

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 DEPRECIATION RATES, AND
OTHER TARIFF MODIFICATIONS

BPU Docket No. WR2401_____

Direct Testimony of

PATRICK L. BARYENBRUCH

Exhibit P-11

NEW JERSEY-AMERICAN WATER COMPANY, INC.

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

2 A. My name is Patrick L. Baryenbruch. I am the President of my own consulting practice,
3 Baryenbruch & Company, LLC, which was established in 1985. In that capacity, I
4 provide consulting services to utilities and their regulators. My business address is 2832
5 Claremont Road, Raleigh, North Carolina 27608.

6 **2. Q. Summarize your academic and professional background.**

7 A. I received a Bachelor's degree in Accounting from the University of Wisconsin Oshkosh
8 and a Master's in Business Administration degree from the University of Michigan. I am
9 a member of the American Institute of Certified Public Accountants and the North
10 Carolina Association of Certified Public Accountants.

11 I began my career with Arthur Andersen & Company, where I performed
12 financial audits of utilities, banks and finance companies. I left to pursue an M.B.A.
13 degree. Upon graduation from business school, I worked with the management
14 consulting firms of Theodore Barry & Associates and Scott Consulting Group (now
15 ScottMadden) before establishing my own firm.

16 **3. Q. Do you hold any professional certifications?**

17 A. Yes. I am a Certified Public Accountant ("CPA") with an active license from the states
18 of Wisconsin and North Carolina. I am a Certified Information Technology
19 Professional), an accreditation awarded by the American Institute of Certified Public
20 Accountants to CPA professionals who can demonstrate expertise in information
21 technology management.

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1 **4. Q. Have you provided testimony in other regulatory proceedings on the issue of**
2 **utility/affiliate transactions?**

3 A. Yes. During my career, I have performed more than 140 evaluations of affiliate charges
4 to 46 utility companies. I have acted as an expert witness on utility/affiliate charges in
5 100 rate case proceedings before regulators in 21 states. Schedule PLB-1 to my
6 testimony presents my previous affiliate transaction-related assignments.

7 **5. Q. What other work experience do you have within the utility industry?**

8 A. Besides my work supporting rate cases, much of my career has been spent as a
9 management consultant for projects related to the utility industry. I have performed
10 consulting assignments for more than 60 utilities and 10 public service commissions. I
11 have participated as project manager, lead consultant or staff consultant for 24
12 commission-ordered management and prudence audits of public utilities. Of these, I have
13 been responsible for evaluating the area of affiliate charges and allocation of corporate
14 expenses in the commission-ordered audits of Connecticut Light and Power (now
15 Eversource), Connecticut Natural Gas, General Water Corporation (now Veolia),
16 Philadelphia Suburban Water Company (now Essential Utilities), and Pacific Gas &
17 Electric Company.

18 My firm performed the commission-ordered audit of Southern California
19 Edison's 2002, 2003, 2004 and 2005 transactions with its non-regulated affiliate
20 companies.

21 For 20 years, I was heavily involved in providing consulting services related to
22 information technology ("IT") infrastructure within the utility industry. These projects

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1 involved improvements in business management practices of utility IT organizations,
2 covering processes such as business planning, risk management, performance
3 measurement and reporting, cost recovery, budgeting, cost management and personnel
4 development.

5 I acted as the project manager or a member of the project management team for
6 several very large-scale IT implementation projects involving more than 800,000 hours
7 of work by hundreds of utility client employees and contractor personnel.

8 **6. Q. Please describe the basis for your direct testimony in this case.**

9 A. I am presenting the results of my evaluation of the necessity of services provided by
10 American Water Works Service Company, Inc. (“Service Company”) to New Jersey-
11 American Water Company (“NJAWC”) and the reasonableness of the associated charges
12 during the 12 months ended June 30, 2023 (Base Year 2023).

13 **7. Q. Are you sponsoring any exhibits in your testimony?**

14 A. Yes. I am sponsoring Schedule PLB-1, which presents my previous affiliate transaction-
15 related assignments, and Schedule PLB-2, which is the Market-to-Cost Comparison of
16 Service Company charges to NJAWC during Base Year 2023. This study was
17 undertaken in conjunction with NJAWC’s rate case and the results are true to the best of
18 my knowledge and belief.

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1 **8. Q. What were the objectives of your study?**

2 A. This study was undertaken to answer the following four questions concerning the
3 services provided by the Service Company to NJAWC, each of which bears on the
4 reasonableness of those charges as incurred during Base Year 2023.

5 1) Are the Service Company's charges to NJAWC during Base Year 2023 reasonable?

6 2) Was NJAWC charged the lower of cost or market for managerial and professional
7 services provided by the Service Company during Base Year 2023?

8 3) Are NJAWC's Base Year 2023 costs of Service Company's customer accounts
9 services comparable to those of other utilities?

10 4) Are the services NJAWC receives from the Service Company necessary?

11 **9. Q. What conclusions were you able to draw concerning question number one,
12 whether the Service Company charges to NJAWC were reasonable?**

13 A. I was able to determine that the Service Company's Base Year 2023 cost per NJAWC
14 customer is reasonable because it is in line with, albeit considerably lower than, the
15 average cost per customer for the proxy service companies.

16 **10. Q. How were you able to make this determination?**

17 A. Every centralized service company in a holding company system subject to regulation
18 by the Federal Energy Regulatory Commission ("FERC") must file a Form 60 in
19 accordance with Section 1270 of the Public Utility Holding Company Act of 2005,
20 Section 390 of the Federal Power Act, and Section 18 Code of Federal Regulations
21 paragraph 366.23. Form 60 is designed to collect financial information from service

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1 companies within a holding company structure. For 2022, a Form 60 was filed by service
2 companies associated with 22 utility holding companies. These service companies
3 support utilities that provide regulated electric and, in some cases, gas service to retail
4 customers. Although utility service companies may deliver a range of services to their
5 regulated utility affiliates, all utility service companies provide administrative and
6 general A&G (“A&G”) services to their affiliates. This is the case because considerable
7 economies of scale derive from centralizing the management of corporate A&G services
8 such as finance, human resources, and information technology. Because A&G-related
9 services are delivered by all utility service companies, my study uses A&G charges per
10 customer as the metric by which to test the reasonableness of affiliate charges. Sch.
11 PLB-2, p. 8.

12 **11. Q. Why is a comparison of A&G costs useful to a determination of the reasonableness**
13 **of the Service Company’s charges to NJAWC?**

14 A. A&G-related services cover the functions identified below and provide a useful
15 comparison because the processes involved in delivering these services are similar across
16 utility types.

Executive Management	Information Technology
Finance	Procurement
Accounting	Rates and Regulatory
Taxes	Legal
Financial Planning and Analysis	Human Resources
Internal Auditing	Customer Services

17

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1 **12. Q. What were the specific findings of your study?**

2 A. My study found that, during Base Year 2023, NJAWC was charged \$73 per customer for
3 A&G related services provided by the Service Company. This compares to an average
4 of \$129 per customer in 2022 for the service company proxy group. Sch. PLB-2, p. 11.
5 In fact, eighteen of the 22 utility service companies that filed a FERC Form 60 for 2022
6 had a higher per-customer A&G cost than NJAWC's charges from the Service Company,
7 which was only seven dollars more than the lowest per customer charge of the proxy
8 group of service companies. Sch. PLB-2, p. 11. Therefore, it can readily be seen that,
9 based on a comparison of A&G costs charged by other utility service companies, the
10 charges to NJAWC from the Service Company are reasonable, indeed are lower than
11 average.

12 **13. Q. What conclusions were you able to draw concerning question number two,**
13 **whether NJAWC was charged the lower of cost or market services provided by**
14 **the Service Company?**

15 A. I was able to draw the following conclusions:

- 16 1) NJAWC was charged the lower of cost or market for managerial and professional
17 services during Base Year 2023.
- 18 2) On average, the hourly rates for outside service providers are 87% higher than the
19 Service Company's hourly rates. Sch. PLB-2, p. 24.
- 20 3) The managerial and professional services provided by the Service Company are vital
21 and could not be procured externally by NJAWC without careful supervision on the

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1 part of NJAWC. If these services were contracted entirely to outside providers,
2 NJAWC would have to add at least six positions to manage activities of outside firms.
3 These positions would be required to ensure the quality and timeliness of services
4 provided. Sch. PLB-2, p. 24.

5 4) If all the managerial and professional services now provided by the Service Company
6 had been outsourced during Base Year 2023, NJAWC and its customers would have
7 incurred nearly \$38.7 million in additional expenses. This amount includes the
8 higher cost of outside providers and the cost of six new NJAWC positions needed to
9 direct the outsourced work. Sch. PLB-2, p. 25.

10 5) This study's hourly rate comparison understates the cost advantages that accrue to
11 NJAWC from its use of the Service Company. Outside service providers generally
12 bill for every hour worked. Service Company exempt personnel, on the other hand,
13 charge a maximum of eight hours per day even when they work more hours. If all
14 overtime hours of Service Company personnel were factored into the hourly rate
15 calculation, the Service Company would have had an even greater annual dollar
16 advantage than the \$38.7 million cited above. Sch. PLB-2, p. 24.

17 6) It would be difficult for NJAWC to find local service providers with the same
18 specialized water industry expertise as possessed by the Service Company staff.
19 Service Company personnel spend substantially all their time serving operating water
20 companies. This specialization brings with it a unique knowledge of water utility
21 operations and regulation that may not be available from local service providers.

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1 7) Unlike service providers in the general business community, Service Company fees
2 do not include any profit markup. Only its actual cost of service is being recovered
3 from NJAWC ratepayers.

4 **14. Q. What conclusions were you able to draw concerning question number three,**
5 **whether the Base Year 2023 costs of the Service Company’s customer account**
6 **services were reasonable?**

7 A. Based on a comparison of Service Company’s account services costs to those of
8 neighboring utilities I determined that the costs paid by NJAWC are reasonable.

9 **15. Q. Please describe your methodology.**

10 A. Customer account services involve the processes that occur from the time meter-read
11 data is recorded in the customer information system through the printing and mailing of
12 bills, concluding with the collection and processing of customer payments. Customer
13 account services are accomplished by the following utility functions:

- 14 • Customer Service Operations – customer calls/contact, credit, order
15 taking/disposition, bill collection efforts and outage calls
- 16 • Customer Call IT – support of phone banks, voice recognition units, call handling
17 software applications and telecommunications
- 18 • Customer billing – bill printing, stuffing and mailing
- 19 • Remittance processing – processing customer payments received in the mail
- 20 • Bill payment centers – processing customer payments at locations where customers
21 can pay their bills in person

22 I then compared those costs to those of neighboring utilities. Neighboring electric
23 utility cost information comes from the FERC Form 1 that each utility subject to FERC

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1 regulation must file. FERC’s chart of accounts is defined in Chapter 18, Part 101 of the
2 Code of Federal Regulations. FERC accounts that contain expenses related to customer
3 account services are Account 903 Customer Accounts Expense – Records and Collection
4 Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer
5 Accounts Expense. Exhibit 11 (page 27) of Sch. PLB-2 provides FERC’s definition of
6 the type of expenses that should be recorded in these accounts.

7 **16. Q. Which companies did you use for a comparison group?**

8 A. I examined the customer accounts costs of the following neighboring electric utilities.

Customer Accounts Expenses Comparison Group

New York	Central Hudson Gas & Electric Corporation	Pennsylvania	Duquesne Light Company
	Consolidated Edison Company		Metropolitan Edison Company
	New York State Gas & Electric Corporation		PECO Energy Company
	Niagara Mohawk Power Corporation		Pennsylvania Electric Company
	Orange and Rockland Utilities, Inc		Pennsylvania Power Company
New Jersey	Rochester Gas and Electric Corporation	Delaware	PPL Electric Utilities Corporation
	Atlantic City Electric Company		West Penn Power Company
	Jersey Central Power & Light Company		Delmarva Power & Light Company
	Public Service Electric and Gas Company		
	Rockland Electric Company		

9
10 **17. Q. What did your analysis reveal?**

11 A. Here, too, my study reveals that the customer costs charged to NJAWC by the Service
12 Company are quite reasonable. As the chart on page 30 of Sch. PLB-2 shows graphically,
13 during Base Year 2023, the cost of customer account services for NJAWC customers
14 was \$20.89, compared to the 2022 average of \$52.87 for comparable utilities. In fact,
15 twelve of the 17 comparison group utilities have a higher cost than NJAWC.

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1 **18. Q. Finally, what conclusions were you able to draw concerning question number**
2 **four, whether the services NJAWC receives from the Service Company are**
3 **necessary?**

4 A. I was able to draw the following conclusions:

- 5 1) The services that the Service Company provides are necessary and are required for a
6 water and wastewater utility. These services are customarily provided by service
7 companies of other utility holding companies. Sch. PLB-2, Exh. 13 and pp 32-34.
- 8 2) There is no redundancy or overlap in the services provided by the Service Company
9 to NJAWC. A detailed analysis of all the functional work activities required to deliver
10 service to customers showed just one of the entities—Service Company or NJAWC—
11 with primary responsibility. Sch. PLB-2, Exh. 13 and pp. 32-34.

12 **19. Q. Does this complete your Direct Testimony?**

13 A. Yes.

Patrick Baryenbruch's Previous Affiliate Transactions
and Rate Case Engagements

Client	State	Year	Purpose	Rate Case Witness?	Client	State	Year	Purpose	Rate Case Witness?
1 Connecticut American Water	Connecticut	1999	Rate Case	Yes	23 Columbia Gas of Virginia	Virginia	2003	Compliance	No
2 Illinois American Water	Illinois	2007	Rate Case	Yes		Virginia	2004	Compliance	No
	Illinois	2021	Rate Case	Yes		Virginia	2005	Rate Case	Yes
3 Indiana American Water	Indiana	2017	Rate Case	Yes		Virginia	2006	Compliance	No
	Indiana	2022	Rate Case	Yes		Virginia	2007	Compliance	No
4 Iowa American Water	Iowa	2020	Rate Case	Yes		Virginia	2008	Compliance	No
5 Kentucky American Water	Kentucky	2003	Rate Case	Yes		Virginia	2009	Rate Case	Yes
	Kentucky	2006	Rate Case	Yes		Virginia	2010	Compliance	No
	Kentucky	2008	Rate Case	Yes		Virginia	2011	Compliance	No
	Kentucky	2009	Rate Case	Yes		Virginia	2012	Compliance	No
	Kentucky	2018	Rate Case	Yes		Virginia	2013	Rate Case	Yes
6 Massachusetts American Water	Massachusetts	2000	Rate Case	Yes		Virginia	2014	Compliance	No
7 Missouri American Water	Missouri	2002	Rate Case	Yes		Virginia	2015	Rate Case	Yes
	Missouri	2008	Rate Case	Yes		Virginia	2016	Compliance	No
	Missouri	2014	Rate Case	Yes		Virginia	2017	Rate Case	Yes
	Missouri	2016	Rate Case	Yes		Virginia	2018	Compliance	No
	Missouri	2019	Rate Case	Yes		Virginia	2019	Compliance	No
8 New Jersey American Water	New Jersey	2005	Rate Case	Yes		Virginia	2020	Compliance	No
	New Jersey	2007	Rate Case	Yes		Virginia	2021	Rate Case	Yes
	New Jersey	2009	Rate Case	Yes		Virginia	2022	Compliance	No
	New Jersey	2010	Rate Case	Yes	24 Columbia Gas of Pennsylvania	Pennsylvania	2015	Internal Info	No
	New Jersey	2014	Rate Case	Yes		Pennsylvania	2020	Rate Case	Yes
	New Jersey	2017	Rate Case	Yes	25 Dominion Energy, Inc.	Virginia	2008	Rate Case	Yes
	New Jersey	2019	Rate Case	Yes		Virginia	2009	Compliance	No
9 New Mexico American Water	New Mexico	2007	Rate Case	Yes		Virginia	2010	Compliance	No
10 New York American Water	New York	2006	Rate Case	Yes		Virginia	2011	Compliance	No
	New York	2010	Rate Case	Yes		Virginia	2012	Compliance	No
	New York	2013	Rate Case	Yes		Virginia	2014	Compliance	No
	New York	2015	Rate Case	Yes		Virginia	2017	Compliance	No
11 Ohio American Water	Ohio	2006	Rate Case	Yes		Virginia	2019	Compliance	No
	Ohio	2010	Rate Case	Yes	26 Duke Energy	North Carolina	2006	Compliance	No
12 Pennsylvania American Water	Pennsylvania	2008	Compliance	No	27 Elizabethtown Gas (Southern Co)	New Jersey	2008	Rate Case	Yes
	Pennsylvania	2011	Compliance	No	28 Electric Transmission Texas	Texas	2016	Rate Case	Yes
	Pennsylvania	2014	Compliance	No		Texas	2020	Rate Case	Yes
	Pennsylvania	2017	Compliance	No		Texas	2022	Rate Case	Yes
	Pennsylvania	2020	Compliance	No	29 General Water Works of Rio Rancho	New Mexico	1993	Rate Case	Yes
13 Tennessee American Water	Tennessee	2006	Rate Case	Yes	30 General Water Works of Virginia	Virginia	1992	Rate Case	Yes
	Tennessee	2010	Rate Case	Yes	31 Po River Water and Sewer	Virginia	1993	Rate Case	Yes
14 Virginia American Water	Virginia	1996	Rate Case	Yes		Virginia	2007	Rate Case	Yes
	Virginia	1999	Rate Case	Yes		Virginia	2008	Rate Case	Yes
	Virginia	2000	Rate Case	Yes	32 Progress Energy	North Carolina	2001	Internal Info	No
	Virginia	2001	Rate Case	Yes	33 Roanoke Gas	Virginia	2006	Compliance	No
	Virginia	2003	Rate Case	Yes	34 Southern California Edison	California	2002	Compliance	No
	Virginia	2007	Rate Case	Yes		California	2003	Compliance	No
	Virginia	2009	Rate Case	Yes		California	2004	Compliance	No
	Virginia	2011	Rate Case	Yes		California	2005	Compliance	No
	Virginia	2014	Rate Case	Yes	35 AEP Texas	Texas	2018	Rate Case	Yes
	Virginia	2018	Rate Case	Yes	36 Appalachian Power	Virginia	2021	Rate Case	Yes
	Virginia	2021	Rate Case	Yes	37 Southwestern Electric Power	Texas	2016	Rate Case	Yes
15 West Virginia American Water	West Virginia	2002	Rate Case	Yes		Texas	2020	Rate Case	Yes
	West Virginia	2006	Rate Case	Yes	38 Kentucky Utilities	Virginia	2020	Rate Case	Yes
	West Virginia	2007	Rate Case	Yes	39 Virginia Natural Gas (Southern Co)	Virginia	2004	Compliance	No
	West Virginia	2009	Rate Case	Yes		Virginia	2005	Rate Case	Yes
	West Virginia	2012	Rate Case	Yes		Virginia	2010	Rate Case	Yes
	West Virginia	2014	Rate Case	Yes	40 United Water of Pennsylvania	Pennsylvania	2004	Rate Case	Yes
	West Virginia	2017	Rate Case	Yes	41 Corix Infrastructure/Water Services Corp.	Enterprise	2018	Internal Info	No
	West Virginia	2020	Rate Case	Yes		Enterprise	2019	Internal Info	No
	West Virginia	2022	Rate Case	Yes		Enterprise	2021	Internal Info	No
16 Atlanta Gas Light (Southern Co)	Georgia	2009	Rate Case	Yes	42 Community Utilities of Indiana	Indiana	2020	Rate Case	No
17 Atmos Energy Corporation	Virginia	2004	Compliance	No	43 Massanutten Public Service Company	Virginia	2006	Rate Case	Yes
18 Columbia Gas of Kentucky	Kentucky	2015	Rate Case	Yes		Virginia	2008	Rate Case	Yes
19 Columbia Gas of Maryland	Maryland	2015	Rate Case	Yes		Virginia	2013	Rate Case	Yes
20 Columbia Gas of Massachusetts	Massachusetts	2004	Rate Case	Yes		Virginia	2019	Rate Case	Yes
	Massachusetts	2006	Internal Info	No	44 Water Service Corporation	Kentucky	2010	Rate Case	Yes
	Massachusetts	2011	Internal Info	No		Kentucky	2012	Rate Case	Yes
	Massachusetts	2012	Internal Info	No		Kentucky	2019	Rate Case	Yes
	Massachusetts	2014	Internal Info	No		Kentucky	2021	Rate Case	Yes
	Massachusetts	2017	Internal Info	No	45 Corix Utilities Oklahoma	Oklahoma	2019	Compliance	Yes
21 Northern Indiana Public Service	Indiana	2015	Internal Info	No	46 Great Basin Water Company	Nevada	2019	Rate Case	Yes
	Indiana	2016	Rate Case	Yes		Nevada	2021	Rate Case	Yes
	Indiana	2020	Rate Case	Yes					
	Indiana	2021	Rate Case	Yes					
22 Liberty Utilities New York Water	New York	2022	Rate Case	Yes					
								Total Studies	143
								Number of Rate Cases	100
								Number of Utility Clients	46
								Number of States	21

**Market-to-Cost Comparison of Service Company Charges to
New Jersey-American Water Company, Inc.**

12 Months Ended June 30, 2023

September 2023



**New Jersey-American Water Company, Inc.
Market-to-Cost Comparison of Service Company Charges
12 Months Ended June 30, 2023**

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Purpose of This Study

This Market-to-Cost Comparison of 12 months ended June 30, 2023 (Base Year 2023) Service Company Charges to New Jersey-American Water Company, Inc., (NJAWC) study was undertaken to answer four questions concerning the services provided by American Water Works Service Company, Inc., (Service Company) to NJAWC.

1. Were the Service Company's charges to NJAWC during Base Year 2023 reasonable?
2. Was NJAWC charged the lower of cost or market for managerial and professional services provided by the Service Company during Base Year 2023?
3. Were Base Year 2023 costs of Service Company's customer account services comparable to those of other utilities?
4. Are the services NJAWC receives from the Service Company necessary?

Study Results

Concerning question 1, the following conclusion was reached:

- The Service Company's Base Year 2023 cost per NJAWC customer is reasonable compared to costs per customer for electric and combination electric/gas service companies. During Base Year 2023, NJAWC was charged \$73 per customer for administrative and general (A&G)-related services provided by the Service Company. This compares to an average of \$129 per customer in 2022 for service companies reporting to the Federal Energy Regulatory Commission (FERC). Eighteen of the 22 utility service companies that filed a FERC Form 60 for 2022 had higher per-customer A&G costs than NJAWC's charges from the Service Company.

Concerning question 2, the following conclusions were reached from this study:

- NJAWC was charged the lower of cost or market for managerial and professional services during Base Year 2023.
- On average, the hourly rates for outside service providers are 87% higher than the Service Company's hourly rates. Consequently, the Company obtains services from the Service Company at considerably below the market prices for such services.
- The managerial and professional services provided by the Service Company are vital and could not be procured externally by NJAWC without careful supervision on the part of NJAWC. If these services were contracted entirely to outside providers, NJAWC would have to add at least six positions to manage activities of outside firms. This position would be required to ensure the quality and timeliness of services provided.
- If all the managerial and professional services now provided by the Service Company had been outsourced during Base Year 2023, NJAWC and its customers would have incurred nearly \$38.7 million in additional expenses. This amount includes the higher cost of outside providers and the cost of two new NJAWC positions needed to direct the outsourced work.
- This study's hourly rate comparison understates the cost advantages that accrue to NJAWC from its use of the Service Company. Outside service providers generally bill for every hour worked. Service Company exempt personnel, on the other hand, charge a



I – Introduction

maximum of eight hours per day even when they work more hours. If all overtime hours of Service Company personnel were factored into the hourly rate calculation, the Service Company would have had an even greater annual dollar advantage than the \$38.7 million cited above.

- It would be difficult for NJAWC to find local service providers with the same specialized water and wastewater industry expertise as that possessed by Service Company staff. Service Company personnel spend substantially all their time serving operating water and wastewater companies. This specialization brings with it a unique knowledge of water and wastewater utility operations and regulation that may not be available from local service providers.
- Service Company fees do not include any profit markup. Only its actual cost of service is being recovered from NJAWC customers.

Concerning question 3, the following conclusion was reached:

- The cost of the Service Company's customer account services is reasonable. Such costs are slightly above the average of the proxy group of comparable regulated utilities of the size and scope of the Service Company and NJAWC. During Base Year 2023, the cost of customer account services for NJAWC customers was \$20.89, compared to the 2022 average of \$52.87 for comparable utilities. Twelve of the 17 comparison group utilities have a higher cost than NJAWC.

Concerning question 4, the following conclusions were drawn:

- The services that the Service Company provides are necessary and are required for water and wastewater utilities. These services are customarily provided by service companies of other utility holding companies.
- Furthermore, there is no redundancy or overlap in the services provided by the Service Company to NJAWC. For all the services provided (Exhibit 13), there was only one entity primarily responsible for the service. A detailed analysis of all the functional work activities required to deliver service to customers showed just one of the entities—Service Company or NJAWC—with primary responsibility.



II – Background

Overview of American Water Works Service Company

American Water's Service Company exists to provide certain shared services to American Water subsidiaries. It follows a service company model used by many utility holding companies that own multiple regulated utilities. By consolidating executive and professional services into a single service company, utility holding companies are able to realize the following benefits for customers:

- **Purchasing Economies** – Common expenses (e.g., insurance, chemicals, piping) can be procured on a much larger scale, thereby providing greater bargaining power for the combined entity compared to individual utility operating companies. A service company facilitates enterprise-wide purchasing programs through its procurement and contract administration functions.
- **Operating Economies of Scale** – A service company is able to deliver services more efficiently because workloads can be balanced across more persons and facilities. For instance, American Water's Service Company can maintain one principal water testing laboratory for the entire organization. This is much more cost-efficient than each operating utility funding its own testing arrangements.
- **Continuity of Service** – Centralizing service company personnel who perform similar services facilitates job cross-training and sharing of knowledge and expertise. This makes it easier to manage staff turnover and absences and to sustain high levels of service to operating utilities. An individual operating utility might experience considerable disruption if a key professional left and it were necessary to hire outside to fill the vacancy.
- **Maintenance of Enterprise-Wide Standards** – Personnel in American Water's Service Company establish standards for many functions (e.g., engineering designs, operating procedures and maintenance practices). It is easier to align operating utility operations because their implementation is supported by the Service Company.
- **Improved Support and Guidance** – American Water's Service Company provides another dimension of management and financial support and guidance that supplements local operating utility management. The Service Company facilitates standard planning and reporting, which helps ensure that operating utilities meet the requirements of their customers in a cost-effective manner.
- **Retention of Personnel** – A service company organization provides operating utility personnel with another career path beyond what may be available on a local level. These opportunities tend to improve employee retention.

American Water follows the model for other utility service companies in another important regard: its services are provided to affiliate operating utilities, like NJAWC, at cost. American Water's Service Company is not a profit-making entity. It assigns only its actual expenses to the American Water subsidiaries it services.

II – Background

The Service Company provides services to American Water operating companies from the following locations:

- One Water Street – Service Company employees at One Water Street provide corporate governance and service functions, including executive management, finance, accounting, audit, tax, regulatory, external affairs, engineering, supply chain, human resources and benefits services. One Water Street also includes American Water's main Information Technology (IT) Services center for employees, which provides software delivery and enhancements. It also provides local on-site support and an IT Service Desk for remote assistance. Further, One Water Street supports critical systems such as supervisory control and data acquisition (SCADA) as well as emerging technologies such as geographic information systems and mobility. It provides technical expertise in project governance and release management while ensuring compliance with all governmental regulations.
- Central Lab – The national trace substance laboratory is located in Belleville, Illinois, and performs testing for all American Water operating companies.
- Customer Relations and Customer Service – Provide customer relations, field resource coordination services, customer communication, and billing and collection services from various locations.
- Information Technology Services Center – The IT Services Center supports the technology infrastructure required to run business applications and communications systems for American Water's operating companies.
- Regional Support Services – Operating companies are provided with certain support services that are delivered more effectively on a regional basis because individual operating company workloads are not sufficient to warrant maintaining their own full-time staff for these activities. These services require closer proximity to operating companies and therefore are located near the operating companies to which the employees provide service.

Service Company Accounting

Service Company maintains an accounting ledger for recording transactions (e.g., labor, expenses, overhead, capital and other assets, liabilities and equity) in a Service Company ledger separate from affiliates' ledgers. Monthly financial statements are prepared that summarize month-to-date and year-to-date costs, budgets and prior year, with variances and explanations, by category and function. Accounting categories by transaction type are described below:

- Service Company Labor: The Service Company utilizes a system that tracks time and attendance. Employees electronically enter hours worked (including vacation, sick, family leave, etc.) and accounting information (e.g., business unit; formula; pay type) and electronically submit the timesheet for approval. Submitted timesheets are electronically routed to authorized approvers. Time sheets require approval (of hours and accounting information such as formulas, etc.) by an authorized timesheet approver in the employee's home business unit.
- Service Company Expenses: Expenditures (i.e., standard invoices, purchase orders, electronic disbursements, miscellaneous invoices, recurring invoices, recurring vouchers, and procurement cards) and journal entries require a preparer to enter accounting coding details (e.g., cost center, cost element and Work Breakdown Structure (WBS)) and a

II – Background

reviewer to approve the information in accordance with the corporate Delegation of Authority Policy. Expenditures are processed electronically and are automatically routed to the employee's supervisor for approval. Costs are posted many times daily, in detail, in the business unit selected. Journal entries are submitted as prepared to the appropriate reviewer and posted as approved.

- **Service Company Assets:** Service Company assets are procured directly by Service Company or through a capital leasing arrangement with Laurel Oak Properties (LOP). Service Company capitalizes these LOP leases as Non-Utility Plant assets in accordance with generally accepted accounting principles. Generally speaking, Service Company assets (including hardware, servers, laptops, desktops, servers, storage racks, furniture, laboratory and test equipment, security cameras, monitors and leasehold improvements) are acquired through LOP via a capital lease. LOP, on behalf of the Service Company, will acquire the necessary materials and services to build the assets that are needed for the Service Company to meet its business needs. One Water Street (OWS), which owns the Camden headquarters, is providing furniture, fixtures and office-related equipment for the first 7 years of the lease with the Service Company.
- **Service Company Overhead:** Costs for support personnel (e.g., administrative assistants, mailroom clerks), rents, facility expenses, pension, medical insurance, taxes, general office supplies and other similar expenses are recorded in the ledger of the cost center responsible for incurring the charge. Overhead expenditures are posted using the labor and expense processes noted above, and are recorded, in detail, in the ledger of the cost center responsible for the charge, using an overhead WBS.

Service Company Billing and Clearing

Service Company has developed a billing system that charges directly or allocates costs for services provided to Affiliates. Service Company billing is processed monthly and includes all Service Company costs charged to Affiliates using the WBS element selected for each transaction.

- **WBS element:** Every Service Company transaction (vouchers, journal entries, payroll batch, etc.) requires a WBS element within the account coding string. Each WBS element is configured in SAP with the following: Affiliate(s) to be charged, percent of charge to be billed to each Affiliate (total must equal 100%), receiving object (e.g., Affiliate's cost center) for O&M costs or an Affiliate's WBS element for capital expenditures (CAPEX). WBS elements are configured in SAP with an end date (month/year) to prevent transactions from using an expired WBS during data input.
- **Affiliate Billing Process:** Service Company billing is a two-step process that first calculates allocations of transactions for all non-overhead WBS elements. The second step calculates overhead transaction allocations using the ratio of direct labor (Cost Element 5012000) allocations to Affiliates from the first step above multiplied by the pool of overhead expenses by physical location.
- **Bill Clearing Process:** Service Company billings are cleared through American Water Capital Corp., (an affiliate) monthly via an intercompany journal entry to GL Account 23120000 (Notes Payable – Associated Companies) posted on the last day of the month. Payments are estimated for each Affiliate using the prior month actual billing (current month estimate) with adjustment for prior month actual to estimate (previous month funding) true-up.

III – Service Company Cost Comparison Approach

Service Company Base Year 2023 Charges

During Base Year 2023, the Service Company billed NJAWC a total of approximately \$83.3 million, as shown in the table below. These charges were subjected to a market-to-cost comparison.

	BY 2023
Support Services - O&M	\$ 56,967,430
Support Services - Capital	\$ 25,332,171
Total Service Company Charges	\$ 82,299,601

For purposes of comparing these charges to certain outside benchmarks, Service Company services were placed into three categories:

- **Managerial and Professional Services** – Includes such services as management, accounting, legal, human resources, engineering and information technology.
- **Customer Account Services** – Includes customer-related services, such as call handling, credit, billing, collection and payment processing.
- **Field Resource Coordination Services** – Includes tracking and dispatching service orders for field representatives and distribution crews to carry out.

Total Base Year 2023 Service Company dollar and hour charges break down between management and professional, customer account and field resource coordination services as follows:

	BY 2023	
	Charges	Hours
Management and Professional Services	\$69,414,810	324,191
Customer Account Services	\$11,730,460	114,379
Field Resource Coordination Services	\$ 1,154,331	21,212
Total Service Company Charges	\$82,299,601	459,782

Service Company Cost Comparison Approach

This study’s first question—whether the Service Company Base Year 2023 charges were reasonable—was determined by comparing NJAWC’s A&G-related Service Company charges per regulated retail customer to the same charges for utility companies that must file the Federal Energy Regulatory Commission (FERC) Form 60 – Annual Report of Service Companies.

The second question—whether the Service Company charges during Base Year 2023 were priced at the lower of cost or market—was evaluated by comparing the cost per hour for managerial and professional services provided by Service Company personnel to hourly billing rates that would be charged by outside providers of equivalent services. Service Company costs per hour were based on actual charges to NJAWC during Base Year 2023. Outside providers' billing rates came from surveys or other information from professionals who could perform the services now provided by the Service Company.

The third question—whether Service Company’s Base Year 2023 customer account services charges were comparable to other utilities—was addressed by comparing NJAWC’s customer account services expenses to those of neighboring investor-owned electric utilities. This utility comparison group was selected because the cost of outside providers of customer account services is proprietary and not publicly available. Comparison to electric utilities is appropriate

III – Service Company Cost Comparison Approach

because all utilities, regardless of service type, must perform customer account services activities, including updating customer records for meter reads, printing and mailing bills, and collecting and processing customer payments. Electric utility costs are available from the FERC Form 1; thus, there is appropriate data transparency. The selection of electric utilities from New Jersey and neighboring states provides a sufficiently sized comparison group.

The fourth question—the necessity of Service Company services—was investigated by defining the services provided to NJAWC and determining if these services would be required if NJAWC were not part of the American Water organization.

IV – Question 1 – Reasonableness of Service Company Charges

Methodology

Utility service companies deliver a range of services to their regulated utility affiliates. Some may support their regulated utility affiliate's operations-related functions (e.g., transmission, distribution). All utility service companies, however, provide A&G services to their affiliates. This is the case because considerable economies of scale derive from centralizing the management of corporate A&G services such as finance, human resources and information technology. Because A&G-related services are delivered by all utility service companies, this study uses A&G charges per customer as the metric by which to test the reasonableness of affiliate charges.

NJAWC's Service Company A&G Cost per Customer

During Base Year 2023, NJAWC was charged \$73 per customer by the Service Company for A&G-related services. The calculation of this amount, shown in the table below, starts with total Service Company charges and adjusts for capital and non-A&G function (e.g., engineering, operations and water quality) charges. These adjustments are necessary to develop a per-customer cost that can be compared to the cost of the utility service company comparison group.

	Base Year 2023
Total Service Company charges	\$ 82,299,601
Less: Capital charges	\$ (25,332,171)
Less: Non-A&G charges	
Engineering	\$ (491,990)
Operations	\$ (2,973,416)
Water Quality	\$ (1,137,228)
Net A&G Service Company Charges	\$ 52,364,796
NJAWC Customer Count	721,512
NJAWC A&G SC Charges per Customer	\$ 73

Comparison Group Cost Per Customer

Every centralized service company in a holding company system subject to regulation by the FERC must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act, and Section 18 Code of Federal Regulations paragraph 366.23. Form 60 is designed to collect financial information from service companies within a holding company structure.

Charges to utility affiliates for the comparison group service companies were obtained from Schedule XVI – Analysis of Charges for Service Associate and Non-Associate Companies (p. 303 to 306) of each entity's FERC Form 60. Information from Form 60 schedule Account 457 – Analysis of Billing – Associate Companies was also used to isolate and eliminate charges to non-regulated affiliates from the cost pool used to calculate A&G expenses per regulated service customer.

For 2022, a Form 60 was filed by service companies associated with 22 utility holding companies. These service companies support utilities that provide regulated electric and, in some cases, gas service to retail customers.

IV – Question 1 – Reasonableness of Service Company Charges

FERC Form 60 shows service company charges to affiliates by FERC account. The table below shows a list of FERC A&G accounts and designates which correspond to services the Service Company provides to NJAWC. Amounts in the designated FERC accounts are included in the calculation of service company A&G expenses per regulated customer.

FERC Account	Included In Cost Calculation
901 - Supervision	X
902 - Meter reading expenses	
903 - Customer records and collection expenses	X
904 - Uncollectible accounts	
905 - Miscellaneous customer accounts expenses	X
907 - Supervision	
908 - Customer assistance expenses	X
909 - Informational And Instructional Advertising Expenses	
910 - Miscellaneous Customer Service And Informational Exj	X
911 - Supervision	
912 - Demonstrating and Selling Expenses	
913 - Advertising Expenses	
916 - Miscellaneous Sales Expenses	
920 - Administrative and General Salaries	X
921 - Office Supplies and Expenses	X
923 - Outside Services Employed	X
924 - Property Insurance	X
925 - Injuries and Damages	
926 - Employee Pensions and Benefits	X
928 - Regulatory Commission Expenses	
930.1 - General Advertising Expenses	
930.2 - Miscellaneous General Expenses	X
931 - Rents	X
935 - Maintenance of Structures and Equipment	X

The A&G expenses per regulated utility customer for the 22 utility companies whose service companies filed a Form 60 for 2022 are calculated in Exhibit 1 (page 10).

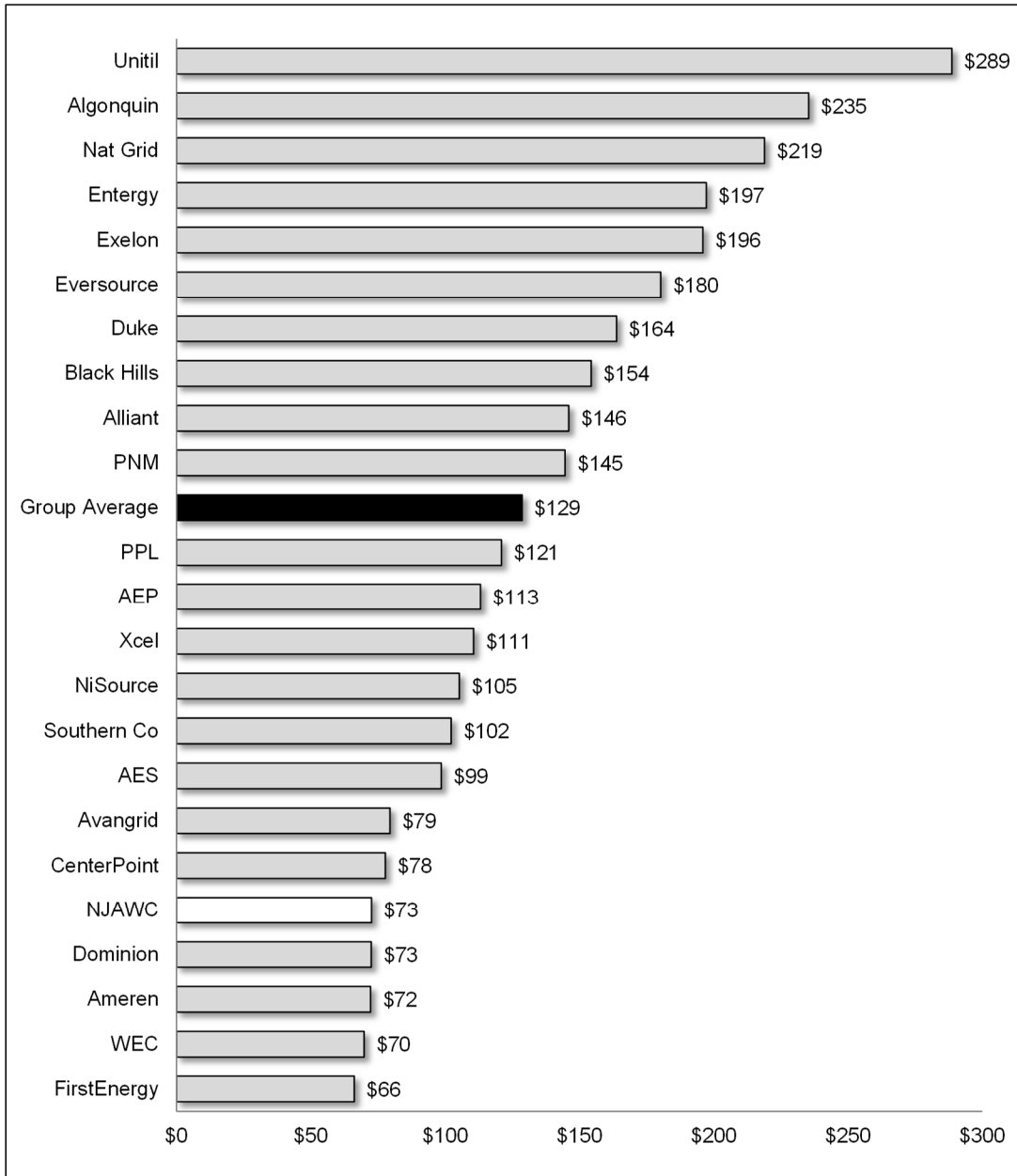
Exhibit 2 (page 11) shows NJAWC's Base Year 2023 Service Company cost per customer of \$73 to be lower than the 2022 average of \$129 per customer for the comparison group service companies. Eighteen of the 22 comparison group service companies had higher per-customer A&G costs than NJAWC's charges from the Service Company. Based on this result, it is possible to conclude that the Service Company's charges to NJAWC were reasonable.

New Jersey-American Water Company, Inc.
Calculation of 2022 Service Company A&G Charges Per Customer

Utility Company	2022 Regulated Retail Service Company A&G Expenses	Regulated Retail Customers	Cost per Customer
AEP	\$633,631,593	5,600,000	\$ 113
AES	\$104,062,557	1,056,000	\$ 99
Algonquin	\$282,397,645	1,200,000	\$ 235
Alliant	\$207,364,390	1,420,000	\$ 146
Ameren	\$238,462,661	3,300,000	\$ 72
Avangrid	\$262,152,291	3,300,000	\$ 79
Black Hills	\$197,599,354	1,280,000	\$ 154
CenterPoint	\$528,629,625	6,800,000	\$ 78
Dominion	\$507,688,924	7,000,000	\$ 73
Duke	\$1,611,979,511	9,840,000	\$ 164
Entergy	\$632,023,344	3,204,000	\$ 197
Eversource	\$721,020,599	4,000,000	\$ 180
Exelon	\$1,960,011,901	10,000,000	\$ 196
FirstEnergy	\$396,898,656	6,000,000	\$ 66
Nat Grid	\$1,532,213,935	7,000,000	\$ 219
NiSource	\$378,141,896	3,593,000	\$ 105
PNM	\$117,182,934	810,000	\$ 145
PPL	\$423,061,953	3,498,000	\$ 121
Southern Co	\$897,411,486	8,775,000	\$ 102
Unitil	\$55,708,515	193,000	\$ 289
WEC	\$322,743,099	4,622,000	\$ 70
Xcel	\$652,463,461	5,900,000	\$ 111
Total/Average	\$12,662,850,330	98,391,000	\$ 129

Source: FERC Form 60; Baryenbruch & Company, LLC, analysis

New Jersey-American Water Company, Inc.
Comparison of Service Company A&G Charges Per Customer



Source: Company information; 2022 FERC Form 60; Baryenbruch & Company, LLC, analysis

V – Question 2 – Provision of Services at the Lower of Cost or Market

Methodology

The lower-of-cost-or-market comparison is accomplished by comparing the cost per hour for Service Company managerial and professional services to those of outside service providers to whom these duties could be assigned. Based on the nature of the Service Company services, it was determined that the following outside providers could perform the categories of services indicated below:

- Management Consultants – executive and administrative management, risk management, human resources and communications services
- Attorneys – legal services
- Certified Public Accountants – accounting, financial, rates and regulatory services
- IT Professionals – information technology services
- Professional Engineers – engineering, operations and water quality services.

Service Company's hourly rates were calculated for each of the five outside service provider categories, based on the dollars and hours charged to NJAWC during Base Year 2023. Hourly billing rates for outside service providers were developed using third party surveys or directly from information furnished by outside providers themselves.

It should be noted that by using the Service Company's hours charged to NJAWC during Base Year 2023, its hourly rates are actually overstated because some Service Company personnel charge a maximum of 8 hours per day even when they work more. Outside service providers generally bill for every hour worked. If all overtime hours of Service Company personnel had been factored into the hourly rate calculation, Service Company hourly rates would have been lower.

The last step in the lower-of-cost-or-market comparison was to compare the Service Company's average cost per hour to the average cost per hour for outside providers.

Service Company Hourly Rates

Exhibit 3 (page 14) details the assignment of Base Year 2023 management and professional Service Company charges by outsider provider category. Exhibit 4 (page 15) shows the same assignment for Service Company management and professional hours charged to NJAWC during Base Year 2023.

Adjustments to these dollar amounts were necessary to calculate Service Company hourly rates that are directly comparable to those of outside providers. Adjustments were made to the following non-labor Service Company charges for Base Year 2023:

- Contract Services – Base Year 2023 Service Company charges to NJAWC include expenses associated with the use of outside professional firms to perform certain enterprise-wide services (e.g., legal, financial audit, actuarial services). These professional fees are excluded from the Service Company hourly rate calculation because the related services have effectively been out-sourced already.
- IT Infrastructure Expenses – Included in Base Year 2023 Service Company charges to NJAWC are leases, maintenance fees and depreciation related to American Water's enterprise computing and network infrastructure and business applications. An outside provider that takes over operation of this infrastructure would recover these expenses over and above the cost of personnel necessary to operate the data center.

V – Question 2 – Provision of Services at the Lower of Cost or Market

- Non-Service-Related Expenses – These are corporate expenses such current and deferred income tax expense, line-of-credit fees and board expenses. These are not related to the provision of services by Service Company personnel and have been excluded.
- Travel Expenses – In general, client-related travel expenses incurred by outside service providers are not recovered through their hourly billing rates. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these Service Company charges from the hourly rate calculation.

Exhibit 5 (page 16) shows how contract services, travel expenses, IT infrastructure and non-service-related Service Company charges are assigned to the five outside provider categories.

Based on the assignment of expenses and hours shown in Exhibits 3 and 4 and the excludable items shown in Exhibit 5, the Service Company's equivalent costs per hour for Base Year 2023 are calculated below.

	Base Year 2023					Total
	Attorney	Management Consultant	Certified Public Accountant	IT Professional	Professional Engineer	
Total management, professional & technical services charges	\$ 2,965,353	\$ 23,421,814	\$ 10,254,078	\$ 28,373,728	\$ 4,399,837	\$ 69,414,810
Less: Exclusions						
Contract services	\$ 173,421	\$ 1,762,322	\$ 1,172,970	\$ 13,337,782	\$ 123,693	\$ 16,570,187
IT infrastructure expenses	\$ -	\$ 1,911,316	\$ 413	\$ 6,539,674	\$ -	\$ 8,451,403
Non-service related expenses	\$ 355,572	\$ (308,791)	\$ 147,838	\$ 58,472	\$ 333,985	\$ 587,076
Travel expenses	\$ 15,543	\$ 214,246	\$ 128,859	\$ 114,793	\$ 118,509	\$ 591,951
Total Exclusions	\$ 544,537	\$ 3,579,092	\$ 1,450,080	\$ 20,050,721	\$ 576,187	\$ 26,200,617
Net Service-Related Charges (A)	\$ 2,420,817	\$ 19,842,722	\$ 8,803,998	\$ 8,323,007	\$ 3,823,650	\$ 43,214,192
Total Hours (B)	9,023	109,377	97,405	69,868	38,517	324,191
Average Hourly Rate (A / B)	\$ 268	\$ 181	\$ 90	\$ 119	\$ 99	

New Jersey-American Water Company, Inc.
Base Year 2023 Service Company Charges by Location and Function

		Base Year 2023 Service Company Charges					
Group	Function	Management		Certified	IT	Professional	Total
		Attorney	Consultant	Public Accountant	Professional	Engineer	
Belleville Lab	Water Quality	\$ -	\$ -	\$ -	\$ -	\$ 1,137,228	\$ 1,137,228
Call Centers	Human Resources	\$ -	\$ 1,360	\$ -	\$ -	\$ -	\$ 1,360
Corporate	Accounting	\$ -	\$ -	\$ 4,431,748	\$ -	\$ -	\$ 4,431,748
	Administration	\$ -	\$ 10,755,639	\$ -	\$ -	\$ -	\$ 10,755,639
	Audit	\$ -	\$ -	\$ 820,245	\$ -	\$ -	\$ 820,245
	Business Development	\$ -	\$ 439,393	\$ -	\$ -	\$ -	\$ 439,393
	Communications	\$ -	\$ 1,210,008	\$ -	\$ -	\$ -	\$ 1,210,008
	Engineering	\$ -	\$ -	\$ -	\$ -	\$ 3,259,893	\$ 3,259,893
	External Affairs	\$ -	\$ 4,318	\$ -	\$ -	\$ -	\$ 4,318
	Finance	\$ -	\$ 144,111	\$ 1,574,203	\$ -	\$ -	\$ 1,718,313
	Human Resources	\$ -	\$ 4,532,794	\$ -	\$ -	\$ -	\$ 4,532,794
	Information Technology	\$ -	\$ -	\$ -	\$ 367,126	\$ -	\$ 367,126
	Legal	\$ 1,714,503	\$ -	\$ -	\$ -	\$ -	\$ 1,714,503
	Operations	\$ -	\$ 2,362,601	\$ -	\$ -	\$ -	\$ 2,362,601
	Supply Chain	\$ -	\$ -	\$ 2,028,615	\$ -	\$ -	\$ 2,028,615
	Regional Offices	Administration	\$ -	\$ 2,033,318	\$ -	\$ -	\$ -
Business Development		\$ -	\$ 1,214,491	\$ -	\$ -	\$ -	\$ 1,214,491
Engineering		\$ -	\$ -	\$ -	\$ -	\$ 2,715	\$ 2,715
External Affairs		\$ -	\$ 551,266	\$ -	\$ -	\$ -	\$ 551,266
Finance		\$ -	\$ -	\$ 678,252	\$ -	\$ -	\$ 678,252
Human Resources		\$ -	\$ 113	\$ -	\$ -	\$ -	\$ 113
Legal		\$ 1,250,850	\$ -	\$ -	\$ -	\$ -	\$ 1,250,850
Operations		\$ -	\$ 172,404	\$ -	\$ -	\$ -	\$ 172,404
Rates & Regulatory		\$ -	\$ -	\$ 721,015	\$ -	\$ -	\$ 721,015
Information Technology	\$ -	\$ -	\$ -	\$ 28,006,602	\$ -	\$ 28,006,602	
Total Charges		\$ 2,965,353	\$ 23,421,814	\$ 10,254,078	\$ 28,373,728	\$ 4,399,837	\$ 69,414,810

New Jersey-American Water Company, Inc.
Base Year 2023 Service Company Hours by Location and Function

		Base Year 2023 Service Company Hours					
Group	Function	Certified				Total	
		Attorney	Management Consultant	Public Accountant	IT Professional		Professional Engineer
Belleville Lab	Water Quality	-	-	-	-	10,304	10,304
Call Centers	Human Resources	-	-	-	-	-	-
Corporate	Accounting	-	-	42,761	-	-	42,761
	Administration	-	18,533	-	-	-	18,533
	Audit	-	-	3,480	-	-	3,480
	Business Development	-	2,373	-	-	-	2,373
	Communications	-	7,868	-	-	-	7,868
	Engineering	-	-	-	-	28,213	28,213
	External Affairs	-	-	-	-	-	-
	Finance	-	2,273	19,063	-	-	21,336
	Human Resources	-	33,405	-	-	-	33,405
	Information Technology	-	-	-	3,422	-	3,422
	Legal	4,661	-	-	-	-	4,661
	Operations	-	11,020	-	-	-	11,020
	Supply Chain	-	-	20,704	-	-	20,704
Regional Offices	Administration	-	15,515	-	-	-	15,515
	Business Development	-	11,333	-	-	-	11,333
	Engineering	-	-	-	-	-	-
	External Affairs	-	5,496	-	-	-	5,496
	Finance	-	-	5,800	-	-	5,800
	Human Resources	-	-	-	-	-	-
	Legal	4,362	-	-	-	-	4,362
	Operations	-	1,562	-	-	-	1,562
Rates & Regulatory	-	-	5,596	-	-	5,596	
Information Technology	Information Technology	-	-	-	66,446	-	66,446
Total Hours		9,023	109,377	97,405	69,868	38,517	324,191

New Jersey-American Water Company, Inc.
Base Year 2023 Service Company Charges Excludable from the Hourly Rate Calculation

Charges By Function	Exclusions From Hourly Rate Calculation					Total	Outside Service Provider Category
	Contract Services	Enterprise IT Expenses	Non-Services-Related Items	Travel Expenses			
Accounting	\$ 533,682	\$ 60	\$ 5,393	\$ 36,274	\$ 575,409	Certified Public Accountant	
Administration	\$ 982,977	\$ 1,911,316	\$ (327,046)	\$ 116,747	\$ 2,683,994	Management Consultant	
Audit	\$ 267,960		\$ -	\$ 3,457	\$ 271,418	Certified Public Accountant	
Business Development	\$ 24,431			\$ 25,697	\$ 50,129	Management Consultant	
Communications	\$ 137,259		\$ 8,816	\$ 12,111	\$ 158,186	Management Consultant	
Engineering	\$ 107,719		\$ 14,699	\$ 60,895	\$ 183,312	Professional Engineer	
External Affairs	\$ (0)			\$ 5,062	\$ 5,062	Management Consultant	
Finance	\$ 309,439		\$ 135,124	\$ 41,677	\$ 486,240	Certified Public Accountant	
Human Resources	\$ 617,654		\$ 9,439	\$ 54,629	\$ 681,722	Management Consultant	
Information Technology	\$ 13,337,782	\$ 6,539,674	\$ 58,472	\$ 114,793	\$ 20,050,721	IT Professional	
Legal	\$ 173,421		\$ 355,572	\$ 15,543	\$ 544,537	Attorney	
Operations	\$ 61,753		\$ 6,295	\$ 51,840	\$ 119,888	Professional Engineer	
Rates & Regulatory	\$ 24	\$ 353		\$ 18,904	\$ 19,281	Certified Public Accountant	
Supply Chain	\$ 61,865		\$ 7,321	\$ 28,546	\$ 97,732	Certified Public Accountant	
Water Quality	\$ (45,779)		\$ 312,991	\$ 5,774	\$ 272,986	Professional Engineer	
Total	\$ 16,570,187	\$ 8,451,403	\$ 587,076	\$ 591,951	\$ 26,200,617		

Recap By Outside Provider	Exclusions From Hourly Rate Calculation					Total
	Contract Services	Enterprise IT Expenses	Non-Services-Related Items	Travel Expenses		
Attorney	\$ 173,421	\$ -	\$ 355,572	\$ 15,543	\$ 544,537	
Management Consultant	\$ 1,762,322	\$ 1,911,316	\$ (308,791)	\$ 214,246	\$ 3,579,092	
Certified Public Accountant	\$ 1,172,970	\$ 413	\$ 147,838	\$ 128,859	\$ 1,450,080	
IT Professional	\$ 13,337,782	\$ 6,539,674	\$ 58,472	\$ 114,793	\$ 20,050,721	
Professional Engineer	\$ 123,693	\$ -	\$ 333,985	\$ 118,509	\$ 576,187	
Total	\$ 16,570,187	\$ 8,451,403	\$ 587,076	\$ 591,951	\$ 26,200,617	

Outside Service Provider Hourly Rates

The next step in the lower-of-cost-or-market comparison is to obtain the average billing rates for outside service providers. The source of this information and the determination of the average rates are described in the paragraphs that follow.

It should be noted that professionals working for three of the five outside provider categories may be licensed to practice by state regulatory bodies. However, not every professional working for these firms is licensed. For instance, among US certified public accounting firms, only more experienced staff are predominantly licensed CPAs (see table below). Some Service Company employees also have professional licenses. Thus, it is valid to compare the Service Company's hourly rates to those of the outside professional service providers included in this study.

Position	US Average
Partners/Owners	98%
Directors (11+ years experience)	87%
Managers (6-10 years experience)	79%
Sr Associates (4-5 years experience)	50%
Associates (1-3 years experience)	22%
New Professionals	10%

Source: AICPA's National PCPS/TSCPA Management of an Accounting Practice Survey (2010)

Attorneys

An estimate of New Jersey attorney billing rates is developed from actual rates compiled by Clio, a practice management service provider to law firms. The 2022 average rate of relevant practice areas is calculated in Exhibit 6 (page 19).

Management Consultants

The cost per hour for management consultants is developed from a survey performed by Rodenhauer & Company LLC, a research company that monitors the consulting industry. The survey includes rates that were in effect during 2022 for firms throughout the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison.

The first step in the calculation, presented in Exhibit 7 (page 20), is to determine an average rate by consultant position level. From these rates, a single weighted average hourly rate is calculated based upon the percentage of time that is typically applied to a consulting assignment by each consultant position level.

Certified Public Accountants

The average hourly rate for CPAs is developed from a 2020 survey performed by the American Institute of Certified Public Accountants (AICPA) (this is the latest survey available). As shown in Exhibit 8 (page 21), a weighted average hourly rate is developed based on a set of accountant positions and a percentage of time that is typically applied to an accounting assignment, based on Baryenbruch & Company, LLC's, experience. Since the survey includes hourly rates that were in effect as of December 31, 2020, the calculated average rate is escalated to December 31, 2022—the midpoint of Base Year 2023.

Information Technology Professionals

The average hourly rate for information technology consultants and contractors is developed from two sources: The Service Company for IT contractor rates and a survey performed by Rodenhauser & Company LLC, for IT consultants. As shown in Exhibit 9 (page 22), that data is compiled and a weighted average is calculated based on a percentage of time that is typically applied to an IT consulting assignment, based on Baryenbruch & Company, LLC's, experience.

Professional Engineers

The Company provided hourly rate information for outside engineering firms that provided NJAWC with their rate schedules. As presented in Exhibit 10 (page 23), an average rate is developed for each engineering position level. Then, using the Service Company's percentage mix by engineering position, a weighted average cost per hour is calculated.

New Jersey-American Water Company, Inc.
Hourly Billing Rates for Attorneys

Average Billing Rates - New Jersey (2022)

Practice Area	Hourly Rate
Administrative	\$ 341
Appellate	\$ 370
Bankruptcy	\$ 397
Business	\$ 342
Civil Litigation	\$ 334
Collections	\$ 426
Commercial/Sale of Goods	\$ 385
Construction	\$ 319
Contracts	\$ 340
Corporate	\$ 432
Employment/Labor	\$ 459
Insurance	\$ 261
Intellectual Property	\$ 408
Mediation/Arbitration	\$ 438
Real Estate	\$ 364
Tax	\$ 456
Worker's Compensation	\$ 156
Average Hourly Rate	\$ 366

Source: Themis Solutions Inc. (Clio)

New Jersey-American Water Company, Inc.
Hourly Billing Rates of U.S. Management Consultants

Survey billing rates in effect in 2022 (Note A)						
A. Calculation of Average Hourly Billing Rate by Consultant Position						
Average Hourly Rates (Note A)						
	Analyst Consultant	Associate	Sr. Assoc/ Manager	Principal	Partner	
Average	\$ 247	\$ 299	\$ 366	\$ 553	\$ 688	
B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement						
	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
Average Hourly Billing Rate (from above)	\$ 247	\$ 299	\$ 366	\$ 553	\$ 688	
Percent of Consulting Assignment	30%	30%	25%	10%	5%	Weighted Average
	\$ 74	\$ 90	\$ 91	\$ 55	\$ 34	\$ 345
Average Hourly Billing Rate For Management Consultants During 2022						\$ 345

Note A: Source is Rodenhauer & Company LLC; Baryenbruch & Company, LLC, analysis

New Jersey-American Water Company, Inc.
Hourly Billing Rates of Certified Public Accountants

A. Calculation of Average Hourly Billing Rate by Public Accounting Position					
Survey billing rates were those in effect in 2020 (Note A)					
Average Hourly Billing Rate (Notes A and B)					
	Staff Accountant	Senior Accountant	Manager	Partner	
Average Hourly Billing Rate by CPA Firm Position	\$ 113	\$ 149	\$ 199	\$ 280	
Percent of Accounting Assignment	30%	30%	20%	20%	Weighted Average
	\$ 34	\$ 45	\$ 40	\$ 56	\$ 174
National Average Hourly Billing Rate (above) \$ 174					
Cost of Living Adjustment					
COL Index for Camden, NJ 90.7					
Average COL Index 100.0					
Adjustment Percentage 90.7%					
Cost of Living Adjusted Hourly Rate \$ 158					
<u>Escalation to 2022 Midpoint (December 31, 2022)</u>					
CPI at December 31, 2020 260.5					
CPI at December 31, 2022 296.8					
Inflation/Escalation (Note C) 13.9%					
Average Hourly Billing Rate For CPAs At December 31, 2022 \$ 180					

Note A: Source is AICPA's 2020 National PCPS/TSCPA Management of an Accounting Practice Survey

Note B: Source is Cost of Living Index, Source Council for Community and Economic Research

Note C: Source is U.S. Bureau of Labor Statistics (<https://data.bls.gov/cgi-bin/surveymost>)

New Jersey-American Water Company, Inc.
Hourly Billing Rates for Information Technology Professionals

-

A. Calculation of Average Hourly Billing Rate by Information Technology Position Survey billing rates were those in effect in 2022 (Note A)																																									
Average Hourly Billing Rate (Note A)																																									
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;"></td> <td colspan="2" style="text-align: center; border-bottom: none;">Contractor Positions</td> <td colspan="3" style="text-align: center; border-bottom: none;">Consultant Positions</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center; border-bottom: none;">Contractor</td> <td style="text-align: center; border-bottom: none;">Senior Contractor</td> <td style="text-align: center; border-bottom: none;">Associate</td> <td style="text-align: center; border-bottom: none;">Manager</td> <td style="text-align: center; border-bottom: none;">Partner</td> <td></td> </tr> <tr> <td style="padding: 5px;">Average Hourly Billing Rate by IT Position Category</td> <td style="text-align: center; padding: 5px;">\$ 91</td> <td style="text-align: center; padding: 5px;">\$ 121</td> <td style="text-align: center; padding: 5px;">\$ 271</td> <td style="text-align: center; padding: 5px;">\$ 377</td> <td style="text-align: center; padding: 5px;">\$ 502</td> <td></td> </tr> <tr> <td style="padding: 5px;">Percent of IT Assignment</td> <td style="text-align: center; padding: 5px;">25%</td> <td style="text-align: center; padding: 5px;">25%</td> <td style="text-align: center; padding: 5px;">25%</td> <td style="text-align: center; padding: 5px;">15%</td> <td style="text-align: center; padding: 5px;">10%</td> <td style="text-align: center; padding: 5px;">Weighted Average</td> </tr> <tr> <td></td> <td style="text-align: center; padding: 5px;">\$ 23</td> <td style="text-align: center; padding: 5px;">\$ 30</td> <td style="text-align: center; padding: 5px;">\$ 68</td> <td style="text-align: center; padding: 5px;">\$ 57</td> <td style="text-align: center; padding: 5px;">\$ 50</td> <td style="text-align: center; padding: 5px;">\$ 228</td> </tr> </table>								Contractor Positions		Consultant Positions					Contractor	Senior Contractor	Associate	Manager	Partner		Average Hourly Billing Rate by IT Position Category	\$ 91	\$ 121	\$ 271	\$ 377	\$ 502		Percent of IT Assignment	25%	25%	25%	15%	10%	Weighted Average		\$ 23	\$ 30	\$ 68	\$ 57	\$ 50	\$ 228
	Contractor Positions		Consultant Positions																																						
	Contractor	Senior Contractor	Associate	Manager	Partner																																				
Average Hourly Billing Rate by IT Position Category	\$ 91	\$ 121	\$ 271	\$ 377	\$ 502																																				
Percent of IT Assignment	25%	25%	25%	15%	10%	Weighted Average																																			
	\$ 23	\$ 30	\$ 68	\$ 57	\$ 50	\$ 228																																			
Average Hourly Billing Rate For IT Professionals During 2022						\$ 228																																			

Note A: Source is American Water Works Service Company, Rodenhauer & Company and Baryenbruch & Company, LLC

New Jersey-American Water Company, Inc.
Hourly Billing Rates of Professional Engineers

A. Calculation of Average 2022 Hourly Rate by Engineer Position (Note A)				
Name of Firm	Average Hourly Billing Rates			
	Technician	Engineer	Project Manager	Officer
	Senior Technician	Design Engineer Project Engineer	Sr. Mgr. Engineer	Principal Engineer
Firm #1	\$140	\$144	\$199	\$261
Firm #2	\$90		\$170	\$300
Firm #3	\$98	\$117	\$165	\$210
Firm #4	\$102	\$143	\$244	\$315
Firm #5	\$99	\$123	\$171	\$200
Firm #6	\$100	\$125	\$180	\$210
Firm #7	\$97	\$120	\$176	\$201
Firm #8	\$115	\$108	\$165	\$230
Firm #9	\$71	\$127	\$168	\$210
Firm #10	\$90	\$130	\$142	\$205
Firm #11	\$105	\$156	\$195	\$236
Firm #12	\$103	\$122	\$153	\$165
Firm #13	\$135	\$100	\$199	\$295
Firm #14	\$99	\$151	\$195	
Firm #15	\$120	\$142	\$212	\$240
Firm #16	\$119	\$105	\$156	\$260
Firm #17	\$130	\$159	\$198	\$240
Firm #18	\$97	\$132	\$178	\$180
Firm #19	\$95	\$127	\$188	\$220

B. Calculation of Overall Average Engineering Hourly Billing Rate					
	Technician	Engineer	Project Manager	Officer	
	Senior Technician	Design Engineer Project Engineer	Sr. Mgr. Engineer	Principal Engineer	
Average Hourly Billing Rate (From Above)	\$106	\$129	\$182	\$232	
Typical Percent of Time on an Engineering Assignment	13%	31%	46%	10%	Weighted Average
	\$14	\$40	\$83	\$24	\$161

Note A: Source is American Water Service Company information.

V – Question 2 – Provision of Services at the Lower of Cost or Market

Service Company versus Outside Provider Cost Comparison

As shown in the table below, Service Company costs per hour are considerably lower than those of outside providers.

Service Provider	Base Year 2023 Hourly Rate Differences		
	Service Company	Outside Provider	Difference-- Service Co. Greater(Less) Than Outside
Attorney	\$ 268	\$ 366	\$ (98)
Management Consultant	\$ 181	\$ 345	\$ (164)
Certified Public Accountant	\$ 90	\$ 180	\$ (90)
IT Professional	\$ 119	\$ 228	\$ (109)
Professional Engineer	\$ 99	\$ 161	\$ (62)

Based on these cost-per-hour differentials and the number of managerial and professional services hours billed to NJAWC during Base Year 2023, outside service providers would have cost \$37,592,198 more than the Service Company (see table below). Thus, on average, outside providers' hourly rates are 87% higher than those of the Service Company (\$37,592,198 / \$43,214,192).

Service Provider	Base Year 2023 Cost Differentials		
	Hourly Rate Difference-- Service Co. Greater(Less) Than Outside	Service Company Hours Charged	Dollar Difference
Attorney	\$ (98)	9,023	\$ (884,254)
Management Consultant	\$ (164)	109,377	\$ (17,937,828)
Certified Public Accountant	\$ (90)	97,405	\$ (8,766,450)
IT Professional	\$ (109)	69,868	\$ (7,615,612)
Professional Engineer	\$ (62)	38,517	\$ (2,388,054)
Service Company Less Than Outside Providers			\$ (37,592,198)

It bears repeating that the cost differential associated with using outside providers is even greater because exempt Service Company personnel do not charge more than 8 hours per day even when they work more. Outside providers generally charge clients for all hours worked. Thus, NJAWC would have been charged by outside providers for overtime worked by Service Company personnel who are not paid for that time.

If NJAWC were to use outside service providers rather than the Service Company for managerial and professional services, it would incur other additional expenses besides those associated with higher hourly rates. Managing outside firms who would perform approximately 324,200 hours of work (approximately 180 full-time equivalents at 1,800 "billable" hours per FTE per year) would add a significant workload to the existing NJAWC management team. Thus, it would be necessary for NJAWC to add at least 6 positions to supervise the outside firms and ensure they deliver quality and timely services. The individuals who would fill these positions would need a good understanding of each profession being managed. This person must also have management experience and the authority necessary to provide credibility with outside firms. As calculated in the table below, the new positions would add \$1,092,000 per year to NJAWC's personnel expenses.

V – Question 2 – Provision of Services at the Lower of Cost or Market

Cost of Adding 6 Professional Positions To NJAWC's Staff

	<u>Total</u>
New Positions' Salary	\$ 130,000
Benefits (at 25%)	\$ 32,500
Office Expenses (15%)	\$ 19,500
Total Cost of Added VAWC Staff	<u>\$ 182,000</u>
Number of New Positions Required	<u>6</u>
Total Cost of Added NJAWC Staff	<u>\$ 1,092,000</u>

Total Additional Cost

Hourly Rate Differential	\$ 37,592,198
New Positions	<u>\$ 1,092,000</u>
Total Additional Cost	<u>\$ 38,684,198</u>

Thus, the total effect on NJAWC customers of contracting all services now provided by Service Company would be an increase in their costs of \$38,684,198. Based on the results of this comparison, it is possible to conclude that the Service Company charged NJAWC at the lower of cost or market for services provided during Base Year 2023.

VI - Question 3 - Reasonableness of Customer Account Services Costs

Background

Customer account services involve the processes that occur from the time meter-read data is recorded in the customer information system through the printing and mailing of bills, concluding with the collection and processing of customer payments. Customer account services are accomplished by the following utility functions:

- Customer Service Operations – customer calls/contact, credit, order taking/disposition, bill collection efforts and outage calls
- Customer Call IT – support of phone banks, voice recognition units, call handling software applications and telecommunications
- Customer billing – bill printing, stuffing and mailing
- Remittance processing – processing customer payments received in the mail
- Bill payment centers – processing customer payments at locations where customers can pay their bills in person

Neighboring electric utility cost information comes from the FERC Form 1 that each utility subject to FERC regulation must file. FERC’s chart of accounts is defined in Chapter 18, Part 101 of the Code of Federal Regulations. FERC accounts that contain expenses related to customer account services are Account 903 Customer Accounts Expense – Records and Collection Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense. Exhibit 11 (page 27) provides FERC’s definition of the type of expenses that should be recorded in these accounts.

In addition to the charges in these FERC accounts, labor-related overhead charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905:

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer’s portion of FICA)

Comparison Group

Electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1 reports show amounts for accounts 903 and 905.

Customer Accounts Expenses Comparison Group

New York	Central Hudson Gas & Electric Corporation	Pennsylvania	Duquesne Light Company
	Consolidated Edison Company		Metropolitan Edison Company
	New York State Gas & Electric Corporation		PECO Energy Company
	Niagara Mohawk Power Corporation		Pennsylvania Electric Company
	Orange and Rockland Utilities, Inc		Pennsylvania Power Company
	Rochester Gas and Electric Corporation		PPL Electric Utilities Corporation
New Jersey	Atlantic City Electric Company	Delaware	West Penn Power Company
	Jersey Central Power & Light Company		Delmarva Power & Light Company
	Public Service Electric and Gas Company		
	Rockland Electric Company		

New Jersey-American Water Company, Inc.
FERC Account Descriptions

903 – Customer Records and Collection Expenses

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

905 – Miscellaneous Customer Accounts Expenses

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

VI - Question 3 - Reasonableness of Customer Account Services Costs

NJAWC's Cost per Customer

As calculated below, NJAWC's customer account services expense per customer was \$20.89 for Base Year 2023. The cost pool used to calculate this average includes charges for Service Company services (e.g., call handling, billing, payment processing) and postage and forms expenses, which are incurred directly by NJAWC. It is necessary to adjust the Service Company's charges because electric utilities experience an average of 1.25 calls per customer compared to American Water's 0.86 calls per customer during 2023. Thus, the Service Company's expenses had to be increased, for comparison purposes, to reflect its costs if it had had 1.25 calls per customer.

New Jersey-American Water Company, Inc.		Year Ended June 30, 2023	Adjustment Fewer Calls For	
Service Company	Cost Component	Service Co Charges	Water Cos. (A)	Adjusted
	Call processing, order processing, credit, bill collection, forms, postage	\$ 13,059,476	\$ 909,396	\$ 13,968,873
	Customer payment processing			\$ 498,207 (B)
NJAWC	Customer Advocacy			\$ 605,190
			Cost Pool Total	\$ 15,072,269
			Total Customers	721,512
	Year Ended June 30, 2023 Cost per New Jersey American Customer			\$ 20.89
Note A: Adjustment for American Water's fewer calls per customer				
This adjustment is necessary because water utilities experience fewer calls per customer than do electric utilities				
	Call handling expenses	\$ 2,009,269		
	Electric utility industry's avg calls/customer	1.25		
	American Water's avg calls/customer	0.86		
	Percent different	45%	45%	
	Total Adjustment	\$ 909,396		
Note B: Estimated customer payment processing expenses				
	Number of customer bills	8,604,617		
	Bank charge per item	\$ 0.0579		
	Total estimated annual expense	\$ 498,207		

Electric Utility Group Cost per Customer

Exhibit 12 (page 29) shows the calculation of customer account expense per customer for the electric utility comparison group. The underlying data is taken from the utilities' 2022 FERC Form 1.

New Jersey-American Water Company, Inc.
Comparison Group 2022 Customer Account Expenses Per Customer

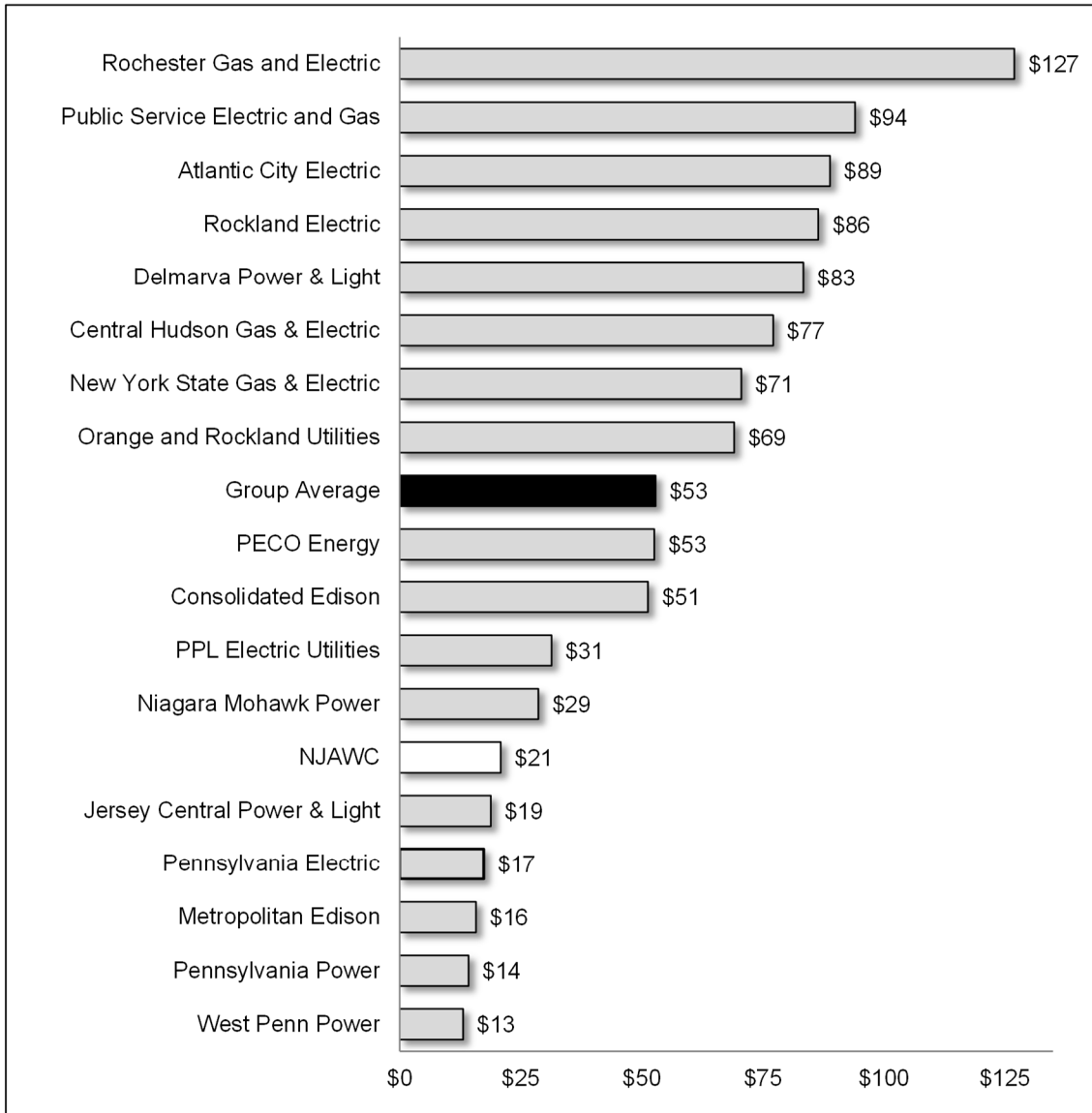
Comparison Group	Customer Accounts Services Cost Pool				Total Customers	Customer Account Services Expenses per Customer
	Employee Benefits			Total Cost Pool		
	Account 903 and 905	Employee Pension and Benefits	Payroll Taxes			
Atlantic City Electric Company	\$ 50,094,147	\$ 194,764	\$ 135,704	\$ 50,424,615	567,212	\$ 88.90
Central Hudson Gas & Electric Corporation	\$ 20,377,013	\$ 48,185	\$ 572,396	\$ 20,997,594	272,231	\$ 77.13
Consolidated Edison Company	\$ 163,746,314	\$ 11,713,920	\$ 8,888,145	\$ 184,348,379	3,593,840	\$ 51.30
Delmarva Power & Light Company	\$ 45,087,455	\$ 150,966	\$ 206,760	\$ 45,445,180	544,898	\$ 83.40
Jersey Central Power & Light Company	\$ 19,868,496	\$ 1,127,656	\$ 736,189	\$ 21,732,340	1,155,415	\$ 18.81
Metropolitan Edison Company	\$ 8,987,220	\$ 110,409	\$ 132,348	\$ 9,229,977	585,024	\$ 15.78
New York State Gas & Electric Corporation	\$ 61,874,751	\$ 1,175,729	\$ 1,631,641	\$ 64,682,121	916,521	\$ 70.57
Niagara Mohawk Power Corporation	\$ 38,096,435	\$ 2,504,313	\$ 2,457,980	\$ 43,058,728	1,502,305	\$ 28.66
Orange and Rockland Utilities, Inc.	\$ 14,689,909	\$ 1,221,782	\$ 684,303	\$ 16,595,993	240,208	\$ 69.09
PECO Energy Company	\$ 84,694,412	\$ 1,543,586	\$ 2,647,697	\$ 88,885,695	1,690,627	\$ 52.58
Pennsylvania Electric Company	\$ 9,774,669	\$ 340,096	\$ 86,072	\$ 10,200,837	588,187	\$ 17.34
Pennsylvania Power Company	\$ 2,378,821	\$ 16,394	\$ 29,328	\$ 2,424,543	170,274	\$ 14.24
PPL Electric Utilities Corporation	\$ 42,532,175	\$ 1,797,745	\$ 1,853,824	\$ 46,183,744	1,472,759	\$ 31.36
Public Service Electric and Gas Company	\$ 209,132,730	\$ 7,139,051	\$ 4,527,331	\$ 220,799,112	2,346,606	\$ 94.09
Rochester Gas and Electric Corporation	\$ 48,595,259	\$ 556,137	\$ 431,415	\$ 49,582,811	390,454	\$ 126.99
Rockland Electric Company	\$ 6,439,806	\$ 16,376	\$ 11,981	\$ 6,468,162	74,786	\$ 86.49
West Penn Power Company	\$ 9,107,517	\$ 440,617	\$ 78,603	\$ 9,626,737	735,509	\$ 13.09
Total/Average	\$ 835,477,129	\$ 30,097,725	\$ 25,111,716	\$ 890,686,570	16,846,856	\$ 52.87

Source: FERC Form 1; Baryenbruch & Company, LLC, analysis

VI - Question 3 - Reasonableness of Customer Account Services Costs

Summary of Results

As shown in the table below, NJAWC's Base Year 2023 cost per customer is well below the 2022 average cost for the neighboring electric utility comparison group. Twelve comparison group utilities have a higher cost than NJAWC. Based on this comparison, it can be concluded that NJAWC's Base Year 2023 customer account expenses are reasonable.



Source: Company information; FERC Form 1; Baryenbruch & Company, LLC, analysis

VII - Question 4 – Need for Service Company Services

Analysis of Services

The final aspect of this study was an assessment of whether the services provided to NJAWC by the Service Company would be necessary if NJAWC were not part of the American Water organization. The first step in this evaluation was to determine specifically what the Service Company does for NJAWC. Based on discussions with Service Company personnel, the matrix in Exhibit 13 (pages 32-34) was created showing which entity—NJAWC or a Service Company location—is responsible for each of the functions NJAWC requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there is redundancy or overlap in the services being provided by the Service Company and (2) if Service Company services are typical of those needed by a stand-alone water utility.

Upon review of Exhibit 13, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and are required for water and wastewater utilities. These services are customarily provided by service companies of other utility holding companies.
- There is no redundancy or overlap in the services provided by the Service Company to NJAWC. For all the services listed in Exhibit 13, there is only one entity that is primarily responsible for the service.

New Jersey-American Water Company, Inc.
Designation of Responsibility for Water Utility Functions

P - Primarily Responsible S - Provides Support	Performed By:				
	NJAWC	American Water Works Service Company			
		Customer Service	Other Service Company	IT Service Centers	Central Lab
Water Company Function					
Engineering and Construction Management					
CPS Preparation	S		P		
Five-Year System Planning	P		S		
Engineering Standards & Policies Development			P		
Project Design					
Major Projects (e.g., new treatment plant)	P		S		
Special Projects	P		S		
Minor Projects (e.g., pipelines)	P				
Construction Project Management					
Major Projects	P		S		
Special Projects	P		S		
Minor Projects	P				
Hydraulics Review	P		S		
Developers Extensions	P				
Tank Painting	P		S		
Water Quality and Purification					
Water Quality Standards Development			P	S	
Research Studies	S		P	S	
Water Quality Program Implementation	P		S		
Water Treatment Operations & Maintenance	P		S		
Compliance Sampling	P		S	S	
Testing/Other Sampling	S		S	P	
Transmission and Distribution					
Preventive Maintenance Program Development	P		S		
System Maintenance	P				
Leak Detection	P		S		
Customer Service					
Community Relations	P		S		
Customer Contact	S (1)	P (1)			
Call Processing		P (1)			
Service Order Processing	S	P			
Customer Credit		P			
Meter Reading	P				
Customer Bill Preparation				P (1)	
Bill Collection	S (1)	P (1)	S (1)		
Customer Payment Processing	S (1)		P (1)		
Meter Standards Development	P		S		
Meter Testing, Maintenance & Replacement	P				

Note 1: Does not include wastewater service.

New Jersey-American Water Company, Inc.
Designation of Responsibility for Water Utility Functions

P - Primarily Responsible S - Provides Support	Performed By:				
	NJAWC	American Water Works Service Company			
		Customer Service	Other Service Company	T&I Service Centers	Central Lab
Water Company Function					
Financial Management					
Financial Planning	P		S		
Financings--Equity	S		P		
Financings--Long Term Debt & Preferred (Note 2)	S		P		
Short Term Lines of Credit Arrangements(Note 2)	S		P		
Investor Relations			P		
Insurance Program Administration	S		P		
Loss Control/Safety Program Administration	S		P		
Pension Fund Asset Management			P		
Cash Management/Disbursements			P		
Internal Auditing			P		
Budgeting and Variance Reporting					
Corporate Guidelines & Instructions			P		
Regional Guidelines & Instructions			P		
Budget Preparation					
Revenue and O&M	S		P		
Depreciation and Interest Expense	S		P		
Budget Preparation--Service Company Charges	S	S	P	S	
Capital Budget Preparation—Projects	P		S		
Capital Budget Preparation—Non-Project Work	P		S		
Prepare Monthly Budget Variance Report ("Budget/Plan Analysis")			P		
Prepare Capital Project Budget Status Report	P		S		
Year-End Projections	P		S		
Accounting and Taxes					
Accounts Payable Accounting	S		P		
Payroll Accounting	S		P		
Work Order Accounting	S		P		
Fixed Asset Accounting	S		P		
Journal Entry Preparations--Billing Corrections	S		P		
Journal Entry Preparation--All Others	S		P		
Financial Statement Preparation	S		P		
State Commission Reporting	S		P		
Income Taxes--State			P		
Income Taxes--Federal			P		
Property Taxes	S		P		
Gross Receipts (Town) Taxes	S		P		

New Jersey-American Water Company, Inc.
Designation of Responsibility for Water Utility Functions

P - Primarily Responsible S - Provides Support	Performed By:			
	NJAWC	American Water Works Service Company		
		Customer Service	Other Service Company	IT Service Centers
Water Company Function				
Rates				
Rate Studies & Tariff Change Administration	S		P	
Rate Case Planning and Preparation	S		P	
Rate Case Administration	S		P	
Commission Inquiry Response	S		P	
Legal	S		P	
Purchasing and Materials Management – National (pipe, chemicals, meters, etc.)				
Specification Development	S		P	
Bid Solicitation	S		P	
Contract Administration	S		P	
Purchasing and Materials Management – State (state supplier service agreements)				
Specification Development	P		S	
Bid Solicitation	P			
Contract Administration	P			
Ordering	P			
Inventory Management	P			
Human Resources Management				
Benefit Program Development			P	
Benefits Program Administration			P	
Management Compensation Administration			P	
Wage & Salary Program Design			P	
Wage & Salary Administration			P	
Labor Negotiations--Wages	P		S	
Labor Negotiations--Benefits	P		S	
Labor Negotiations-- Work Rules	P		S	
Training Program Development			P	
Training--Course Delivery			P	
Affirmative Action/EEO--Plan Development			P	
Affirmative Action/EEO--Implementation			P	
Information Systems Services				
Service Company Data Centers				
System Operations & Maintenance				P
Software Maintenance				P
Network Administration				P
PC Acquisition & Support	S			P
Help Desk				P

VII - Question 4 – Need for Service Company Services

Governance Practices Associated with Service Company Charges

There are several ways by which NJAWC exercises control over Service Company services and charges. The most important of these are described below.

1. **Chief Operating Officer Oversight** – The Chief Operating Officer (COO) is on the Executive Leadership Team (ELT) of American Water. This position is responsible for the overall performance of each operating company in American Water. As part of the ELT, the COO has equal say with other ELT members in major business decisions of American Water and can monitor Service Company performance quality and spending. The COO also addresses local concerns with each operating company president.
2. **Operating Company Board Oversight** – The NJAWC board of directors includes members of the NJAWC management team and external business and community leaders. The NJAWC board has quarterly scheduled meetings each year to review and discuss financial, operational and other matters.
3. **NJAWC President's Oversight** – The NJAWC President is responsible for the overall performance of NJAWC American and, as such, monitors services and charges received from the Service Company. The NJAWC President reports to the Deputy Chief Operating Officer who, in turn, reports to the Chief Operating Officer who has a significant voice in major business decisions that impact the Service Company's quality and cost of services.
4. **CFO Operations and Supporting Staff (Finance team)** – The Finance team is responsible for monitoring the overall financial performance of NJAWC. This includes overseeing NJAWC's financial reporting process, performing revenue and expense analysis, the annual budgeting process, and monitoring internal control performance. Every month, the Finance team performs a detailed expense analysis that includes Service Company charges. Month-to-date actual and year-to-date actual performance is compared against budget and prior period actuals. The Finance team also reviews and investigates monthly Service Company charges based on the results of the team's analytical procedures in order to determine the appropriateness of the charges.
5. **Service Company Budget Review/Approval** – The Service Company Board of Directors (BOD) formally reviews and approves the budget for Service Company on an annual basis. The Service Company BOD consists of: (a) the AW ELT and (b) key Executive Management representatives from Service Company. The Service Company's overall budget is assigned to each operating company, which consolidates these charges with its own direct spending to arrive at a total operating company budget. This is presented to the operating company's board of directors (e.g., NJAWC) for their approval.
6. **Major Project Review and Approval** – Before major Service Company non-capital projects are undertaken, they must be reviewed and approved by American Water's Executive Leadership Team which includes the Deputy and Chief Operating Officers. The Deputy Chief Operating Officer, with significant input from his direct reports, can impact all new initiatives and projects before they are authorized. Major non-capital projects and initiatives for the Service Company are approved through the Business Planning process. As part of the business planning process a technology roadmap of initiatives is developed from American Water's vision, strategy, operational objectives and key business programs. The alignment of these initiatives with enterprise goals is approved by the Executive Leadership Team and key business leaders from various operational and functional areas of American

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Water. The roadmap is updated annually to produce a rolling roadmap and investment plan.

7. Capital Program Management (CPM) – CPM covers capital and asset planning and is employed throughout American Water, including the Service Company. CPM provides a full range of governance practices, including a formal protocol for assessing system needs, prioritizing capital expenditures, managing the capital program, approving project spending, delivering projects and measuring outputs. CPM ensures that:
 - Capital expenditure plans are aligned with the strategic intent of the business
 - The impact of capital expenditures is fully reflected in operating expense plans
 - The impacts of these plans on state operating company budgets and operating results are understood
 - Effective controls are in place over budgets (through business plans) and individual capital projects (through appropriate authorization thresholds, management and reporting processes).

The CPM process was designed to optimize the effectiveness of asset investment. The process is managed at two levels for all American Water companies, including all NJAWC Operating Units. Monthly meetings of the CPM are held to review capital spending compared to plan, review new project requests and review updates or modifications to existing projects. The NJAWC management team participates, as necessary, and provides the data used in the monthly review schedules.

8. Accounting and Financial Reporting – The Service Company follows the same accounting and financial reporting processes as American Water's regulated utilities. At month-end, the Service Company Finance team reviews key transactions and analyzes month-to-date variance to budget to ensure accuracy before the billing process takes place. Once completed, the Service Company bill is produced, and shows the actuals that are directly charged or allocated to the states based on predetermined formulas. At this time, the operating companies may question expenses and spending for better understanding of results. NJAWC Finance team reviews the monthly Service Company bill for accuracy and reasonableness on a monthly basis. Any errors or overcharges are corrected on a subsequent billing.
9. Operating Company Budget Variance Analysis – Each month a Service Company Affiliate Billing Analysis Report is prepared and provided to operating companies. This report allows operating companies to monitor their Service Company budget-versus-actual charges for the month and year-to-date.
10. Service Company Budget Variance Analysis - Each function within a Service Company is responsible for reviewing the budget-versus-actual charges for the month and year-to-date. On a monthly basis, Service Company actual results vs budget variances are reviewed with State Presidents as well as the ELT. Key variances by function are presented and discussed.