

BEFORE THE  
STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES  
OFFICE OF ADMINISTRATIVE LAW

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

OAL Docket No. PUC 02409-2024 S

BPU Docket No. WR24010056

**Supplemental Direct Testimony of**

**MICHAEL B. McKEEVER**

**in Support of 9&3 Update**

April 23, 2024

**Exhibit P-7S**

NEW JERSEY-AMERICAN WATER COMPANY, INC.

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

2 A. My name is Michael B. McKeever. My business address is 1 Water Street, Camden,  
3 New Jersey 08102.

4 **2. Q. By whom are you employed and in what capacity?**

5 A. I am employed by American Water Works Service Company, Inc. (“Service  
6 Company”) as the Senior Director of Rates and Regulatory for New Jersey-American  
7 Water Company, Inc. (“New Jersey-American Water,” or the “Company”), Virginia-  
8 American Water Company, and Maryland-American Water Company. Service  
9 Company is a wholly owned subsidiary of American Water Works Company, Inc.  
10 (“American Water”) that provides support services to New Jersey-American Water and  
11 its affiliates.

12 **3. Q. Are you the same Michael B. McKeever who filed Direct Testimony on January**  
13 **19, 2024, in this proceeding, marked as Exhibit P-7?**

14 A. Yes, I am.

15 **4. Q. What is the purpose of your Supplemental Direct Testimony?**

16 A. My Supplemental Direct Testimony summarizes the Company’s 9&3 Update as it  
17 relates to operating and maintenance (“O&M”) expenses, including production costs,  
18 compensation and compensation-related expenses, Service Company expenses, and  
19 various other operating expenses, as well as property taxes, payroll taxes, revenue-  
20 based taxes, and federal income taxes. Additionally, my supplemental testimony will  
21 address changes to Schedules 6 through 7 and Schedules 10 through 14, which were

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 prepared by me or under my supervision and direction. These updates, along with  
2 others provided by the Company's witnesses, are listed in Schedule JDH-2 attached to  
3 the Supplemental Direct Testimony of Company witness Jamie D. Hawn.

4 **OPERATION AND MAINTENANCE EXPENSE**

5 **5. Q. Please summarize the changes to Exhibit P-2, Schedule 6, line 3, Power.**

6 A. The Company has increased its post-test year power expense to reflect approved and  
7 filed rate increases from its providers, as well as updated its supplier rate to annualize  
8 the post-test year since its original filing in January 2024<sup>1</sup>. The Company has also  
9 adjusted the fixed (70%) and variable index (30%) pricing components of its electricity  
10 supply contract with Constellation Energy Corporation. This contract expires in  
11 January 2025 and the Company has begun working with suppliers on a new contract.  
12 Finally, the Company has updated for the change in post-test year system delivery  
13 based upon the Supplemental Direct Testimony of Company witness Heath J. Brooks.

14 **6. Q. Please summarize the changes to Exhibit P-2, Schedule 6, line 4, Chemicals.**

15 A. The Company has decreased its post-test year chemical expense to reflect updated 2024  
16 contract pricing and pricing projections based upon market trends and input from  
17 suppliers for the remainder of 2024 and the post-test period. Additionally, the

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<sup>1</sup> The Company made the following tariff rate adjustments in its calculation of post-test year power expense: (a) Jersey Central Power & Light ("JCP&L") – At the time the Company filed this rate case, JCP&L's current rate case was pending, and the outcome was not known. The Company used a projected rate increase (28%) in the calculation of post-test year power expense, which has now been updated to reflect the final authorized rate increase of 13.2%; (b) Public Service Electric and Gas Company filed for a rate increase on December 29, 2023, which was not included in the Company's post-test year power expense in its original filing. The Company has included a projected rate increase from this proceeding in this 9&3 Update; (c) Elizabethtown Gas Company filed for a rate increase on February 29, 2024. The Company has included a projected rate increase from this proceeding in this 9&3 Update.

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 Company has updated for the change in post-test year system delivery based upon the  
2 Supplemental Direct Testimony of Company witness Heath J. Brooks.

3 **7. Q. Please summarize the changes to Exhibit P-2, Schedule 6, line 5, Waste Disposal.**

4 A. The Company has increased its post-test year waste disposal expense for the change in  
5 post-test year system delivery based upon the Supplemental Direct Testimony of  
6 Company witness Heath J. Brooks.

7 **8. Q. Please summarize the changes to Exhibit P-2, Schedule 6, line 6, Salaries and**  
8 **Wages.**

9 A. The Company has decreased post-test-year salaries and wages expense to reflect the  
10 actual non-union merit increases for 2024 and updated union hourly wages based on  
11 new contracts. The Company maintains the level of employees at 903.2 full-time  
12 equivalent (“FTE”) employees as the appropriate staffing level and has updated its  
13 post-test year salaries and wages expense for actual active employees as of March 31,  
14 2024. Please note that the 903.2 FTE employee figure noted above excludes 18 FTE  
15 employees that are included in the post-test year expense for proposed acquisitions as  
16 reflected in Exhibit P-2, Schedule 6, line 20, and discussed in further detail in my  
17 testimony below.

18 **9. Q. Please summarize the changes to Exhibit P-2, Schedule 6, line 7, Pensions.**

19 A. The Company has increased its post-test year pension expense based upon its third-  
20 party actuary, WTW’s, projected 2024 pension costs determined in accordance with  
21 Financial Accounting Standards Board Accounting Standards Codification Topic 715.

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1           These projected 2024 pension costs were received in the first quarter of 2024, after the  
2           Company's original filing in January 2024. The Company used 2023 pension costs  
3           provided by WTW to determine post-year pension expense in its original filing.

4   **10. Q. Please summarize the changes to Exhibit P-2, Schedule 6, Line 8, Group**  
5   **Insurance.**

6           A. The Company has decreased its post-test year group insurance expense based upon  
7           updates made to salaries and wages expense. Additionally, included in Group  
8           Insurance is other post-employment benefits ("OPEB") expense, which was also  
9           updated based upon WTW's projected 2024 costs, which were received in the first  
10          quarter of 2024, after the Company's original filing in January 2024.

11   **11. Q. Please summarize the changes to Exhibit P-2, Schedule 6, line 9, Other Benefits.**

12          A. The Company has increased its post-test year other benefits expense based upon the  
13          updates made to salaries and wages expense.

14   **12. Q. Please summarize the changes to Exhibit P-2, Schedule 6, line 10, Support**  
15   **Services.**

16          A. The Company has increased its post-test year expense related to services provided by  
17          to New Jersey-American Water by the Service Company (collectively, the "Support  
18          Services") as follows: (a) estimated 2024 merit increases for non-union Service  
19          Company employees included in the Company's original filing were replaced by actual  
20          non-union merit increases for 2024; (b) actual 2024 merit increases for union Service  
21          Company employees were applied (the Company's original filing did not include an

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 estimate for merit increases for these employees); (c) pension and group insurance  
2 expense, including OPEB expense, was updated for Service Company employees based  
3 upon WTW's projected 2024 costs, as discussed above; and (d) \$31,746 of  
4 supplemental executive retirement plan ("SERP") expense was inadvertently included  
5 in the Company's original filing and was removed (this resulted in a decrease to the  
6 Company's post-test year Support Services expense).

7 **13. Q. Please summarize the changes to Exhibit P-2, Schedule 6, Line 12, Transportation.**

8 A. The Company has updated its post-test year transportation expense to reflect the change  
9 in fuel costs based upon a comparison of the base year 52-week average price per gallon  
10 to the price per gallon on March 25, 2024 (the Company's original filing compared the  
11 base year 52-week average price per gallon to the price per gallon on November 27,  
12 2023).

13 **14. Q. Please summarize the changes to Exhibit P-2, Schedule 6, Line 13, Uncollectible**  
14 **Accounts Expense.**

15 A. The Company has increased its post-test year uncollectible accounts expense to flow  
16 through and recognize the change in post-test year present rate revenues.

17 **15. Q. Please summarize the changes to Exhibit P-2, Schedule 6, Line 16, Insurance**  
18 **Other than Group.**

19 A. The Company has decreased its post-test year insurance other than group expense based  
20 upon actual 2024 insurance invoices and projected post-test year premiums.

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 **16. Q. Please summarize the changes to Exhibit P-2, Schedule 6, Line 19, Other**  
2 **Operating Expenses.**

3 A. In preparing a Discovery Request for non-recurring expenses, the Company identified  
4 one-time water testing expenses related to a chemical spill on the Delaware River. The  
5 Company has removed this amount from its post-test year other operating expense in  
6 this 9&3 Update. Additionally, the Company has identified rate case legal costs that  
7 were included as part of the post-test year other operating expense balance in the  
8 Company's original filing. Rate case legal costs are included in the regulatory expenses  
9 and therefore, were removed for post-test year other operating expense as part of this  
10 9&3 Update.

11 **17. Q. Please summarize the changes to Exhibit P-2, Schedule 6, Line 20, Acquisition**  
12 **Expenses.**

13 A. As discussed in the Supplemental Direct Testimony of Company witness Jamie D.  
14 Hawn, at the time the agreement of sale was prepared for the Borough of Manville's  
15 wastewater system, the revenue projections for the Manville service area contained the  
16 assumption that rates upon adoption would include a collection rate for the Company's  
17 collection system and a separate Purchased Wastewater Treatment Adjustment Clause  
18 ("PSTAC") for the treatment costs provided by Somerset Raritan Valley Sewer  
19 Authority. Subsequent to the Company's original filing of this rate case, the Borough  
20 indicated that they preferred a more simplified billing practice and, as such, the  
21 Company agreed to adopt the current wastewater rates as defined in the Borough's  
22 Municipal Code upon closing, and to bill wastewater services based on water use. In

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 this 9&3 Update, the Company is now proposing to eliminate PSTAC Rate Schedule  
2 23-B for Manville and has incorporated the associated revenues and wastewater  
3 treatment costs in its proposed revenue requirement. The associated wastewater  
4 treatment costs have resulted in an increase in the Company's post-test year acquisition  
5 expense, as reflected on Exhibit P-2, Schedule 6, Line 20, Acquisition Expenses.

6 **TAXES OTHER THAN INCOME**

7 **18. Q. Please summarize the changes to payroll taxes reflected on Exhibit P-2, Schedule**  
8 **10, Line 3.**

9 A. The Company has increased its post-test year payroll tax expense based upon the  
10 updates made to salaries and wages expense.

11 **19. Q. Please summarize the changes to revenue-based taxes reflected on Exhibit P-2,**  
12 **Schedule 10, Lines 4 - 5, and Schedules 11 – 12.**

13 A. The Company has updated its post-test year Gross Receipts and Franchise Excise Taxes  
14 ("GRAFT") expense and its New Jersey Board of Public Utilities ("BPU" or the  
15 "Board") and Division of Rate Counsel ("DRC") assessment rates expense based upon  
16 changes in post-test year present rate and post-test year proposed revenues, as discussed  
17 in the Supplemental Direct Testimony of Heath J. Brooks. Additionally, the Company  
18 also updated its post-test expense for a DRC assessment rate change.

19 **FEDERAL INCOME TAXES**

20 **20. Q. Please summarize the changes to federal income taxes reflected on Exhibit P-2,**  
21 **Schedule 14.**



NEW JERSEY-AMERICAN WATER COMPANY, INC.

1       A. The Company has updated its post-test year federal income tax expense to flow through  
2           the changes made in the 9&3 Update related to O&M expense, deferred taxes and post-  
3           test year present rate and post-test year proposed revenues.

4       **21. Q. Does this conclude your Supplemental Testimony?**

5       A. Yes.