACCESSORIES	83,345		83,345	0.00%	- (1)
353 OTHER DISPOSAL EQUIPMENT	145,625		145,625	0.00%	- (1)
TOTAL TREATMENT AND DISPOSAL	5,289,317	992,553	6,281,870		126,828
390 STRUCTURES & IMPROVEMENTS	554,297	31,288	585,585	2.33%	13,644
391 OFFICE FURNITURE & EQUIP	108,038		108,038	3.81%	4,116
392 TRANSPORTATION EQUIP.	206,905		206,905	12.09%	25,015
394 TOOLS, SHOP & GARAGE EQUIP.	27,122	2,910	30,033	3.81%	1,144
395 LABORATORY EQUIPMENT	37,198	2,000	39,198	6.97%	2,732
396 POWER OPERATED EQUIP.	3,087		3,087	3.81%	118
397 COMMUNICATION EQUIPMENT	278,916	59,452	338,368	3.81%	12,892
398 MISCELLANEOUS EQUIP.	28,591		28,591	3.81%	1,089
TOTAL GENERAL PLANT	1,244,153	95,650	1,339,804		60,750
TOTAL UTILITY PLANT	\$ 8,130,357	\$ 1,163,986	\$ 9,294,343		\$ 229,237

(1) Depreciable Plant projected at 12/31/22 is fully depreciated. Depreciation is calculated on undepreciated plant utility plant assets only.

PINELANDS WASTEWATER COMPANY
SALARIES AND WAGES

PAYROLL ADJUSTMENT

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 177,577	\$ 15,645	\$ 193,222

ADJUSTMENTS

PROJECTED ANNUAL SALARY AT 9/2023 - PROGRESSION SCHEDULE EMPLOYEES

\$ 140,754

ANNUAL SALARIES AS OF 6/2022 - OTHER EMPLOYEES

\$ 72,322

MARCH 25, 2023 WAGE INCREASE @ 5.0%

5.0%

PROJECTED ANNUAL SALARIES AT 9/2023 - OTHER EMPLOYEES

75,938

TOTAL PROJECTED ANNUAL SALARIES AT 9/2023

A \$ 216,691

LESS: TEST YEAR AMOUNT

(198,222)

PRO FORMA ADJUSTMENT

\$ 18,469

TEST YEAR OVERTIME

A \$ 26,389

MARCH 25, 2023 WAGE INCREASE

5.0%

A

1,319

Total Labor = Sum of A \$

244,399

CAPITALIZED LABOR

Rate

-14.80% \$ (36,163)

SUBSIDIARY/TRANSPORTATION LABOR ALLOCATION

Rate

-6.14% (15,014)

LESS: TEST YEAR AMOUNT

47,033

(4,144)

PRO FORMA ADJUSTMENT

\$ 15,645

PINELANDS WASTEWATER COMPANY
TAXES OTHER THAN INCOME TAXES

PAYROLL TAXES

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 16,755	\$ 1,197	\$ 17,952

ADJUSTMENTS

	SOCIAL SECURITY	OASDHI	TOTAL
NET PAYROLL INCREASE	\$ 15,645	\$ 15,645	\$ 15,645
LESS: AMTS. IN EXCESS OF SOCIAL SECURITY LIMIT OF \$128,400.	-	-	-
INCREASE SUBJECT TO TAX	\$ 15,645	\$ 15,645	\$ 15,645
TAX RATE	6.20%	1.45%	7.65%
PRO FORMA ADJUSTMENT	\$ 970	\$ 227	\$ 1,197

**PINELANDS WASTEWATER COMPANY
TAXES OTHER THAN INCOME TAXES**

GROSS RECEIPTS & FRANCHISE TAXES

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 211,461	\$ -	\$ 211,461

ADJUSTMENTS

	<u>PRESENT RATES ADJUSTMENT TO REVENUES</u>	<u>PROPOSED RATES ADJUSTMENT TO REVENUES</u>
OPERATING REVENUES ADJUSTMENT	\$ -	\$417,160
PORTION OF MAINS IN PUBLIC RIGHT OF WAYS	92.127574%	92.127574%
TAXABLE BASE	<u>\$ -</u>	<u>\$ 384,320</u>
FRANCHISE EXCISE TAX: TAXABLE BASE * TAX RATE (.625%)	<u>\$ -</u>	<u>\$ 2,421</u>
GROSS RECEIPTS EXCISE TAX: OPERATING REVENUES ADJUSTMENT * TAX RATE (.9375%)	<u>\$ -</u>	<u>\$ 3,921</u>
FRANCHISE TAX: TAXABLE BASE * TAX RATE (5.0%)	<u>\$ -</u>	<u>\$ 19,216</u>
GROSS RECEIPTS TAX: OPERATING REVENUES ADJUSTMENT * TAX RATE (7.5%)	<u>\$ -</u>	<u>\$ 31,287</u>
TOTAL GROSS RECEIPTS AND FRANCHISE TAXES	<u>\$ -</u>	<u>\$ 56,846</u>

**PINELANDS WASTEWATER COMPANY
TAXES OTHER THAN INCOME TAXES**

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 15,960	\$ 704	\$ 16,664

ADJUSTMENTS

REAL ESTATE TAXES

REAL ESTATE TAXES		\$ 11,966	
LESS: TEST YEAR		(11,643)	
PRO FORMA ADJUSTMENT			\$ 323

NEW JERSEY BOARD OF PUBLIC UTILITIES AND DIVISION OF RATE COUNSEL REGULATORY ASSESSMENTS

		ASSESSMENT RATE	
NJBPU ASSESSMENT (Present Rates + Adjustment to Revenue)	\$ 1,558,672	0.00248290737830	3,870
NJRC ASSESSMENT (Present Rates + Adjustment to Revenue)	\$ 1,558,672	0.00053099689801	828
			4,698
LESS: TEST YEAR			(4,316)
PRO FORMA ADJUSTMENT			\$ 381
TOTAL PRO FORMA ADJUSTMENTS - OTHER TAXES			<u>\$ 704</u>

		ASSESSMENT RATE	
NJBPU ASSESSMENT (Present Rates + Adjustment to Revenue)	\$ 1,975,832	0.00248290737830	4,906
NJRC ASSESSMENT (Present Rates + Adjustment to Revenue)	\$ 1,975,832	0.00053099689801	1,049
			5,955
LESS: PRO FORMA AMOUNT			(4,698)
TOTAL PROPOSED RATE ADJUSTMENT - OTHER TAXES			<u>\$ 1,257</u>

PINELANDS WASTEWATER COMPANY

FEDERAL INCOME TAXES

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 6,530	\$ (13,380)	\$ (6,849)
	TEST YEAR DECEMBER 31, 2022	ADJUSTED TEST YEAR	ADJUSTED AT PROPOSED RATES
OPERATING INCOME BEFORE FEDERAL INCOME TAX	\$233,696	\$169,355	\$526,807
DEDUCTIONS:			
INTEREST EXPENSE	180,053	180,053	180,053
TOTAL DEDUCTIONS	\$180,053	\$180,053	\$180,053
TAXABLE INCOME	\$53,643	(\$10,698)	\$346,754
FEDERAL INCOME TAX (@ CONSOLIDATED RATE)	\$ 11,265	\$ (2,247)	\$ 72,818
ANNUAL NON-PROTECTED REG LIABILITY (DFIT) AMORTIZATION	(132)	0	0
ANNUAL PROTECTED REG LIABILITY (DFIT) AMORTIZATION	(4,603)	(4,603)	(4,603)
TOTAL INCOME TAXES	\$ 6,530	\$ (6,849)	\$ 68,215

PINELANDS WASTEWATER COMPANY

RATE OF RETURN CALCULATION

	PRO FORMA CAPITAL RATIOS	COST RATE	WEIGHTED COST RATE
LONG TERM DEBT	47.00%	7.00%	3.29%
COMMON EQUITY	53.00%	9.60%	5.09%
	<u>100.00%</u>		<u>8.38%</u>

PINELANDS WASTEWATER COMPANY

TAX GROSS UP CALC

	All Customers		
Public/Private	92.127574%		
	Tax Rates	Adjusted	
Franchise - Excise	0.6250%	0.5758%	
Franchise	5.0000%	4.6064%	
Gross Receipts	0.9375%	0.9375%	
Gross Receipts - Excise	7.5000%	7.5000%	
Total GRAFT Rate	<u>14.0625%</u>	<u>13.6197%</u>	
NJBPU/RC ASSESSMENT	0.3014%	0.3014%	
Bad Debt	0.3849%	0.3849%	
Total		<u>14.3060%</u>	
		100%	100%
		-14.3060%	-14.3060%
		<u>85.6940%</u>	<u>85.6940%</u>
Federal Income Tax Rate	21.0000%	21.0000%	
Federal Income Tax (FIT)	17.9957%	17.9957%	
Net Income	67.6983%	67.6983%	
Gross Up Factor (1/FIT)	147.7143%	147.7143%	

PINELANDS WASTEWATER COMPANY

PROPOSED REVENUE ADJUSTMENT CALCULATION

RATE BASE	5,472,727
RATE OF RETURN	8.3800%
REVENUE REQUIREMENT	<u>458,615</u>
PROFORMA OPERATING INCOME	176,204
DEFICIENCY	<u>282,410</u>
REVENUE FACTOR	1.477143
PROPOSED REVENUE ADJUSTMENT	<u><u>417,160</u></u>

PINELANDS WASTEWATER COMPANY
2022 RATE CASE
RATE BASE CALCULATION
DECEMBER 31, 2022
(5 Months Actual + 7 Months Projection)
BPU DOCKET NO. WR2209XXXX

Test Year Utility Plant in Service per Exhibit P-2		\$	11,721,245
(Less)/Add:			
<u>Reserve for Depreciation</u>			
Balance as of March 31, 2022	\$	(3,439,432)	
Test Year Depreciation Expense		(171,928)	
Test Year Retirements		81,250	
Post Test Year Retirements		0	
		<hr/>	
Adjusted Test Year Reserve for Depreciation	\$	(3,530,109)	
		<hr/>	
Net Utility Plant in Service	\$	8,191,136	
Add:			
Unamortized Acquisition Adjustment as of March 31, 2022	\$	156,078	
Test Year Amortization (Rate = 3.00%)		(13,516)	
		<hr/>	
Net Unamortized Acquisition Adjustment as of December 31, 2022	\$	142,562	
Add:			
Working Capital Allowance (1/8)	\$	111,998	
(Less):			
Unamortized Regulatory Liabilities (Property Related)	\$	(172,046)	
Test Year Amortization		3,452	
		<hr/>	
Net Unamortized Regulatory Liabilities	\$	(168,594)	
(Less):			
Contributions in Aid of Construction	\$	(2,301,003)	
Customer Advances		(125,900)	
Deferred Income Taxes (Property Related)		(377,472)	
		<hr/>	
	\$	(2,804,374)	
		<hr/>	
Test Year Rate Base	\$	<u>5,472,727</u>	