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,
CHANGE IN DEPREICATION RATES, AND
OTHER TARIFF MODIFICATIONS

BPU Docket No. WR2401____

Direct Testimony of

Jamie D. Hawn

January 19, 2024

Exhibit P-6

NEW JERSEY-AMERICAN WATER COMPANY, INC.

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NEW JERSEY-AMERICAN WATER COMPANY, INC.

I. INTRODUCTION

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 Director 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 Director of Rates and Regulatory include: 1) leading rate and regulatory activities 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. 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 cases, BPU Docket No. WR22010019 and BPU Docket No. WR19121516. I also testified in BPU Docket Nos. WR19110465, WR20110719, WR21111220, WR22110693 and WR23110791 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.

5. Q. Are you generally familiar with the book of accounts and related records of the Company?

A. Yes, I am.

6. Q What system is followed in keeping the general books of accounts and related records of the Company?

A. The general book of accounts and related records of the Company are kept in conformity with the Uniform System of Accounts ("USOA") promulgated by the National Association of Regulatory Utility Commissioners ("NARUC") adopted by the Board.

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

A. The purpose of my Direct Testimony is to support the Company's revenue requirement calculation in this case, which is based on a test year ending June 30, 2024, including post-test year adjustments to the test year Income Statement and

Statement of Rate Base. I will discuss certain elements of the revenue requirement, including the calculation of rate base and related depreciation and amortization expense, as well as the components and computation of the Company's proposed capital structure. I will also sponsor various financial and accounting data required by the Board's regulations as set forth in Section 14:1-5.12 of the New Jersey Administrative Code ("N.J.A.C."). Finally, I will support the rate base value of assets expected to be acquired by the Company during the pendency of this proceeding.

8. Q. Has the Company included its former wholly-owned subsidiary, Environmental Disposal Corp. ("EDC"), in this filing?

A. Yes. On December 20, 2023, in Docket No. WM23030145, the Board approved the completion of the merger of New Jersey-American Water and EDC, with NJAWC as the surviving entity. Effective December 31, 2023, the companies were merged; therefore, the Petition, Exhibits and Schedules for the requested revenue requirement include the former EDC wastewater service area.

9. Q. Do you sponsor any Schedules in your Direct Testimony?

A. The Schedules listed below are attached to the Petition as Exhibit P-2. I am sponsoring Schedules RR, 1-4, 8-9 and 15-17, which were prepared by me or under my supervision and direction. Company Witness McKeever will sponsor Schedules 6, 7, 10, 11-14 and 18 as part of his Direct Testimony (Exhibit P-7) and Company Witness Brooks will sponsor Schedule 5 as part of his Direct Testimony (Exhibit P-8).

NEW JERSEY-AMERICAN WATER COMPANY, INC.

- Schedule RR- Revenue Requirement Computation
- Schedule 1 Comparative Balance Sheet
- Schedule 2 Comparative Income Statement
- Schedule 3 Balance Sheet at November 30, 2023
- Schedule 4 Post-Test Year Income Statement under present and proposed rates
- Schedule 5 Statement of Operating Revenue
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- Schedule 7 Uncollectible Expense
- Schedule 8 Summary of Depreciation and Amortization
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- Schedule 11 Gross Receipts and Franchise Tax
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- Schedule 15 Statement of Rate Base
- Schedule 16 Weighted Cost of Capital
- Schedule 17 Consolidated Tax Adjustment
- Schedule 18 Schedule of Payments to Affiliated Companies

II. TEST YEAR

10. Q. What test year period is NJAWC using to determine the revenue requirement in this proceeding?

A. NJAWC's test year is the twelve-month period ending June 30, 2024 ("test year"). This filing utilizes five months of actual data ended November 30, 2023, and seven months of projected data through June 30, 2024. The actual data has been obtained from the Company's books and records. The projected data will be replaced with actual data as the case progresses, ultimately providing all actual results in the 12-month update.

11. Q. Has NJAWC included any post-test year adjustments in the determination of the proposed revenue requirement?

A. Yes. NJAWC is proposing to reflect changes in capital expenditures through December 31, 2024, and changes in revenues and expenses through March 31, 2025 ("PTY" or "post-test year"), as described later in my Direct Testimony as well as the direct testimonies of Company witnesses Mr. Shields (Exhibit P-5), Mr. McKeever, and Mr. Brooks. Including these post-test year adjustments is consistent with standards previously adopted by the Board and provides for an annualization and/or adjustment of revenues, expenses, and capital expenditures. Specifically, the Board's policy concerning post-test year adjustments, as set forth in its order *Re Elizabethtown Water Company*, Docket No. WR8504330, is that utilities are afforded an opportunity to make a record concerning known and measurable changes to: (1) the capital structure that are three months beyond the test year; (2) rate base that are six months beyond the test year; and (3) expenses and revenues that are nine months beyond the test year. The post-test year adjustments included in this case are further discussed below.

12. Q. Please describe the Company's revenue requirement.

A. The Company's revenue requirement is equal to the cost of providing water and fire protection services to approximately 668,000 customers and wastewater service to approximately 64,200 customers in about 200 communities in 18 counties throughout the State of New Jersey.[1] This includes everything from sourcing water supply, treating and monitoring that supply to support water quality compliance and pumping and distributing adequate supply through approximately 9,970 miles of main, to providing high quality customer service to our customers through customer service teams, 24-hour emergency call handling, and providing self-service options. These efforts support the Company's continued provision of safe, reliable water, sanitation, and fire protection services to our customers.

To accomplish all of this, the Company incurs costs for which it seeks recovery through the ratemaking process. The Company's costs include a variety of operating expenses, depreciation, and amortization, and various local, state, and federal taxes, combined with an opportunity to earn a reasonable return on the Company's rate base that supports NJAWC's provision of safe and reliable service to its customers.

[1] NJAWC also provides water to 30 additional communities through bulk purchase water agreements.

13. Q. What is the revenue requirement NJAWC is proposing in this case?

A. The Company's projected revenue requirement, equal to the cost of providing service, is approximately $1.095 billion, as supported by Company witnesses in this proceeding.

14. Q. Please describe how you calculated the Company's revenue deficiency.

A. The Company's revenue deficiency is measured as the difference between the post-test year revenue requirement and the Company's post-test year revenues including the Distribution System Infrastructure Charge ("DSIC") and the Wastewater System Infrastructure Charge ("WSIC") at present rates. The Company's revenue deficiency proposed in this application is calculated to be $161.7 million, which represents an approximate 17.3% overall deficiency. The Company calculated a rate of return of 5.74% under present rates and 7.89% under proposed rates when calculated on the proposed rate base approximating $5.1 billion. The requested increase includes a return on common equity of 10.75%.

15. Q. What are the overall drivers of the requested increase?

A. The proposed revenue increase in large part is driven by capital investment since the Company's last base rate case (BPU Docket No. WR22010019) (the "2022 Rate Case"). As mentioned by Mr. Shields, since the effective date of rates in the 2022 Rate Case, the Company has invested, or will invest, approximately $1.3 billion in capital expenditures through the end of 2024. Of the proposed increase of $161.7 million, nearly 68% is driven by new capital investments. Also contributing to the requested increase is the associated cost of financing such investment, which has increased since the 2022 Rate Case, particularly around the cost of debt which has changed from 3.90% in the 2022 Rate Case to 4.23% in the current filing, a change of 33 basis points.

16. Q. Are increases in operations and maintenance ("O&M") expenses a significant contributor to the Company's need for rate relief?

A. Not particularly. While operating expenses have increased since the Company's 2022 Rate Case, the Company's overall O&M expenses remain reasonable. The Company is seeking to recover $263.7 million in operating expenses, which represents annualized expense levels through the post-test year. To further demonstrate this reasonableness, the Company evaluated its O&M expense on a per customer basis, excluding purchased water and wastewater costs (which are tracked separately). In 2014, the O&M per customer was $298. In this case, the Company's proposed O&M per customer is $358, representing an average annual increase of 1.9% over the past ten years. This average annual increase is less than the rate of inflation, measured by the Consumer Price Index for all Urban Consumers ("CPI-U"), which represents an average annual increase of 3.0% over the same time period. To put this in perspective, if the Company's O&M expense increased at the rate of the CPI-U, the Company's O&M expense per customer would have risen from $298 in 2014 to $401 on a post-test year basis. Based on the post-test year customer count included in this rate case, annual O&M expense would have been over $31 million more than the amount the Company is proposing in this proceeding. Clearly, the Company's ability to manage its O&M expense has benefited customers for over a decade now, and its ongoing efforts to mitigate inflationary increases in O&M expense will continue to benefit customers into the future. This is a significant achievement and is a testament to the Company's commitment to operating efficiency. As Company Witness Shroba explains in his Direct Testimony (Exhibit P-4), the Company strives to manage costs as efficiently as possible to provide a more cost-effective level of service for our customers over the long term.

17. Q. What is the impact of the proposed rate increase on customer bills?

A. As proposed, the average residential water customer's monthly bill, using 5,640 gallons per month, would increase $11.30 from the current charge of $70.70 to $82.00, an increase of $0.38 per day. Even at the proposed rates, water costs remain a good value. Proposed water costs would approximate $2.73 per day, or $.0145 per gallon. As Company Witness Rea discusses in his Direct Testimony (Exhibit P-9), the Company's water and wastewater services remain affordable for most of our residential customers.

III. <u>FILING REQUIREMENTS</u>

18. Q. Please describe Exhibit P-2, Schedules 1 through 4 and Schedule RR.

A. Schedule 1 reflects the Comparative Balance Sheets that have been prepared from the books and records of the Company.

Schedule 2 is a "Comparative Statement of Income" for the twelve-month periods ended December 31, 2020, 2021 and 2022, respectively, as recorded from the

Company's books and records. Schedule 2 also includes dividend payments on preferred and common stock of the Company for each twelve-month ended period.

Schedule 3 shows a Balance Sheet for the period ended November 30, 2023.

Schedule 4 reflects the Company's income statement on a post-test year basis under present and proposed rates. Column (2) on Schedule 4 indicates the results for the period ending June 30, 2024 based on five months of actual and seven months of projected data. Annualized and normalized adjustments are made to reflect known or measurable changes in the Company's operations through March 31, 2025. The result, in Column (6), is a post-test year income statement that is representative of the Company's prospective financial condition. Schedules 5, 6, 8, 10, and 14-16 support the values on Schedule 4.

Schedule RR supports the computation of the proposed revenue increase and the calculation of the gross-up factor. Schedules 4, 7, 11, 12, 15 and 16 support Schedule RR.

A. <u>Rate Base</u>

19. Q. Please describe the rate base components as shown on Exhibit P-2, Schedule 15.

A. The proposed rate base in this proceeding is approximately $5.1 billion. Rate base was calculated in the traditional manner and in accordance with past practices. The calculation of rate base starts with utility plant in service ("UPIS") less accumulated depreciation to arrive at net utility plant. Cash working capital, utility plant acquisition adjustments, prepayments and material and supplies were then added to net utility plant. Customer advances for construction and contributions, MTBE and aluminum sulfate litigation settlements, pre-1971 investments tax credits, consolidated tax adjustment, deferred taxes and excess accumulated deferred taxes were deducted from net utility plant. The components of rate base are shown on Exhibit P-2, Schedule 15.

20. Q. Please explain how the components of rate base were calculated.

A. The balance for UPIS was calculated starting with the actual balance as of November 2023. Projected plant additions for the period December 2023 through June 30, 2024, were then added and estimates for plant retirements for the same period were deducted to develop the estimated test year ending balance on June 30, 2024. The Company also included projected plant additions, reduced for plant retirements for the six-month post-test year period ending December 31, 2024. The Company's PTY capital expenditures for utility plant include all known and measurable capital projects for that period as well as the roll in of the DSIC and WSIC capital expenditures. The test year and post-test year plant additions are discussed further in the Direct Testimony of Mr. Shields.

21. Q. Please explain the methodology used to compute accumulated depreciation as shown on Exhibit P-2, Schedule 15 and all proposed post-test year adjustments.

A. The computation of accumulated depreciation as of December 31, 2024, as set forth on Exhibit P-2, Schedule 15 is consistent with prior cases. It begins with the actual balance on November 30, 2023, and computes the additional depreciation expense beginning with that period through June 30, 2024, and then again for the period July 1, 2024, through December 31, 2024, on all assets that will be in service at the current depreciation rates.

The accumulated depreciation reserve is reduced for estimated retirements and cost of removal charges through June 30, 2024, and then through December 31, 2024. Projections for retirements are based on a three-year average of retirements for the period July 1, 2020, through June 30, 2023. Cost of removal charges are also based on the same three-year average. The accumulated depreciation reserve reflects the continued return to customers of a Non-Legal Asset Retirement Obligation of $48 million at $1.2 million a year over a forty-year period as established in the Stipulation of Settlement in Docket No. WR08010020. The computation relating to the proposed level of depreciation expense and depreciation rates will be discussed further below in my Direct Testimony.

22. Q. Please explain the methodology used to compute cash working capital as shown on Exhibit P-2, Schedule 15, and any post-test year adjustments.

A. The calculation of cash working capital is provided by Company Witness Walker, as described in his Direct Testimony (Exhibit P-13) and schedules filed in this case.

23. Q. Did the Company include utility acquisition adjustments in rate base?

A Yes; however, only the acquisition adjustments previously approved by the BPU have been included in rate base. Acquisition adjustments for the Shorelands Water

Company, Inc. (“Shorelands”) and the Borough of Haddonfield’s Water and Sewer System (“Haddonfield”) remain on appeal to the Appellate Division of the Superior Court. The Company has not included those acquisition adjustments in rate base in this Petition.[2] For the more recent acquisitions of Egg Harbor City, Borough of Bound Brook, Borough of Somerville, all of which have closed, and the proposed purchases of Salem City’s water and wastewater systems as well as the wastewater system of the Township of Manville, there are no acquisition adjustments included in rate base in this filing. I will discuss the acquisitions included in this filing later in my Direct Testimony.

24. Q. Please explain the methodology used to calculate customer advances and contributions in aid of construction and any proposed PTY adjustments.

A. The computation of customer advances begins with the actual balance on November 30, 2023, and adds the number of new advances the Company expects to receive for the period December 1, 2023, through June 30, 2024, and for the period July 1, 2024 through December 31, 2024. For contributions in aid of construction, the rate base balances on June 30, 2024, and December 31, 2024, are each lower than the November 30, 2023, starting balance. This is a result of the amortization of contributions in aid of construction over the life of the underlying assets that the contributions originally funded.

[2] The Company reserves the right to seek cost recovery of the Shorelands and Haddonfield acquisition adjustments following the outcome of the appeal currently before the Appellate Division.

25. Q. Please explain the rate base reduction for the MTBE and Aluminum Sulfate Settlements.

A. The Company has received funds from settlements in both the MTBE and Aluminum Sulfate cases. The rate base reduction is the mechanism by which funds received are shared between customers and shareholders. The funds related to the settlements will continue to be shared with customers through 2050 and 2060, respectively.

26. Q. Please explain the rate base reduction for pre-1971 investments tax credits.

A. Investments tax credits taken before 1971 are being amortized through 2050.

27. Q. Has the Company calculated a consolidated tax adjustment ("CTA") consistent with the BPU's regulations?

A. Yes. The Company computed its consolidated tax adjustment in accordance with the BPU's regulations consistent with N.J.A.C. 14:1-5.12(a)(11) ("CTA Rule" or "Rule"). Under the Rule promulgated in 2019, the CTA is calculated using each affiliate's taxable income/loss for each of the five consecutive years (the "five-year look back", including the complete tax year within the utility's test year) using statutory income tax rates or the alternative minimum tax, whichever is applicable. The Company in this application has reduced rate base by 100% of the CTA.

28. Q. What is the amount of the CTA and how was it calculated?

A. The Company's calculation of the CTA results in a rate base reduction of $15.7 million. The Company used the years 2018 through 2022 as the five-year look back period due to the availability of completed tax returns for those years.

29. Q. Please explain how the amounts of deferred income taxes were calculated as part of rate base.

A. Deferred income taxes are a result of timing differences between book and tax depreciation because of the normalization process. The computation begins with the actual values on November 30, 2023. Deferred taxes are increased by computing the difference between book and tax deprecation times the federal statutory rate of 21% on the capital additions for the period December 1, 2023, through June 30, 2024, and then again for the period July 1, 2024, through December 31, 2024.

30. Q. Please explain how the amounts of excess accumulated deferred taxes were calculated as part of rate base.

A. The calculation of the amortization of excess accumulated deferred income taxes ("EDIT" or "EADIT") and the established amount that will be returned to customers on an annual basis through base rates was prepared using the total Company balance. The calculation amortizes the components for remeasured EDIT using the Average Rate Assumption Method ("ARAM") for protected assets and 15 years for the unprotected assets as agreed upon in the Stipulations and adopted by the Board[3]. The proposed amortization included in the revenue requirement for EADIT amounts to $12,485,560.

31. Q. Did the Company calculate a true-up for the estimated amount of EADIT passed back to customers?

A. Yes. The EADIT in this case, as stated above, is being calculated on a total Company balance, and as per Docket No. WR18030235 (former EDC), the estimated amounts are to be trued-up in the next base rate case. Therefore, the Company has prepared a true-up calculation for the years 2018 through 2023 using ARAM for protected related assets and a 15-year period for unprotected related assets. Actual amounts are shown for the years 2018 through 2022 while estimated amounts are shown for the years 2023 and 2024. The Company calculated, on Workpaper Schedule 15-21, the actual ARAM and unprotected amortization amounts compared to the estimated amortization amounts from the prior cases and stipulations. Also included in the true-up is the offset of the revenue associated with the rate base impact for the pass back of the lump sum EADIT per Docket No. WR18030233. These two values result in over-credits (passed back) to the customers; however, the Company is not making an adjustment to the revenue requirement for the true-up. The Company proposes to include the annual EADIT

[3] I*n the Matter of the New Jersey Board of Public Utilities' Consideration of the Tax Cuts and Jobs Act of 2017*, BPU Docket No. AX18010001 and *In the Matter of the Petition of New Jersey-American Water Company, Inc. with Calculation of Rates under the Tax Cuts and Jobs Act of 2017*, BPU Docket No. WR18030233, Order dated October 28, 2020; and *In the Matter of the New Jersey Board of Public Utilities' Consideration of the Tax Cuts and Jobs Act of 2017*, BPU Docket No. AX18010001 and *In the Matter of the Petition of Environmental Disposal Corp. with Calculation of Rates under the Tax Cuts and Jobs Act of 2017*, BPU Docket No. WR18030235, Order dated March 6, 2023.

amortization as mentioned above in this case and reset the annual EADIT amortization each succeeding case based on the respective ARAM and unprotected amounts.

32. Q. You stated earlier that "[t]he Company also included projected plant additions, reduced for plant retirements for the six-month post-test year period ending December 31, 2024." Why is it important to include all capital additions in the PTY period?

A. Pursuant to the previously-discussed *Elizabethtown* precedent, the Company can record changes to rate base for a period of six months beyond the end of the test year, provided: that there is clear likelihood that the proposed utility plant additions will be in service by the end of the six-month period; that the utility plant additions are major in nature and consequence; and that the utility plant additions be substantiated with reliable data. As Mr. Shields again demonstrates in his direct testimony, NJAWC has a track record of completing its capital program as planned year after year.[4] Consequently, there is no reason to believe that the Company will not do so again in 2024.

In addition, *Elizabethtown* uses the term "major in nature and consequence," with respect to recognition of post-test year rate base, yet there has not been a definition of exactly what that means. Considering the level of investments the Company makes every year and its track record of completing the capital investment it plans

[4] Given the timing of this filing and absent a settlement of this case, it is likely that the Post-Test Year utility plant additions in this Petition will be completed and in-service by the time this proceeding is adjudicated.

each year, it is reasonable to allow the Company to recover its capital costs and associated depreciation expense on all assets that are completed, and in service when new rates are in effect. To pick a subjective listing of a few larger projects based on a threshold amount that is undefined, while not including other projects and improvements just as important in providing service to our customers, disregards the fact that the Company should be allowed to recover its costs for UPIS during the time those rates are in effect. In fact, any arbitrary cost or percentage says nothing about the value to customers of one project over another, and the consequence of not building a less expensive project can be more dire than a project costing far more. Given this, the Company is seeking recognition for the capital investments that are planned to be serving customers in the post-test year period. Undue regulatory lag is perpetuated when timely cost recognition is not afforded to these in-service utility plant assets. Again, the Company is simply asking for recovery of its capital investments that are in service and from which customers are benefiting at the time new rates are in effect. In fact, establishing revenue requirements based on a rate base which includes utility plant that is in service is essentially setting rates based on a historical perspective. To set rates based upon an undefined and vague standard such as “major in nature and consequence” is contrary to the precision of “known and measurable” to which the Board aspires.

Finally, as discussed below, the capital additions in this application are funded by the proposed capital structure. Because the PTY capital additions reflect the funding requirements of the capital structure on December 31, 2024, it is appropriate to propose a capital structure in this filing utilizing the post-test year period of December 31, 2024, to match rate base.

33. Q. Please explain how future DSIC and WSIC filings impact the Company's proposed post-test year plant additions.

A. The Company will file its sixth DSIC foundational filing pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:9-10.1 *et seq*. and its second WSIC foundational filing pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:9-11.1 *et seq*. shortly after the filing of this Petition. If approved, the DSIC and WSIC foundational filings allow for annual revenue increases occurring in six-month intervals over a period of 24-36 months. The revenue increases would commence approximately *eight months* after approval of the DSIC and WSIC foundational filings, as DSIC and WSIC related infrastructure is renewed or replaced. If DSIC and WSIC related infrastructure completed in the PTY is included in rate base for the purpose of computing revenue requirements here, the Company's first DSIC and WSIC filing after the implementation of a general rate increase will result in a lower DSIC and WSIC surcharge rate. This is a result of eliminating the "gap" period of capital spending that has been included in previous DSIC or WSIC filings that will now be included in base rates.

B. Capital Structure

34. Q. What is the purpose of determining the Company's capital structure?

A. The capital structure is used to compute the Company's weighted average cost of capital ("WACC") in this proceeding. The WACC is the overall rate of return that is applied to the Company's rate base. The Company's WACC reflects, among other things, the rate of return on common equity ("ROE") recommendation presented in the Direct Testimony of Company Witness Bulkley (Exhibit P-10).

35. Q. What capital structure did the Company use to calculate the revenue requirement in this case?

A. The Company used the capital structure for the post-test year ending December 31, 2024. The capital structure proposed by the Company is shown on Exhibit P-2, Schedule 16. Schedule 16 indicates the capital structure and WACC on which the Company based its cost of service and revenue requirement in this case. The proposed capital structure is composed of 43.70% long-term debt and 56.30% common equity.

36. Q. Is the Company's proposed capital structure reasonable and appropriate for ratemaking?

A. Yes, the Company's capital structure recognizes the capital mix that the Company is currently using to fund the significant investments New Jersey-American Water must make to continue to meet its obligations to provide reliable water and wastewater service while meeting ever more stringent environmental laws and regulations. Furthermore, Ms. Bulkley has examined the proposed capital structure and explains that it is reasonable and appropriate. She further explains that NJAWC's equity ratio is within the range of equity ratios of the proxy group used to determine the Company's rate of return on equity.

37. Q. In what manner does the Company currently obtain its debt financing?

A. The Company primarily utilizes the services of American Water Capital Corp. ("AWCC") to meet its long-term and short-term debt requirements. AWCC, a NJAWC affiliate, was created to consolidate the financing activities of the operating subsidiaries, to effect economies of scale on debt issuance and legal costs, to obtain lower interest rates through larger debt issues in the public/private markets, and to use more cost-effective means of obtaining short-term debt (used to bridge the gap between permanent financings) than the bank lines of credit used previously. Participating in AWCC debt issuances has allowed the Company to obtain debt at lower interest rates and incur lower issuance and transaction costs by utilizing the combined size and resources of the larger American Water organization. In addition to financing by AWCC, the Company has also obtained tax-exempt long-term debt financing through the Drinking Water State Revolving Fund Program administered by the New Jersey Infrastructure Bank ("iBank"), formerly known as the New Jersey Environmental Infrastructure Trust ("NJEIT"), and through the New Jersey Economic Development Authority ("NJEDA").

38. Q. What factors require the Company to seek additional capital?

A. Mr. Shields's testimony explains that capital improvements are necessary to meet the new and changing regulations in the water industry, to replace aged treatment and distribution facilities, and to continue to provide safe, reliable water and wastewater service to its customers. All of this has driven, and will continue to drive, the need for new capital. The Company's proposed capital structure includes a new long-term debt financing through AWCC as well as borrowings through the iBank. NJAWC's proposed capital structure also includes equity infusions from American Water for the test year period. It is important that the Company maintain a strong financial position to allow it to continue to attract capital at a reasonable cost, which will assist the Company in its effort to provide service improvements at a cost that is beneficial to its customers over the long-term.

39. Q. Please explain the planned long-term debt financing through AWCC included in this filing.

A. The Company's proposed capital structure includes approximately $250 million of new long-term debt to be placed through AWCC in May 2024. The Company used interest rates of 5.90% (10-yr) and 6.20% (30-yr) for the two financings. These rates are based on the unsecured rate for U.S. Treasury bond ("Treasury") for 2024, plus a credit spread.

40. Q. Will the Company update the interest rate for the new long-term debt issuance?

A. Yes, the Company will provide actual rates for the proposed long-term debt issuance once it is completed.

41. Q. Please explain the planned long-term debt financings through the iBank included in this filing.

A. The Company currently has construction loans through the iBank of approximately $48.1 million in total. The Company expects that these loans will be converted to long-term debt prior to December 31, 2024, which is the post-test year for the Company's capital structure in this case.

42. Q. How did you estimate the interest rate for the new iBank loans?

A. The interest rates used in the Company's projections reflect the estimated rates of 50% at 0% and 50% at market-rate which is estimated to be at about 4%, thus 2% was projected for the iBank loans. The interest rate and other terms of any long-term debt issuance in conjunction with the iBank would be determined by the terms obtained for the NJEIT. The Company will monitor the projected rates and reflect any changes in its update filings through the pendency of this case.

43. Q. What is the Company's effective cost rate of long-term debt?

A. As shown on Exhibit P-2, Schedule 16, the effective cost rate of long-term debt projected on December 31, 2024, is 4.2256%.

44. Q. You noted previously that the Company's capital structure on December 31, 2024 reflects the addition of an equity infusion from American Water. When is this infusion expected to occur?

A. The projected equity infusion is anticipated to occur in March 2024. The equity infusion will be booked to paid-in capital.

45. Q. What WACC is the Company requesting in this case?

A. The overall WACC being requested is 7.8988%, as shown on Exhibit No. P-2, Schedule 16. The Company is requesting the ROE be set at 10.75%, which is the

ROE recommended by Ms. Bulkley, and the cost of long-term debt be set at 4.2256%.

C. Acquisitions

46. Q. Are there any new acquisitions since the 2022 Rate Case proposed in this filing?

A. Yes, the acquisition of Egg Harbor City's water and wastewater systems, Salem City's water and wastewaters systems, and the wastewater system of the Borough of Bound Brook, Borough of Somerville, and Township of Manville have been included in this filing.

47. Q. Please explain the capital investment associated with these acquisitions.

A. The Company has added the total value of the systems acquired or to be acquired of $57.6 million to rate base. Included in the $57.6 million is the rate base of $21.2 million for Egg Harbor City's water and wastewater systems. The rate base value was determined under the provisions of the Water Infrastructure Protection Act, N.J.S.A. 58:30-1 et seq, et seq. ("WIPA"), with BPU Docket No. WM21091150[5]**.**

48. Q. Does the Company currently own these systems?

A. The Company has closed and owns three of the five systems, and the Company expects to close on the remaining two systems before new rates go into effect.

[5] *In The Matter of The Petition of New Jersey-American Water Company, Inc. For: (1) Approval of Its Agreement with Egg Harbor City, New Jersey For The Purchase and Sale of Systems; (2) A Determination That The Purchase Price Is Reasonable; And (3) For Such Other Approvals As May Be Necessary To Complete The Proposed Transaction*, BPU Docket No. WM21091150, Order Adopting Initial Decision and Stipulation dated August 17, 2022.

IV. DEPRECIATION AND AMORTIZATION

49. Q. Please explain the Company's proposed depreciation expense.

A. The summary of depreciation expenses can be found on Exhibit P-2, Schedule 8. The detailed computation of depreciation expense can be seen on Exhibit P-2, Schedule 9. The proposed depreciation expense uses the Company's post-test year balances at the proposed life and cost of removal rates to calculate the post-test year depreciation expense. The Company's last depreciation rates were approved in Docket No. WR17090985; therefore, the Company is including in its request the approval of new depreciation rates. The proposed lives and costs of removal rates for water and wastewater assets are set forth in the testimony and depreciation studies presented by the Company's Witness Kennedy of Concentric Energy Advisors (Exhibit P-14).

50. Q. Please explain the Company's proposed amortization expense on Exhibit P-2, Schedule 8.

A. The Company is proposing to amortize the costs associated with three currently deferred regulatory assets over 24 months upon conclusion of this filing.

51. Q. Please describe the three currently deferred regulatory assets the Company is proposing to include in the revenue requirement.

A. Since the conclusion of the 2022 Rate Case, the Company has been deferring costs associated with Pension and OPEB expense in accordance with Docket No. WR22010019, and the transaction costs associated with the acquisition of Egg Harbor City's system under WIPA acquisition in accordance with Docket No.

WM21091150.[6] In addition, the Company filed a deferral accounting petition on June 9, 2023 requesting to defer the costs associated with implementing the Clean Energy Act of 2018 Benchmarking Requirement (Docket No. WR23050275).

52. Q. Is the Company requesting continuation of the Pension and OPEB deferral?

A. Yes. Mr. McKeever's Direct Testimony addresses the request to continue the deferral of Pension and OPEB expenses. If the Company is granted approval to continue deferring these costs, the Company will remove the post-test year amortization expense from the revenue requirement and address the balance and amortization period in the Company next base rate case proceeding.

V. PROPOSED TARIFF CHANGES – EXHIBIT P-1

53. Q. Please explain Exhibit P-1 to the Petition, the Company's proposed tariff.

A. Exhibit P-1 contains clean and redlined versions of the Company's proposed rate and language changes in this filing.

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

A. Yes. The Company has included new Rate Schedules O-3 and Rate Schedule 9-A.2, for water and wastewater, respectively, relating to its proposed Universal Affordability Tariff, and Rate Schedule O-4 for its proposed Revenue Decoupling Mechanism, as discussed by Mr. Rea in his Direct Testimony. The Company has also added new Rate Schedules for the two newly acquired water and wastewater systems expected to close before new rates go into effect: 1) Rate Schedules A-19,

[6] See Order Adopting Initial Decision and Stipulation dated August 17, 2022, Page 5, Stipulation paragraphs 20 & 21.

A-20, L-14, and 22-A for the Salem City water and wastewater system; and 2) Rate Schedule 23-A and 23-B for the Township of Manville wastewater system. The Company has also added Rate Schedule 21-A for the former EDC wastewater customers as a result of the recent merger discussed earlier in my testimony. Lastly, the Company has added Rate Schedules 12-B, 16-B, and 20-B for those wastewater collection systems where a Purchased Sewerage (Wastewater) Treatment Adjustment Clause ("PSTAC") is being established: Elk Township, Egg Harbor City and Somerville, respectively. The Company previously included costs associated with the treatment of wastewater collected from these systems in base rates. The Company now proposes a PSTAC for treatment costs for these systems and those costs have been removed from our proposed base rates going forward.

55. Q. Please discuss the Rate Schedules that have been proposed to be consolidated.

A. For water, the Company is proposing to consolidate Rate Schedule A-14 (Service Area 1D), and A-15 (Service Area 1E) into Rate Schedule A-1. For public fire, the Company is proposing to consolidate Rate Schedule M-3 into Rate Schedule M-2, and Rate Schedules M-5 and M-9 into Rate Schedule M-1. For wastewater, the Company is proposing to consolidate Rate Schedule 3-A (Adelphia) and Rate Schedule 12-A (Elk Township), into Rate Schedule 2-A (Statewide Wastewater Collection Area). Rate Schedule 17-A, the flat wastewater rate schedule for Egg Harbor City is proposed to be merged into Rate Schedule 16-A which schedule would then reflect both general metered and flat service rates for that service area.

These rate design changes are discussed more fully by Mr. Brooks in his Direct Testimony.

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

A. For private fire, the Company has proposed a hydrant charge for Rate Schedule L-1 to align the Company's practice billing of private hydrant charges across the Company's service areas. Again, these rate design changes are discussed more fully by Mr. Brooks in his Direct Testimony. In addition, the Company has included language to reflect rate increases authorized by the agreements of sale between 1) the Company and the Borough of Bound Brook, 2) the Company and the Borough of Somerville, and 3) the Company and the Township of Manville.

57. Q. Please explain the Company's proposal for Rate Schedule F – Optional Industrial Wholesale, or "OIW" customers.

A. The Company has determined that the committed average daily amount ("CADA") requirement and procedure called for in this rate schedule is unnecessary and administratively burdensome for both the Company and the customers taking service under the rate schedule. Consequently, the Company proposes to eliminate the CADA procedure from the Applicability section in Rate Schedule F, leaving the (a) monthly minimum consumption charge, and (b) peak load factor restriction as the conditions for service under this rate schedule. Furthermore, in the section labeled CONDITIONS, the Company has proposed to strike the following language:

> A customer can be exempt from the above requirements if they intend to increase their average daily consumption, on a monthly basis [entitled the committed average daily amount (CADA)] for the next twelve months provided they sign an additional written commitment at least one month prior to the period in which they exceed 1.2 times their consumption on an average daily basis.

> If a customer's actual amount used is less than the CADA, the customer will be billed at the CADA level. This minimum billing procedure will remain in effect for a period of twelve months from the date the new commitment becomes effective.

The Company does not expect these changes to have a substantive impact on the practical application of the tariff.

58. Q. Has the Company proposed tariff language regarding the liability for the issuance of notices?

A. Yes, it has. On Seventh Revised Sheet No. 6, paragraph 6, the Company has added language regarding liability related to the issuance of notices.

59. Q. What prompted the language proposal regarding issuance of notices?

A. The Company determined that present tariff language addressing matters of liability is inadequate to meet current industry challenges. Consequently, we researched liability provisions contained in the Board-approved tariffs of other New Jersey water and wastewater utilities and identified this commonly used provision addressing responsibilities when notices regarding water and/or wastewater service matters are issued to the public. This amendment is meant to protect the Company and its customers from incurring unnecessary costs.

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

A. The Company has proposed several clarifying language changes to its standard terms and conditions to align with current business practices and the regulations under which it operates. Lastly, as mentioned above, the Company is proposing a new Universal Affordability Tariff which, if approved by the Board, would sunset the Company's current low-income discount program. Therefore, the Company has removed the language associated with the current low-income discount program from the Financial Aid section of the standard terms and conditions on Sheet No. 11. These changes are reflected in Exhibit P-1.

VI. CONCLUSION

61. 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 business experience.

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

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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. In August 2018, I became the Senior Manager of Rates and Regulatory for New Jersey-American Water. Effective July 2023, I was promoted to Director of Rates and Regulatory for New Jersey-American Water.