

**Remarks of Stefanie A. Brand,  
Director of the N.J. Division of Rate Counsel**

**Regarding the Status of Water Utility Infrastructure, Presented at the  
Assembly Telecommunications and Utilities Committee Meeting**

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Good morning, my name is Stefanie A. Brand. I am the Director of the Division of Rate Counsel. I would like to thank Chairman Chivukula and the members of the Assembly Telecommunications and Utilities Committee for inviting me to speak today.

The Division of Rate Counsel represents and protects the interests of all utility consumers - residential customers, small business customers, small and large industrial customers, schools, libraries, and other institutions in our communities. Rate Counsel is a party in cases where New Jersey utilities seek changes in their rates or services. Rate Counsel also gives consumers a voice in setting energy, water and telecommunications policy that will affect the rendering of utility services well into the future.

I would like to start by noting that Rate Counsel generally supports the concept of utilities investing in their aging infrastructure, particularly in ways that extend the useful life of the pipelines that make up our existing water distribution and wastewater collection systems. Rate Counsel has been participating actively in the on-going proceedings at the Board of

Public Utilities and has had productive discussions with the industry and the Board regarding ways of addressing this issue. We are hopeful that these discussions will soon lead to a fair resolution and encourage the Committee to allow the Board's process to proceed before seeking a legislative remedy.

Many water and wastewater utilities have raised an alarm that underground infrastructure is aging and that a crisis of runaway system failure will result. Rate Counsel recognizes and concurs that assets that are not periodically evaluated and properly maintained are consigned to failure at some point, which could lead to higher costs for ratepayers. However, although Rate Counsel agrees that aging infrastructure should be addressed, we believe that any mechanism designed to finance such improvements should encourage the most cost-effective response, not simply the response that brings greatest revenues to the utility. In other words, Rate Counsel believes that any plan to accelerate the maintenance and renewal of these existing systems should encourage activities, such as cleaning and relining, that extend the life of existing assets where appropriate, rather than provide an incentive to choose costlier infrastructure replacement. Utilities should not be allowed to self-select projects from categories of costs, but should be required to propose specific projects and demonstrate that the proposed solution is cost-effective and prudent. Rate Counsel also believes that

capital expenses associated with large-scale asset replacements are best addressed in the context of a base rate proceeding where all cost implications can be addressed at one time.

A good illustration of this concept is the case of cast iron water mains. At the present time, it appears that much of this pipe is structurally sound based on the low break frequencies reported by the various utilities. The data we have received from some of the water utilities do not suggest a need for an accelerated main replacement program. Rather, the data suggest the condition of cast iron pipe would be better addressed through a cleaning and lining effort designed to extend the life of these mains. Most of New Jersey's water utilities have reported costs to clean and line mains that are between one half and one third the cost of replacement. Because cleaning and lining structurally sound water mains can extend the service life of these mains indefinitely, Rate Counsel believes that any infrastructure plan should incentivize the most cost-effective method of renewal.

It is also Rate Counsel's firm belief that any mechanism adopted must recognize the potentially cumulative impact of surcharges on base rates. We have, for most of the state's larger water utilities, seen a pattern of rate increase requests of 10-15% approximately every two years. These by themselves are significant increases, and Rate Counsel fields many

complaints from ratepayers regarding the relatively rapid increases in water rates. A DSIC, or “Distribution System Improvement Charge,” would allow for additional increases between rate cases. Thus, for example, if a DSIC allowing up to a 5% increase was enacted, it could mean 20-25% percent increases for ratepayers every two years. This substantially exceeds any wage increases or profits that ratepayers are likely to see in this economy and is only one of many fundamental expenditures competing for ratepayers’ funds. Thus, a mechanism such as a DSIC, should only be adopted if it meets the objective of renewing the life of existing infrastructure in a way that does not exceed customers’ ability to pay, or dissuade businesses from remaining in New Jersey.

Additionally, we feel that any special funding mechanism, if one is eventually adopted in New Jersey, should incorporate a correlation between the risk a utility assumes, and the reward it receives. For example, an infrastructure surcharge will decrease a utility’s risk by reducing regulatory lag and providing reconcilable, dollar-for-dollar cost recovery. This reduced risk should be reflected in the utility’s reward, which should be a lower return on investment in between rate case proceedings. This is necessary to balance the utilities’ stated need to accelerate maintenance and renewal of aging infrastructure, with ratepayers’ interest in minimizing water and sewer

rate increases in both the short and long term. It is only fair to ratepayers – the ones who are paying the utility’s return on investment – that a reduced regulatory risk be reflected in a lower return on investment.

As I mentioned, last month, the Board of Public Utilities solicited comments from stakeholders regarding the possible implementation of a DSIC. The Board is considering ways to encourage the replacement of aging infrastructure while balancing the impact on ratepayers. Rate Counsel has engaged in fruitful discussions as part of this process and the Board is well on its way to developing a fair yet effective solution. I would urge this Committee to allow this process to go forward. I do not think legislation is necessary at this point as I believe the Board’s process will lead to a prompt and reasonable means of addressing aging water infrastructure.

I thank you for the opportunity to testify here today, and am available to answer any questions you may have.