

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

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

PREFILED TESTIMONY

OF

ROBERT J. CAPKO
CONTROLLER

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 ROBERT J. CAPKO**

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

2 A. Robert J. Capko, 485C Route 1 South, Suite 400, Iselin, New Jersey 08830.

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

4 A. I am a Certified Public Accountant and Controller of Pinelands Wastewater Company
5 (“Pinelands” or the “Company”). I am also Corporate Controller of Middlesex Water
6 Company (“Middlesex”), the sole shareholder of Pinelands. I have been employed with
7 Middlesex since 2009. Prior to 2009, I was an Audit Senior Manager at Deloitte & Touche
8 LLP in their Energy and Public Utilities Group, with a focus on publicly traded regulated
9 utilities, including several clients that are regulated public utilities subject to the jurisdiction of
10 the New Jersey Board of Public Utilities (the “Board” or “NJBPU”). My overall
11 responsibilities at Pinelands and Middlesex are accounting, taxes, payroll, internal and external
12 financial reporting, external audit coordination, and financial enterprise resource planning
13 system management, implementation and upgrade. My responsibilities also include assisting
14 with Pinelands and Middlesex’s cash management, budget and forecasting, financing program,
15 and regulatory and rate case filings.

16 Q. **Have you ever testified before or submitted testimony to the NJBPU or Board?**

17 A. I have previously submitted testimony in Pinelands Wastewater Company’s 2019 base rate
18 proceeding before the Board in NJBPU Docket Number WR19030418, in Pinelands Water
19 Company’s 2019 base rate proceeding before the Board in NJBPU Docket Number
20 WR19030417 and in Middlesex’s 2021 base rate proceeding before the Board in NJBPU
21 Docket Number WR21050813. I have also previously participated in Distribution System

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1 Improvement Charge filings, Purchased Water Adjustment Clause filings and equity and
2 long-term debt securities filings made by Middlesex to the NJBPU.

3 **Q. Have you prepared exhibits to the Petition containing balance sheets and statements**
4 **of income for the Company?**

5 A. Yes. Exhibits to the Petition entitled “Balance Sheets as of December 31, 2021, 2020 and
6 2019” (Exhibit C), “Statements of Income for the Years Ended December 31, 2021, 2020 and
7 2019” (Exhibit D) and “Balance Sheet as of June 30, 2022” (Exhibit E) were prepared under
8 my supervision, direction and control. The Balance Sheets as of December 31, 2021, 2020 and
9 2019 have also been identified as Exhibit P-3 to my testimony and the Statements of Income
10 for the Years Ended December 31, 2021, 2020 and 2019 as Exhibit P-4.

11 **Q. Were these exhibits prepared in accordance with Generally Accepted Accounting**
12 **Principles and the Uniform System of Accounts prescribed by the NJBPU for a water**
13 **utility?**

14 A. Yes.

15 **Q. Is the financial information contained in these exhibits true and correct to the best of**
16 **your knowledge and belief?**

17 A. Yes.

18 **Q. Have you prepared a pro forma income statement for the twelve months ended December**
19 **31, 2022?**

20 A. An Exhibit entitled “Statement of Income for the Twelve Months Ended December 31, 2022,”
21 which includes adjustments at present and proposed rates, designated as Exhibit F to the

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1 Petition and as Exhibit P-5 to the pre-filed direct testimony of Michele L. Tilley, was prepared
2 under my direct supervision, direction and control. A proof of revenue for the proposed rates
3 has been included as part of Exhibit A to the Petition.

4 **Q. Please describe Exhibit P-5.**

5 A. Exhibit P-5 is a pro forma income statement reflecting operating income at present
6 and proposed rates, including adjustments the Company deems appropriate. It also
7 includes a calculation showing the Company's proposed rate of return on rate base. We have
8 used the twelve-month period ending December 31, 2022 as the Test Year, with adjustments
9 for known and anticipated changes. These adjustments appropriately reflect the Board's policy
10 of setting rates based on an historical test year plus adjustment for known and anticipated
11 changes to approximate the business environment within which the Company expects to be
12 operating during the period rates are expected to be in effect. It is anticipated that the time
13 frame for the first full year of rates from this proceeding will be approximately July 1, 2023
14 through June 30, 2024 if this case takes the statutory nine months to complete. An earlier or
15 later conclusion for this rate case would adjust the dates of that first year of rates. Although it
16 is my opinion that the Board's current test year policies, originally set in the Elizabethtown
17 Water case decades ago, does not reflect in actuality what costs and investment Pinelands and
18 its customers will face during the life of the rates set in this case, no adjustments have been
19 made beyond the 3-6-9 approach designated in that Elizabethtown Water case.

20 The first column, entitled "Test Year December 31, 2022", contains actual results of operations
21 for the five months ended May 31, 2022, plus forecasted results of operations for the seven

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1 months ended December 31, 2022. The second column, entitled “Adjustments”, contains
2 known and anticipated changes to occur by December 31, 2022, as well as events that are
3 expected to be known by the time this proceeding is anticipated to be concluded. The third
4 column, entitled “Adjusted Test Year”, represents the arithmetic results of combining the first
5 and second columns. The fourth column entitled “Proposed Adjustment”, shows the requested
6 increase in operating revenues, in addition to the Gross Receipts and Franchise Tax and
7 Federal Income Tax effects required to (1) recover those prudently incurred operating costs,
8 and (2) earn a fair and reasonable return, as shown on Exhibit P-5, page 11. The fifth column,
9 entitled “At Proposed Rates”, contains the Statement of Income with adjustments at proposed
10 rates. It is the Company’s intention to update Exhibit P-5 with actual results of operations
11 through December 31, 2022, as well as any further known and anticipated changes beyond
12 December 31, 2022, as appropriate, during the course of this proceeding.

13 **Q. Please describe the proforma adjustments for changes in the retirement benefits,**
14 **other than pensions plan valuation and pension plan valuation included in the**
15 **administrative & general adjustment on Exhibit P-5.**

16 A. These adjustments represent the cost of retirement benefits, other than pensions, and
17 pensions using the January 1, 2022 valuations, as prepared by the Company’s independent
18 actuaries and updated for current financial market conditions. The 2023 actuarial
19 valuations are expected to be completed prior to the conclusion of this matter.

20 **Q. Please explain the adjustment to Federal income taxes on Exhibit P-5.**

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1 A. This adjustment sets forth the income tax calculation adjusted at present and proposed
2 rates. The beginning point of the calculation is operating income before income taxes.
3 Interest expense for income tax purposes was calculated by applying the weighted cost of
4 debt, as calculated at Exhibit P-5, page 11, to the rate base amount shown on Exhibit P-6
5 to arrive at the interest expense deduction. Income taxes are then calculated at the current
6 effective Federal income tax rate of 21.0%. The first adjustment to income taxes is the
7 flow back of previously collected income taxes at higher tax rates than are now in effect as
8 a result of the Tax Cuts and Jobs Act of 2017. These over collected taxes are considered a
9 protected regulatory liability and are being amortized in accordance with guidelines to
10 ensure compliance with the Internal Revenue Service normalization requirements. The
11 amortization rate is 2.5%.

12 **Q. Will you discuss the proposed changes to the base rate schedules in the tariff sheets**
13 **designated as Exhibit A to the Petition?**

14 A. The Company is proposing that each customer class receive the same percentage increase
15 in rates and that the change in rates should be applied equally to the Service Charge and
16 Volumetric Charge within the respective customer classes. Therefore, the tariff rates are
17 based on average percentage increases applied to existing tariffs of the Company.

18 **Q. Are there any other tariff changes that the company is proposing?**

19 A. There are specific non-revenue tariff changes and clarifying tariff changes proposed and
20 included in a marked-up copy of the Tariff in Exhibit A. These changes are described in
21 the pre-filed testimony of Mr. G. Christian Andreasen.

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

2 A. Yes.

PINELANDS WASTEWATER COMPANY
BALANCE SHEET
DECEMBER 2019, 2020 AND 2021

	<i>DECEMBER</i> 2019	<i>DECEMBER</i> 2020	<i>DECEMBER</i> 2021
Utility Plant			
Utility Plant In Service	10,156,220	10,326,347	10,544,960
Acquisition Adjustment	196,626	178,604	160,583
Construction Work In Progress	64,777	31,075	131,012
TOTAL	<u>10,417,623</u>	<u>10,536,026</u>	<u>10,836,555</u>
Less: Accumulated Depreciation	3,040,993	3,210,097	3,389,776
Utility Plant - Net	<u>7,376,630</u>	<u>7,325,929</u>	<u>7,446,779</u>
Current Assets			
Cash and Cash Equivalents	61,933	10,089	38,874
Accounts Receivable	106,276	325,241	179,448
Accumulated Provision for Uncollectible Accounts	(22,919)	(30,786)	(37,000)
Prepayments	21,627	21,000	19,998
Accrued Unbilled Revenues	42,042	48,324	46,337
Total Current Assets	<u>208,960</u>	<u>373,867</u>	<u>247,657</u>
Deferred Charges And Other Assets			
Regulatory Asset - Deferred Debits	30,358	19,643	8,929
Total Deferred Debits	<u>30,358</u>	<u>19,643</u>	<u>8,929</u>
Total Assets	<u>7,615,948</u>	<u>7,719,439</u>	<u>7,703,365</u>
Capitalization			
Common Equity			
Common Stock, No Par Value	1,000	1,000	1,000
Paid In Capital	831,000	831,000	1,456,000
Retained Earnings	401,269	626,455	777,198
Total Capitalization	<u>1,233,269</u>	<u>1,458,455</u>	<u>2,234,198</u>
Current Liabilities			
Notes Payable to Middlesex Water	560,862	560,862	2,105,862
Accounts Payable Trade	407,697	200,890	160,490
Accounts Payable to MWC	2,360,303	2,379,085	62,530
Accrued Taxes	166,350	210,034	211,503
Total Current Liabilities	<u>3,495,212</u>	<u>3,350,872</u>	<u>2,540,386</u>
Deferred Credits & Other Liabilities			
Customer Advances for Construction	125,900	125,900	125,900
Other Deferred Credits	460,565	483,209	501,879
Total Deferred Credits	<u>586,464</u>	<u>609,109</u>	<u>627,778</u>
Contributions In Aid of Construction	2,301,003	2,301,003	2,301,003
Total Capitalization & Liabilities	<u>7,615,948</u>	<u>7,719,439</u>	<u>7,703,365</u>

PINELANDS WASTEWATER COMPANY
INCOME STATEMENT
FOR TWELVE MONTHS ENDED DECEMBER 31, 2019, 2020 AND 2021

	<i>DECEMBER</i> <i>2019</i>	<i>DECEMBER</i> <i>2020</i>	<i>DECEMBER</i> <i>2021</i>
Operating Revenues	1,230,441	1,550,929	1,546,442
Operating Expenses			
Operations & Maintenance	719,506	777,525	786,854
Depreciation and Amortization	187,891	205,756	210,849
Taxes, Other than Income Taxes	195,494	238,777	241,050
Federal & State Income Taxes	38,126	64,904	44,048
Total Operating Expense	<u>1,141,018</u>	<u>1,286,963</u>	<u>1,282,801</u>
Operating Income	<u>89,423</u>	<u>263,967</u>	<u>263,641</u>
Other Income (Expense)			
AFUDC - Equity	3,132	4,166	5,389
Other Income	(39,000)	0	0
Income Before Interest Charges	<u>53,555</u>	<u>268,133</u>	<u>269,030</u>
Interest Charges			
AFUDC - Debt	(1,410)	(1,719)	(3,878)
Other Interest Charges	45,492	44,665	122,166
Total Interest Charges	<u>44,082</u>	<u>42,946</u>	<u>118,287</u>
Net Income	<u><u>9,473</u></u>	<u><u>225,187</u></u>	<u><u>150,743</u></u>