STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE JACOB S. GERTSMAN

IN THE MATTER OF THE PETITION	)
OF NEW JERSEY-AMERICAN WATER	)
COMPANY, INC. FOR APPROVAL OF	)
INCREASED TARIFF RATES AND	) BPU DOCKET No. WR17090985
CHARGES FOR WATER AND	) OAL DOCKET No. PUC 14251-2017S
WASTEWATER SERVICE; CHANGE	)
IN DEPREICATION RATES AND	)
OTHER TARIFF MODFICATIONS	)

DIRECT TESTIMONY OF ROBERT J. HENKES
ON BEHALF OF THE DIVISION OF RATE COUNSEL

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PUBLIC VERSION

NEW JERSEY AMERICAN WATER COMPANY
BPU Docket No. WR17090985
OAL DOCKET NO. PUC14251-2117S
Direct Testimony of Robert J. Henkes

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I. STATEMENT OF QUALIFICATIONS

Q. WOULD YOU STATE YOUR NAME AND ADDRESS?

A. My name is Robert J. Henkes and my business address is 7 Sunset Road, Old Greenwich, Connecticut 06870.

Q. WHAT IS YOUR PRESENT OCCUPATION?

A. I am Principal and founder of Henkes Consulting, a financial consulting firm that specializes in utility regulation.

Q. WHAT IS YOUR REGULATORY EXPERIENCE?

A. Since 1975

+

I have worked as an expert witness on behalf of the public in numerous rate proceedings involving electric, gas, telephone, water and wastewater companies in jurisdictions nationwide including Arkansas, Delaware, District of Columbia, Georgia, Kentucky, Maryland, New Jersey, New Mexico, Pennsylvania, Vermont, the U.S. Virgin Islands and before the Federal Energy Regulatory Commission. A listing of jurisdictions and rate proceedings in which I have prepared and submitted testimonies is provided in Appendix I attached to this testimony.

Q. WHAT OTHER PROFESSIONAL EXPERIENCE HAVE YOU HAD?

A. Prior to founding Henkes Consulting in 1999, I was a Principal of The Georgetown Consulting Group, Inc. for over 20 years. At Georgetown Consulting I performed the same type of consulting services as I am currently rendering through Henkes Consulting. Prior to my association with Georgetown Consulting, I was employed by the American Can Company as Manager of Financial Controls. Before joining the American Can Company, I was employed by the management consulting division of Touche Ross & Company (now Deloitte & Touche) for over six years. At Touche Ross, my experience, in addition to regulatory work, included numerous projects in a wide variety of industries and financial disciplines such as cash flow projections, bonding feasibility, capital and profit forecasting, and the design and implementation of accounting and budgetary reporting and control systems.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I hold a Bachelor degree in Management Science received from the Netherlands School of Business, The Netherlands in 1966; a Bachelor of Arts degree received from the University of Puget Sound, Tacoma, Washington in 1971; and an MBA degree in Finance received from Michigan State University, East Lansing, Michigan in 1973. I have also completed the CPA program of the New York University Graduate School of Business.

II. SCOPE AND PURPOSE OF TESTIMONY

Q. WHAT IS THE SCOPE AND PURPOSE OF THIS TESTIMONY?

A. I was engaged by the Division of Rate Counsel ("Rate Counsel") to conduct a review and analysis and present testimony in the matter of the petition of New Jersey American Water Company ("NJAWC" or "the Company") for increased tariff rates and charges for water and sewer service, change in depreciation rates and other tariff revisions, BPU Docket No. WR17090985.

The purpose of this testimony is to present to the New Jersey Board of Public Utilities ("BPU" or "the Board") the appropriate rate base, pro forma operating income, revenue conversion factor and overall revenue requirement for NJAWC in this proceeding. In the determination of NJAWC's appropriate revenue requirement, I have relied on and incorporated the recommendations of the following Rate Counsel witnesses:

- Dr. Marlon Griffing, concerning the appropriate capital structure, capital cost rates and overall rate of return of NJAWC in this proceeding;
- David Peterson, concerning NJAWC's appropriate cash working capital and consolidated income tax benefits;
- James Garren, concerning NJAWC's Depreciation Study and the appropriate average service lives and net salvage;
- Michael Majoros, concerning NJAWC's appropriate composite depreciation rate and proposed cost of removal related net regulatory asset; and

- Howard Woods, concerning the issues of normalized test year sales levels for the residential and commercial General Metered Services customers for all of NJAWC's tariff districts; post-test year plant in service additions; acquisition adjustments for Shorelands, Haddonfield and Roxiticus; Haddonfield water and sewer plant valuation adjustments; customer side lead service replacement costs; and engineering related issues associated with tank painting activities.

In developing this testimony, I have reviewed and analyzed NJAWC's original September 15, 2017 filing; supporting testimonies, exhibits and SIR workpapers; NJAWC's January 15, 2018 9+3 update filing and supporting exhibits and SIR workpapers; NJAWC's responses to initial and follow-up data requests by Rate Counsel and BPU Staff; and other relevant financial documents and data.

III. CASE OVERVIEW AND SUMMARY OF FINDINGS AND CONCLUSIONS

Q. PLEASE DESCRIBE THE COMPANY'S RATE INCREASE REQUEST IN ITS ORIGINAL FILING.

A. In its original filing dated September 15, 2017, the Company requested a base rate increase of $129,326,884, representing an increase of approximately 18.9% over its pro forma annualized test year revenues at current rates. This original filing was based on 5 months of actual and 7 months of projected test year results ("5+7 filing").

Q. HAS THE COMPANY UPDATED ITS ORIGINAL SEPTEMBER 15, 2017 FILING?

A. Yes. On January 15, 2018, the Company submitted an update of its rate case filing based on 9 months of actual and 3 months of projected data.[1] This 9+3 filing was accompanied by the supplemental testimonies of 3 witnesses. While the 9+3 filing indicated a revised revenue deficiency claim of $136,236,106 (20.0%), the Company is not changing its original rate increase request of $129,326,884. The 9+3 filing was not "tax affected" by the Company to reflect the consequences of the Tax Cuts and Jobs Act ("TCJA") that was signed into law on December 22, 2017. Then, on January 18, 2018, the Company submitted the supplemental testimony and exhibits of Frank Simpson[2] to reflect certain, but not all, impacts of the TCJA upon the Company's 9+3 filing. Mr. Simpson's supplemental tax act testimony indicated that the 9+3 filing's revenue deficiency of $136,236,106, when

[1] Hereinafter, this update filing will be referred to as the "9+3" filing.
[2] Tax Act Supplemental Direct Testimony of Frank X. Simpson Regarding Tax Law Changes

adjusted for certain (but not all) consequences of the TCJA, would be reduced to $80,060,465.

Q. WHAT OTHER DEVELOPMENT TOOK PLACE AFTER THE FILING OF THE 9+3 UPDATE CASE?

A. On January 31, 2018, the BPU issued an Order[3] directing all New Jersey utilities with 2017 revenues in excess of $4.5 million to file petitions and supporting documentation no later than March 2, 2018 proposing new interim base rates and tariffs effective April 1, 2018 and final rates and tariffs effective July 1, 2018 reflecting all of the impacts from the TCJA. This Board Order also contained very specific requirements and guidelines as to what impacts of the TCJA must be considered and treated for ratemaking purposes. Immediately after this Board Order was issued, NJAWC withdrew Mr. Simpson's January 18, 2018 Supplemental Tax Act testimony and indicated that a new supplemental tax act testimony would be forthcoming that would take into account the Board's TCJA Order of January 31, 2018. On February 8, 2018, NJAWC filed the Tax Act Supplemental Direct Testimony of John S. Tomac which indicated that the 9+3 filing as adjusted for certain aspects of the Board's TCJA Order would produce a revenue deficiency of $117,989,372. This revenue deficiency number only reflects two aspects of the Board's TCJA Order: (1) the restatement of the pro forma income taxes and revenue conversion factor from 35% to 21%, and (2) the reduction of the pro forma test year revenues to reflect the base rate reduction to be implemented April 1, 2018 as required by the BPU's TCJA Order.

[3] *In the matter of the New Jersey Board of Public Utilities' consideration of the Tax Cuts and Jobs Act of 2017,* Docket No. AX18010001, dated 1/31/18.

Finally, by Order dated March 26, 2018, the Board directed that NJAWC's TCJA plan filed on March 2, 2018, containing the identification and ratemaking treatment of all of the consequences of the TCJA, must be reviewed and addressed in the Board's separate TCJA proceeding in Docket No. WR18030233 rather than as part of the instant base rate case.

Q. WILL THERE BE ANOTHER UPDATE OF THE COMPANY'S FILING IN THIS CASE?

A. Yes. Pursuant to the procedural schedule of this case, the Company will be submitting its 12+0 Update Filing on April 23, 2018. This filing will contain 12 months of actual data for the test year ended March 31, 2018.

Q. HOW IS YOUR TESTIMONY STRUCTURED TAKING INTO ACCOUNT THE FOREGOING FACTS AND EVENTS?

A. Since the 9+3 filing that was filed by the Company on January 15, 2018 has been fully reviewed and discovered by me and incorporates corrections and revisions for a large number of issues that have previously been identified by me through the discovery process, I have used this updated filing as the starting point of the revenue requirement presentations contained in Schedules RJH-1 through RJH-31 that are attached to this testimony. Thus, this testimony and the supporting RJH schedules do not reflect any of the impacts of the TCJA. Specifically, this means that (1) the federal income taxes and revenue conversion factor reflected in this testimony are still based on a rate of 35%; (2) the customer refunds associated with the deferred tax revenue over-collections during the first quarter of 2018 and associated with the excess accumulated deferred income tax balances as of December 31, 2017 are not reflected in this testimony; and (3) the pro forma test year revenues reflected in this testimony are based on the billing determinants and rates in effect at the time of the 9+3 filing and do not reflect the base rate reduction that was put into effect on April 1, 2018 as a result of the Board's generic TCJA Order proceeding. I have chosen this approach because the Board's 3/26/18 Order directed that all of the tax consequences included in NJAWC's TCJA plan filed on March 2, 2018 be addressed in the separate generic TCJA proceeding, BPU Docket No. AX18010001. In addition, it is my understanding that the billing determinants and calculations underlying the Company's restated pro forma test year operating revenue to reflect the rate reduction effective April 1, 2018 are not in the record at this time.

Q. COULD YOU NOW SUMMARIZE YOUR REVENUE REQUIREMENT FINDINGS AND CONCLUSIONS IN THIS CASE?

A. Yes. I have reached the following revenue requirement findings and conclusions in this docket:

1. The appropriate rate base amounts to $2,712,393,103 which is $322,293,315 lower than NJAWC's proposed 9+3 updated rate base of $3,034,686,418. Schedules RJH-1, line 1 and RJH-3.

2. The appropriate forma operating income amounts to $206,277,751 which is $35,995,725 higher than NJAWC's proposed 9+3 updated pro forma operating income of $170,282,026. Schedules RJH-1, line 4 and RJH-8.

3. The appropriate overall rate of return on rate base, as recommended by Rate Counsel witness Dr. Marlon Griffing, is 7.2545%, incorporating a recommended return on equity of 9.50%. This compares to NJAWC's proposed overall rate of return on rate base of 8.1121%, including a requested return on equity rate of 10.80%. Schedules RJH-1, line 2 and RJH-2.

4. The appropriate Revenue Conversion Factor to be used for ratemaking purposes in this case is 1.79504. Schedule RJH-1, line 6.

5. The recommended ratemaking components outlined above indicate the need for a rate decrease of $17,068,228 (-2.49%). This recommended rate decrease is $153,304,334 lower than NJAWC's proposed 9+3 updated revenue deficiency of $136,236,106 (20.00%). Schedule RJH-1, lines 7 and 8.

6. The recommendations stated above may have to be revised based on the results of the Company's 12+0 filing.

IV. REVENUE REQUIREMENT ISSUES

A. BASE YEAR, TEST YEAR AND POST-TEST YEAR

Q. PLEASE DESCRIBE THE BASE YEAR, TEST YEAR AND POST-TEST YEAR APPROACH USED BY NJAWC TO SUPPORT ITS REQUESTED RATE INCREASE IN THIS PROCEEDING.

A. NJAWC's proposed Base Year in this case is the 12-month period ended March 31, 2017, containing 12 months of actual data. NJAWC's proposed Test Year in this case is the 12-month period ended March 31, 2018, containing 5 months of actual and 7 months of projected data in the original rate filing which was updated to 9 months of actual and 3 months of projected data in the 9+3 update filing. NJAWC then adjusted its Test Year results for projected Post-Test Year rate base changes through September 30, 2018, and projected Post-test Year revenue, expense and tax changes projected to occur during the nine-month Post-Test Year period April 1 through December 31, 2018 and beyond.

Q. WILL THE COMPANY FURTHER UPDATE ITS FILING FOR FULL ACTUAL 12+0 TEST YEAR RESULTS?

A. Yes. Pursuant to the procedural schedule in this case, the Company will submit its Test Year results on a fully actual 12+0 basis on April 23, 2018.

Q. DO YOU BELIEVE THAT THIS PROPOSED BASE YEAR, TEST YEAR AND POST-TEST YEAR RATE MAKING APPROACH IS REASONABLE FOR

PURPOSES OF DETERMINING NJAWC'S REVENUE REQUIREMENT IN THIS CASE?

A. Yes, I do. The approach used by the Company in this case is generally consistent with the Board's test year and Post-Test year ratemaking standards established *In Re Elizabethtown Water Company Rate Case,* BPU Docket No. WR8504330 (May 23, 1985). These ratemaking standards require that the Test Year in a base rate proceeding must be fully historical prior to the close of record in the proceeding; that "known and measurable"[4] Post-Test Year rate base changes are allowed for a period extending 6 months beyond the end of the Test Year; and that "known and measurable" revenue and expense changes are allowed for a period extending 9 months beyond the end of the Test Year.

B. RATE BASE

Q. PLEASE SUMMARIZE NJAWC'S PROPOSED PRO FORMA RATE BASE, THE METHOD EMPLOYED BY NJAWC TO DETERMINE ITS PRO FORMA RATE BASE, AND THE RECOMMENDED RATE BASE ADJUSTMENTS.

A. NJAWC's proposed 9+3 rate base amounts to $3,034,686,418 and is shown by rate base component on Schedule RJH-3. All of NJAWC's proposed pro forma rate base balances except those for prepayments, materials & supplies, cash working capital and consolidated income taxes represent fully projected balances as of 3/31/18, the end of the test year. The proposed 9+3 rate base balances for prepayments and materials & supplies represent the 13-month average balances for the annual period ended 11/30/17, and the claimed cash

[4] Known and measurable changes to the Test Year must be (1) prudent and major in nature and consequence, (2) carefully quantified through proofs which (3) manifest convincingly reliable data.

working capital requirement and consolidated income tax rate base components have been calculated. In addition, the Company's proposed plant in service, depreciation reserve and accumulated deferred income tax balances include certain additions/reductions projected during the 6-months post-test year period ended 9/30/18.

As summarized on Schedule RJH-3 and shown in more detail in subsequent RJH schedules, I have reflected numerous rate base adjustments that have the combined effect of reducing NJAWC's proposed rate base by $322,293,315. Each of these recommended rate base adjustments will be discussed in more detail below.

- **Utility Plant in Service**

Q. PLEASE DESCRIBE THE DERIVATION OF NJAWC'S PROPOSED PRO FORMA PLANT IN SERVICE BALANCE.

A. NJAWC is proposing to claim in its rate base the utility plant in service balance projected as of September 30, 2018. To arrive at this projected utility plant in service balance, NJAWC used the 9+3 projected plant balance as of the end of the test year, March 31, 2018, as the starting point and then added certain projected post-test year plant additions for the six-month post-test year period ended September 30, 2018. As shown on Schedule RJH-4, the Company's proposed 9+3 projected March 31, 2018 plant in service balance amounts to $5,073,952,311 and its proposed projected post-test year plant additions amount to $123,014,290, resulting in a total projected plant in service balance of $5,196,966,601 as of September 30, 2018.

Q. PLEASE EXPLAIN WHAT APPROACH YOU HAVE USED IN THE DETERMINATION OF RATE COUNSEL'S RECOMMENDED PRO FORMA PLANT IN SERVICE BALANCE IN THIS CASE.

A. As shown on Schedule RJH-4, I started out with the Company's proposed projected plant in service balance of $5,073,952,311 as of 3/31/18 with the recommendation that this projected balance be replaced with the actual 3/31/18 plant in service balance.

Next, I reflected three plant in service adjustments recommended by Rate Counsel witness Howard Woods. The first adjustment concerns a plant addition of $1,781,817 resulting from Mr. Woods' Haddonfield Water and Sewer Plant Valuation study. The second adjustment concerns a plant in service reduction of $440,000 reflecting Mr. Woods' recommendation to remove the Customer Side Lead Service Replacement costs from NJAWC's proposed test year plant in service. Finally, I reflected Mr. Woods' recommendation that the Company's proposed post-test year plant additions of $123,014,290 be reduced by $50,493,701. The reasons for these three plant in service adjustments are discussed in detail in the testimony of Mr. Woods.

As shown on Schedule RJH-4, Rate Counsel's recommended pro forma test year plant in service balance at this time amounts to $5,147,814,717.

- **Accumulated Depreciation Reserve**

Q. PLEASE EXPLAIN THE DERIVATION OF THE RECOMMENDED ACCUMULATED DEPRECIATION RESERVE BALANCE SHOWN ON SCHEDULE RJH-3, LINE 2.

A. As shown in more detail on Schedule RJH-5, I started out with NJAWC's projected reserve balance as of the end of the test year, 3/31/18. I then increased this starting balance by $5,981,324 resulting from Mr. Woods' Haddonfield Water and Sewer Plant Valuation study. Finally, I added 27.44% of the Company's post-test year reserve additions projected from 4/1/18 through 9/30/18. As shown on Schedule RJH-5, footnote (4), the ratio of 27.44% represents the portion of NJAWC's projected post-test year plant in service additions that Rate Counsel recommends be reflected for ratemaking purposes in this case.

Q. DO YOU HAVE ANY OTHER RECOMMENDATIONS REGARDING THIS ITEM?

A. Yes. Once available, NJAWC's projected reserve balance as of the end of the test year, 3/31/18, should be replaced with the actual 3/31/18 reserve balance.

- **<u>Cash Working Capital</u>**

Q. PLEASE EXPLAIN THE RECOMMENDED CASH WORKING CAPITAL REQUIREMENT SHOWN ON SCHEDULE RJH-3, LINE 4.

A. This recommended rate base component represents my adoption of the cash working capital recommendations that are contained and explained in detail in the testimony of Rate Counsel witness David Peterson.

- **Plant Acquisition Adjustment**

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENTS TO THE COMPANY'S PROPOSED PLANT ACQUISITION ADJUSTMENT BALANCE SHOWN ON SCHEDULE RJH-6.

A. I have adopted the recommendations of Rate Counsel witness Woods to remove the acquisition adjustment balances for Haddonfield, Roxiticus and Shorelands from the Company's proposed total plant acquisition adjustment balance. This has reduced NJAWC's proposed acquisition adjustment balance in rate base from $31,616,429 to a Rate Counsel recommended acquisition adjustment rate base balance of $2,910,420.

Schedule RJH-6 also shows that Mr. Woods' recommendations have reduced NJAWC's proposed acquisition adjustment amortization expense from $1,085,744 to a Rate Counsel recommended acquisition adjustment amortization expense of $368,094.

- **Prepayments and Materials & Supplies**

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENTS TO NJAWC'S PROPOSED PREPAYMENT AND MATERIALS & SUPPLIES BALANCES IN RATE BASE SHOWN ON SCHEDULE RJH-3.

A. The recommended adjustments are merely the differences between the Company's projected rate base balances and Rate Counsel's recommended rate base balances that are based on more updated results. Rate Counsel's recommended rate base balances still represent projected balances for the test year ended March 31, 2018. They should be replaced with actual balances once this information has become available.

- **Customer Advances and Contributions in Aid of Construction**

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENTS TO NJAWC'S PROPOSED CUSTOMER ADVANCES AND CONTRIBUTIONS IN AID OF CONSTRUCTION BALANCES IN RATE BASE SHOWN ON SCHEDULE RJH-3.

A. The recommended adjustments are merely the differences between the Company's projected rate base balances and Rate Counsel's recommended rate base balances that are based on more updated results. Rate Counsel's recommended rate base balances still represent projected balances as of March 31, 2018, the end of the test year. They should be replaced with actual balances once this information has become available.

- **Accumulated Deferred Income Taxes**

Q. PLEASE EXPLAIN THE DERIVATION OF THE RECOMMENDED ACCUMULATED DEFERRED INCOME TAX (ADIT) BALANCE SHOWN ON SCHEDULE RJH-3, LINE 12.

A. As shown in more detail on Schedule RJH-7, I started out with NJAWC's projected ADIT balance as of the end of the test year, 3/31/18. I then added 27.44% of the Company's post-test year ADIT additions projected from 4/1/18 through 9/30/18. As shown on Schedule RJH-7, footnote (3), the ratio of 27.44% represents the portion of NJAWC's projected post-test year plant in service additions that Rate Counsel recommends be reflected for ratemaking purposes in this case.

Q. DO YOU HAVE ANY OTHER RECOMMENDATIONS REGARDING THIS ITEM?

A. Yes. Once available, NJAWC's projected deferred income tax balance as of the end of the test year, 3/31/18, should be replaced with the actual 3/31/18 ADIT balance.

- **Consolidated Income Tax Benefits**

Q. PLEASE EXPLAIN THE RECOMMENDED CONSOLIDATED INCOME TAX RATE BASE DEDUCTION BALANCE SHOWN ON SCHEDULE RJH-3, LINE 13.

A. This recommended rate base component represents my adoption of the consolidated income tax recommendations that are contained and explained in detail in the testimony of Rate Counsel witness David Peterson.

C. OPERATING INCOME

Q. PLEASE SUMMARIZE NJAWC'S PROPOSED PRO FORMA OPERATING INCOME, THE METHOD EMPLOYED BY NJAWC TO DETERMINE ITS PRO

FORMA OPERATING INCOME, AND THE RECOMMENDED OPERATING INCOME ADJUSTMENTS.

A. NJAWC's proposed 9+3 net operating income amounts to $170,282,026 and is shown by operating income component on Schedule RJH-8. In deriving this pro forma income level, NJAWC projected its pro forma operating revenues based on projected billing determinants as of the end of the post-test year period, 9/30/18, and based on numerous assumptions regarding normalized consumption levels for each of the various customer classes. NJAWC's proposed depreciation expenses were determined by applying its proposed new depreciation rates to its projected depreciable plant levels as of September 30, 2018. The proposed pro forma O&M expenses were determined by taking the unadjusted actual O&M expenses for the Base Year ended March 31, 2017 as the starting point and then adjusting these Base Year expense levels for actual and projected expense changes from the Base Year through the Test Year ended March 31, 2018 and during the 9-month period beyond the end of the Test Year. Generally, the same approach was used by NJAWC to determine its pro forma revenue taxes and other taxes. NJAWC's proposed income taxes were determined by taking the proposed pro forma net operating income before income taxes as the starting point, then deducting pro forma interest expenses through the "interest synchronization" method and applying the statutory FIT rate of 35%.

As summarized on Schedule RJH-8 and shown in detail on subsequent RJH schedules, I have recommended numerous operating income adjustments with the combined effect of increasing NJAWC's proposed pro forma after-tax operating income by a total amount of

$35,995,725. Each of the recommended operating income adjustments will be discussed in detail below.

- **General Metered Service (GMS) Revenues**

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENTS TO NJAWC'S PROPOSED GMS REVENUES FOR EACH OF THE TARIFF DISTRICTS SHOWN ON SCHEDULE RJH-9, LINES 1 THROUGH 8.

A. The recommended adjustments represent my adoption of the normalized GMS sales volume recommendations for each of these tariff districts that are contained and explained in detail in the testimony of Rate Counsel witness Howard Woods.

- **OIW Revenues**

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENT TO NJAWC'S PROPOSED OIW REVENUES SHOWN ON SCHEDULE RJH-10.

A. The Company's OIW tariff on Rate Schedule F includes the following requirement:

> If monthly consumption on an average daily basis exceeds a load factor of 1.2 times the last (rolling) twelve months average monthly consumption on an average daily basis for three consecutive months between April 1 and September 30, a customer will be removed from this Rate Schedule and will be billed under the General Metered Service Rate Schedule A-3.

In its response to RCR-RD-25, the Company confirmed that its OIW customer **[begin confidential]** **[end confidential]** exceeded the load factor for 3 consecutive months July – September 2017 and that, as a result, "the Company is in the process of moving [**begin confidential**] **[end confidential]** to GMS. However, NJAWC's pro forma test year revenues from the sales to this customer are priced out at the lower OIW tariff consumption rate of $3.5144 rather than the applicable higher GMS tariff consumption rate of $6.0533/thousand gallons. As shown on Schedule RJH-10, pricing **[begin confidential]** **[end confidential]** annual consumption volume at the higher GMS tariff rate of $6.0533 increases the Company's pro forma test year OIW revenues by $542,921.

- **<u>Regular Sales for Resale (SFR) Revenues</u>**

Q. HOW DID THE COMPANY DETERMINE ITS PRO FORMA TEST YEAR SALES VOLUMES UNDERLYING ITS REGULAR SFR REVENUES?

A. The Company has 7 Regular SFR customers. In determining the pro forma test year sales volumes for each of these SFR customers, the Company took the higher of the most recent 5-year average sales and the Annual Purchase Requirement (APR) except for the Moorestown and Livingston SFR customers.

Q. DO YOU AGREE WITH THE COMPANY'S APPROACH TO DETERMINE ITS PROPOSED PRO FORMA REGULAR SFR SALES VOLUMES AND ASSOCIATED REVENUES?

A. I agree with the approach to determine the pro forma test year Regular SFR sales volumes by taking the higher of the actual 5-year average and the APR sales volumes. However, the Company did not use this approach for its Regular SFR customers Moorestown and Livingston. The APR sales volume for Moorestown is 327,000 whereas the 5-year average sales volume is 496,067. The APR volume for Livingston is 300,000 whereas the 5-year average sales volume is 323,661.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THIS ISSUE?

A. I recommend that the higher of the 5-year average and the APR sales volumes for Moorestown and Livingston be used for determining the appropriate pro forma test year revenues from these two Regular SFR customers. This would not only make sense considering the actual annual fluctuations in the sales levels (see footnotes 2 and 3 on Schedule RJH-11), but would also be consistent with the approach used by NJAWC to determine the pro forma sales levels for all of the other Regular SFR customers.

As shown on Schedule RJH-11, my recommendations increases NJAWC's proposed pro forma test year Regular SFR revenues by $1,185,241.

- **<u>SREC Revenues</u>**

Q. WHAT IS THE LEVEL OF SREC REVENUES REFLECTED BY NJAWC IN ITS 9+3 UPDATE FILING?

A. The Company has reflected projected pro forma annual SREC revenues totaling $672,007 in its 9+3 filing. As shown on Schedule RJH-12, this projected revenue level is based on 3,060 SRECs actually generated by NJAWC in the 12-month period ended November 2016, priced out at the actual April 2017 SREC unit price of $219.61.

Q. DO YOU AGREE WITH THE DATA USED BY THE COMPANY TO PROJECT ITS PRO FORMA TEST YEAR SREC REVENUES?

A. No. The Company used the year ended November 2016 as the basis for determining the projected pro forma SREC volumes. I believe it is more appropriate and reasonable to use the more recent calendar year 2017 as the basis. The Company's actual 2017 SRECS generated amounted to 3,323. Second, SREC unit prices can vary substantially during the year. Therefore, it would be more appropriate to use a 13-month average unit price rather than a one-point-in-time price that was experienced in April 2017. The 13-month average SREC unit price for 2017 amounts to $215.03, i.e., slightly lower than NJAWC's proposed price of $219.61.

Q. WHAT IS THE RECOMMENDED PRO FORMA TEST YEAR SREC REVENUE BASED ON 3,323 SRECS PRICED OUT AT AN SREC UNIT PRICE OF $215.03?

A. As shown on Schedule RJH-12, the recommended pro forma test year SREC revenues amount to $714,545 based on those parameters. This is $42,538 higher than the SREC revenues of $672,007 proposed by NJAWC.

- **<u>Payroll Expenses</u>**

Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS TO NJAWC'S PROPOSED SALARY AND WAGE EXPENSES SHOWN ON SCHEDULE RJH-14.

A. I have made 3 adjustments to NJAWC's proposed pro forma salaries and wages in this case. The first adjustment concerns the recommended removal of all incentive compensation from NJAWC's proposed payroll expenses. The second adjustment involves a recommended increase in NJAWC's proposed vacancy ratio. And the third adjustment is for my recommendation that NJAWC's proposed labor capitalization ratio be increased. As shown on Schedule RJH-14, line 8, my recommended payroll expense adjustments reduce the Company's proposed payroll expenses charged to O&M by a total combined amount of $4,757,596.

Q. PLEASE EXPLAIN THE FIRST RECOMMENDED ADJUSTMENT CONCERNING INCENTIVE COMPENSATION EXPENSES.

A. SIR-18, page 1 and the response to RCR-A-103(e) show that the Company's proposed pro forma payroll expenses include a total amount of $3,404,897 for incentive compensation expenses, consisting of $3,158,746 for Annual Incentive Plan ("AIP") expenses and $246,151 for Long Term Incentive Plan ("LTIP") expenses. It should be noted, however, that additional incentive compensation expenses totaling $4,626,312 are reflected by NJAWC in this case as part of the allocated Service Company charges. These incentive compensation expenses, which consist of $3,515,255 for AIP expenses and $1,111,057 for LTIP expenses, are shown on line 1 of Schedule RJH-24. Thus, NJAWC is proposing to charge its ratepayers total incentive compensation expenses of $8,031,209, consisting of $6,674,001 for AIP and $1,357,208 for LTIP expenses.

Q. TURNING FIRST TO THE COMPANY'S PROPOSED RATE INCLUSION OF THE $1,357,208 FOR LTIP INCENTIVE COMPENSATION EXPENSES, PLEASE PROVIDE ADDITIONAL DETAILS REGARDING THIS LTIP PROGRAM.

A. As shown in SR-34 Attachment, page 15 of 52, the purpose of the LTIP program is as follows:

[begin confidential]

[end confidential]

[begin confidential]

[end confidential]The level of employees eligible to participate in the Company's LTIP program consists of Vice-Presidents, Senior Directors and Directors

Q. TURNING NOW TO THE COMPANY'S PROPOSED RATE INCLUSION OF THE $6,674,001 FOR AIP INCENTIVE COMPENSATION EXPENSES, PLEASE PROVIDE ADDITIONAL DETAILS REGARDING THIS AIP PROGRAM.

A. Regular, full-time, non-union employees are eligible to participate in the AIP program. American Water's AIP program is designed to give eligible exempt employees an annual opportunity to earn a cash award that recognizes and rewards their contribution to the Company's success.[5] **[begin confidential]** 2,

[5] RCR-A-109 Attachment, p. 3 of 4, Docket No. WR15010035.

[end confidential]

[begin confidential]

[end confidential]

Q. HAVE NJAWC'S NON-UNION EMPLOYEES THAT ARE ELIGIBLE FOR INCENTIVE COMPENSATION RECEIVED ANNUAL INCREASES IN THEIR "REGULAR" BASE COMPENSATION?

A. Yes. During the most recent 4-year period 2014 – 2017, the average annual salary increases for NJAWC's non-union employees were approximately **[begin confidential]** **[end confidential]** and in the current case, the Company has requested (and I have accepted) the annualized impact of an additional **[begin confidential]** **[end confidential]** increase for the non-union employees.[7]

[6] SR-34 Attachment, p. 6 of 52.
[7] Response to RCR-A-124.

Q. BASED ON THE PREVIOUSLY DISCUSSED INFORMATION, WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE RATE TREATMENT FOR THE INCENTIVE COMPENSATION EXPENSES PROPOSED BY NJAWC IN THIS CASE?

A. I recommend that NJAWC's proposed pro forma incentive compensation expenses of $8,031,209 be disallowed for rate making purposes in this case. The recommended disallowance of the "direct" NJAWC incentive compensation expenses of $3,404,897 is shown on line 2 of Schedule RJH-14; and the recommended disallowance of the Service Company-allocated incentive compensation expenses of $4,626,312 is shown on lines 1a and 1b of Schedule RJH-24.

Q. WHAT ARE THE REASONS FOR THIS RECOMMENDATION?

First, the criteria for determining the awards to be paid out under NJAWC's LTIP and AIP incentive compensation programs are, respectively, **[begin confidential]** **[end confidential]** dependent on the achievement of corporate financial performance as measured by various financial indicators such as **[begin confidential]** [**end confidential]** Moreover, the fact that no incentive compensation will be paid out if American Water Company's **[begin confidential]** **[end confidential]** essentially means that **[begin confidential]** **[end confidential]**

NJAWC's shareholders are the primary beneficiaries of corporate financial performance improvements by virtue of the resulting increases in their stock value or dividend receipts.

For that reason, NJAWC's stockholders should be made responsible for these discretionary costs.

Second, the Company's proposed incentive compensation bonuses of $8,031,209 are not known and certain. They are dependent on American Water's achievement of certain pre-determined financial thresholds and in determining its proposed pro forma incentive compensation awards, the Company has assumed that these financial thresholds will be achieved. However, if these financial thresholds are not reached, the incentive compensation could be substantially different from what the Company has assumed in this case.

Third, during a time that employees in other industries, including many in New Jersey's state government, have not had any meaningful wage/salary increases, NJAWC's non-union employees that are eligible for incentive compensation have continued to receive base salary increases averaging approximately 3.0% and will continue to receive annual salary increases of close to 3% as reflected for 2018 on a pro forma basis in this case. Given these facts, I do not believe it reasonable and appropriate to saddle the ratepayers with an additional amount in excess of $8 million for bonus awards to be paid out under the Company's incentive compensation programs.

Fourth, the Company has not presented any evidence in this case showing the specific benefits that are accruing to the ratepayers as opposed to NJAWC's shareholders as a result of the incentive compensation plans for which these same ratepayers are asked to pay

100% of the costs. Neither has NJAWC presented any evidence in this case showing that there is any appreciable difference in the productivity level of NJAWC and NJAWC's employees or that the ratepayers are receiving more efficient service at reduced overall costs as a direct result of the Company's incentive compensation programs. In this regard, in data request RCR-A-104, the Company was asked the following questions concerning its incentive compensation programs:

a. Provide all studies and analyses that NJAWC has performed or commissioned that quantify the dollar benefits that the Company's incentive programs provide to the ratepayers.
b. Provide all studies and analyses that NJAWC has performed or commissioned that quantify the productivity gains achieved as a direct result of the Company's incentive compensation programs.
c. Provide all studies and analyses that NJAWC has performed or commissioned that the ratepayers are receiving more efficient service at significant cost reductions as a direct result of the Company's incentive compensation programs.
d. Provide all studies and analyses that NJAWC has performed or commissioned that prove based on convincingly reliable evidence that rate increases have been delayed and that rates are lower as a direct result of the Company's incentive compensation programs.

The Company responded to this request by referring to the confidential study provided by Company witness Mustich in his direct testimony, Exhibit PT-19. However, Mr. Mustich's study does not at all address, let alone provide answers to, the above-referenced questions posed in RCR-A-104.

Fifth, there is no incentive for management to control the level of the incentive compensation costs if 100% of these costs can be flowed through to the captive ratepayers. This would be particularly true given that the Company's management is the primary beneficiary of these incentive compensation plans.

Q. DOES THE BOARD HAVE A STATED RATE MAKING POLICY WITH REGARD TO THE RATE TREATMENT OF INCENTIVE COMPENSATION?

A. Yes. In its Final Decision and Order in the Jersey Central Power & Light Company rate case, Docket No. ER91121820J, the Board stated on page 4 of this Decision and Order:

> We are persuaded by the arguments of Staff and Rate Counsel that, at this time, the incentive compensation or "bonus" expenses should not be recovered from ratepayers. The current economic condition has impacted ratepayers' financial situation in numerous ways, and it is evident that many ratepayers, homeowners and businesses alike, are having difficulty paying their utility bills or otherwise remaining profitable. These circumstances as well as the fact that the bonuses are significantly impacted by the Company achieving financial performance goals, render it inappropriate for the Company to request recovery of such bonuses in rates at this time. Especially in the current economic climate, ratepayers should not be paying additional costs to reward a select group of Company employees for performing the job they were arguably hired to perform in the first place.[8]

Q. DID THE BOARD REITERATE THIS INCENTIVE COMPENSATION RATE MAKING POLICY IN A MORE RECENT LITIGATED BASE RATE CASE?

A. Yes. In the fully-litigated 2000 Middlesex Water Company base rate case, the BPU Staff stated on page 37 of its Initial Brief with regard to Middlesex's incentive compensation expenses:

> Staff is persuaded by the arguments of the RPA that, at this time, the incentive compensation expenses should not be recovered from ratepayers. According to the record, incentive compensation expenses have tripled since 1995. In addition, the record also indicated that the bonuses are significantly impacted by the Company achieving financial performance goals. These facts lend strength to the RPA's position that it is inappropriate for the Company to request recovery of bonuses in rates at this time.

[8] *I/M/O the Petition of Jersey Central Power & Light Company for Approval of Increased Base Tariff Rates and Charges for Electric Service and Other Tariff Revisions,* BRC Docket No. ER91121820J, Final Decision and Order Accepting in Part and Modifying in Part the Initial Decision at 4 (June 15, 1993).

While the ALJ in that case ruled that 50% of Middlesex's incentive compensation expenses could be recovered in rates, the Board overruled the ALJ and ordered that 100% of these incentive compensation expenses be removed from Middlesex's rates. [9]

Q. IN ITS RESPONSE TO SR-44, THE COMPANY STATES THAT IN BPU DOCKET NO. ER12111052, THE BOARD ALLOWED RATE RECOGNITION FOR A PORTION OF JCP&L'S INCENTIVE COMPENSATION REQUEST. CAN YOU COMMENT ON THAT?

A. Yes. In that particular case JCP&L requested rate inclusion of incentive compensation that was paid out not only to its non-union employees, but also to its union employees. It is my understanding that the Board in that case disallowed rate recognition for 100% of the incentive compensation paid out to JCP&L's non-union employees, but allowed the incentive compensation paid to the union employees as this compensation was negotiated under contractual labor agreements. This Board precedent does not apply to NJAWC's incentive compensation claimed in the instant proceeding as all of the recipients of NJAWC's incentive compensation are non-union employees.

Q. PLEASE EXPLAIN THE SECOND RECOMMENDED ADJUSTMENT CONCERNING NJWC'S PROPOSED VACANCY RATIO.

A. In this case, the Company has proposed to apply an estimated vacancy rate of 3.0% to the total employee level projected by the Company for the pro forma test year. This vacancy

[9] *I/M/O the Petition of Middlesex Water Company for Approval of an Increase in Rates for Water Service and Other Tariff Changes,* BPU Docket No. WR00060362, Order Adopting in Part/Modifying in Part/Rejecting in Part/ Initial Decision at 25-26 (June 6, 2001).

rate reflects the estimated vacancy level that can be expected throughout the test year and represents the difference between the Company's budgeted and actual level of employees on an ongoing basis. Based on my review of the Company's response to RCR-A-201, I believe that NJAWC's proposed vacancy rate of 3.0% is understated. Specifically, this data response shows that the average vacancy rate actually experienced by NJAWC during 2016 was 3.27% and during the most recent calendar year 2017 was 3.64%. I am not sure how the Company calculated its proposed estimated vacancy rate of 3.0 %, but I believe that it would be most appropriate to base the projected test year vacancy rate on the most recent available annual vacancy rate average of 3.64%.

Q. WHAT IS THE BASIS FOR THE COMPANY'S PROPOSED CAPITALIZATION RATIO APPLICABLE TO ITS PAYROLL COSTS?

A. The Company's proposed projected labor related capitalization ratio used in this case is based on a 2-year average actual capitalization ratio. Specifically, the Company averaged its actual capitalization ratios incurred in the two 12-month periods ended March 31, 2016 and March 31, 2017. This resulted in a capitalization ratio of 38.39% which the Company used for all of its labor related expenses requiring capitalization allocations, such as payroll, group insurance, pensions, OPEB, 401(k), Defined Contribution Plan, and Workers Compensation.

Q. WHAT ARE THE REASONS BEHIND THE COMPANY'S DECISION TO AGAIN USE THE 2-YEAR AVERAGE APPROACH IN ITS DETERMINATION OF THE PRO FORMA CAPITALIZATION RATIO TO BE USED IN THIS CASE?

A. The reasons are explained in the Company's responses to SR-64 and RCR-A-179. In its response to SR-64, the Company stated:

> The Company elected to use a two-year average capitalization rate and apply the rate to all labor and related expenses. The two-year average was more aligned with the current trend of capitalization when compared to a three-year average….

In its response to RCR-A-179, the Company stated in response to the question why the capitalization ratios show such significant increases from 2014 through 2017:

> With the expansion of the Company's capital projects in recent years, the Company has made a determination to have more of that work performed internally, and the result has been an increasing capitalization ratio.

Finally, another reason may be the fact that the Company also used a two-year average approach for its projected labor related capitalization ratio in its prior (2015) base rate case.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED APPROACH WITH REGARD TO THIS LABOR CAPITALIZATION ISSUE?

A. Yes, for the previously discussed reasons, I agree with the Company's proposal to use a two-year average approach in the determination of the labor related capitalization ratio. However, I believe that it is appropriate to update the Company's numbers now that more recent actual data has become available.

Q. WHAT DO THE UPDATED RESULTS SHOW AND WHAT IS YOUR RECOMMENDATION?

A. While the Company's proposed capitalization ratio of 38.39% is based on the average of the actual ratios for the 2-year period ended March 31, 2017, the average of the actual capitalization ratios for calendar years 2016 and 2017 is 41.51%. I recommend that this most recent available ratio of 41.51% be used as the payroll capitalization ratio in this case.

- **Group Insurance Expense**

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENTS TO THE COMPANY'S PROPOSED GROUP INSURANCE EXPENSE SHOWN ON SCHEDULE RJH-15.

A. I recommend that two adjustments be made to the Company's proposed group insurance expense. Both of these adjustments are made for the reasons discussed in the preceding "Payroll Expense" section of this testimony. Specifically, I recommend the use of a vacancy allocation ratio of 3.64% as opposed to the 3.0% ratio proposed by the Company; and I recommend the use of a capitalization ratio of 39.93%, based on the updated two-year average approach involving calendar years 2016 and 2017 as opposed to the 38.39% ratio proposed by NJAWC that is based on the outdated two-year average approach for the two-year period ended March 31, 2017.

Schedule RJH-15, line 5 shows that these two adjustments reduce the Company's pro forma test year group insurance expenses by $215,917.

- **Pension Expense**

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENTS TO THE COMPANY'S PROPOSED PENSION EXPENSE SHOWN ON SCHEDULE RJH-16.

A. The first recommended adjustment is made for the reasons discussed in the preceding "Payroll Expense" section of this testimony. Specifically, I recommend the use of a capitalization ratio of 41.93%, based on the updated two-year average approach involving calendar years 2016 and 2017 as opposed to the 38.39% ratio proposed by NJAWC that is based on the outdated two-year average approach for the two-year period ended March 31, 2017.

The second recommended adjustment concerns the removal of the Company's proposed amortization of a claimed Shorelands unfunded pension obligation. Schedule RJH-16, line 4b shows that this adjustment reduces the Company's pro forma test year pension expense by $130,628. As described in the testimony of Company witness Mr. Simpson[10] (now Mr. Tomac), at the time of NJAWC's acquisition of the Shorelands Water Company, Shorelands carried an unfunded pension obligation balance of approximately $2.6 million. The Company claims that "it does not anticipate future recovery in rates" of this unfunded pension obligation because Shorelands pension plan is currently frozen. For that reason, NJAWC is requesting that the $2.6 million unfunded pension balance be made a regulatory asset to be amortized over a 20-year period. It is my recommendation that the Board reject this request. First, the Company could have treated this unfunded pension balance as a write-off cost to be subtracted from the purchase price paid when it acquired Shorelands,

[10] Simpson PT-4, pp. 20-21.

but it did no do so because "It has been determined by Shorelands' prior auditing firm that it is an appropriate regulatory asset.[11]" It is a well-known fact that the establishment of a regulatory asset for ratemaking purposes can only be decided by the regulatory authority (in this case the BPU), not by an outside auditor. Thus, when the purchase price of NJAWC's acquisition of Shorelands was being negotiated, there was no certainty that rate recovery of the unfunded pension balance would ever be forthcoming. Second, while NJAWC states that "it does not anticipate future recovery in rates" of this unfunded pension balance through normal pension expense accruals, it has not been established through convincing proofs that future recovery cannot be achieved through NJAWC's pension process now that Shorelands has become part of NJAWC.

- **OPEB Expense**

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENT TO THE COMPANY'S PROPOSED OPEB EXPENSE SHOWN ON SCHEDULE RJH-23.

A. I recommend that one adjustment be made to the Company's proposed OPEB expense. This adjustment is made for the reasons discussed in the preceding "Payroll Expense" section of this testimony. Specifically, I recommend the use of a capitalization ratio of 46.57%, based on the actual capitalization ratio experienced in 2017 as opposed to the 38.39% ratio proposed by NJAWC that is based on the outdated two-year average approach for the two-year period ended March 31, 2017. It should be noted that I have not used the two-year average ratio for the years 2016 and 2017. Rather, to be conservative, I have left

[11] Response to RCR-A-117b.

the very high 2016 ratio of 67.39% out of the two-year average equation and, instead, only considered the actual 2017 ratio.

Schedule RJH-17, line 3 shows that this adjustment reduces the Company's pro forma test year OPEB expense by $63,915.

- **401(k) Expense**

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENTS TO THE COMPANY'S PROPOSED 401(K) EXPENSE SHOWN ON SCHEDULE RJH-18.

A. I recommend that two adjustments be made to the Company's proposed 401(k) expense. Both of these adjustments are made for the reasons discussed in the preceding "Payroll Expense" section of this testimony. Specifically, I recommend the use of a vacancy allocation ratio of 3.64% as opposed to the 3.0% ratio proposed by the Company; and I recommend the use of a capitalization ratio of 41.28%, based on the updated two-year average approach involving calendar years 2016 and 2017 as opposed to the 38.39% ratio proposed by NJAWC that is based on the outdated two-year average approach for the two-year period ended March 31, 2017.

Schedule RJH-18, line 5 shows that these two adjustments reduce the Company's pro forma test year 401(k) expenses by $61,355.

- **Defined Contribution Plan Expense**

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENTS TO THE COMPANY'S PROPOSED DEFINED CONTRIBUTION PLAN EXPENSE SHOWN ON SCHEDULE RJH-19.

A. I recommend that two adjustments be made to the Company's proposed Defined Contribution Plan expense. Both of these adjustments are made for the reasons discussed in the preceding "Payroll Expense" section of this testimony. Specifically, I recommend the use of a vacancy allocation ratio of 3.64% as opposed to the 3.0% ratio proposed by the Company; and I recommend the use of a capitalization ratio of 38.65%, based on the updated two-year average approach involving calendar years 2016 and 2017 as opposed to the 38.39% ratio proposed by NJAWC that is based on the outdated two-year average approach for the two-year period ended March 31, 2017.

Schedule RJH-19, line 5 shows that these two adjustments reduce the Company's pro forma test year Defined Contribution Plan expense by $10,856.

- **<u>Power Expense</u>**

Q. HAS THE COMPANY PROPOSED TO REDUCE ITS PRO FORMA POWER EXPENSE BY CERTAIN EXPENSE CREDITS?

A. Yes. The Company has reflected two separate credits to reduce its proposed pro forma test year power expenses, those being (1) New Jersey Clean Energy Program (NJCEP) credits in a total amount of $353,491; and (2) Solar Energy savings in a total amount of $282,511. The proposed NJCEP credit amount is based on the average of the actual NJCEP credits booked in 2015, 2016 and 2017. However, the proposed Solar Energy savings amount was based by the Company on the savings generated in the single base year ended March 31, 2017.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED APPROACH TO ESTIMATE THE PRO FORMA TEST YEAR NJCEP CREDITS AND SOLAR ENERGY SAVINGS?

A. No. I believe it is inconsistent to calculate one type of power expense credit based on a 3-year average and the other type of credit on the experience in a single year. The use of a 3-year average takes into account fluctuations in the credits from year to year and would therefore be more appropriate to use as the basis for a projection. For that reason, and also for consistency purposes, I recommend that the estimated pro forma test year Solar Energy savings be calculated based on the average of the same 3 years as was used by the Company for its NJCEP credit projection. As shown on Schedule RJH-20, my recommendation reduces NJAWC's proposed pro forma test year power expense by $71,080.

- **Tank Painting Expense**

Q. HAS NJAWC IN THIS CASE INTRODUCED A PROPOSAL TO CHANGE THE ACCOUNTING AND RATEMAKING TREATMENT OF ITS TANK PAINTING EXPENSES?

A. Yes. As described in the testimonies of Mr. Simpson (now Mr. Tomac) and Mr. Shields, NJAWC in this case is proposing that its tank painting expenses be fully capitalized and depreciated at an annual rate of 5% (utilizing an assumed 20-year useful life). The Company has also rebranded tank painting as "engineered coating of steel structures."

Q. DO YOU BELIEVE THAT THE BOARD SHOULD ADOPT THIS PROPOSAL?

A. No. I recommend that the Board reject this proposal. Under the Uniform System of Accounts, tank painting costs cannot be capitalized unless the Board specifically authorizes NJAWC to establish a regulatory asset for these costs. To allow NJAWC to treat its tank painting expenses as a regulatory asset is tantamount to allowing guaranteed rate recovery for these expenses and would significantly reduce NJAWC's incentive to have its tanks painted only when really necessary and at prices that reflect careful attention to cost containment. Tank painting expenses should be treated for both book and ratemaking purposes as normal, ongoing expenses, similar to other ongoing maintenance expenses. As stated by Rate Counsel witness Howard Woods in his direct testimony, the capitalization of tank painting is only authorized by the Uniform System of Accounts when the painting was done as part of a newly constructed tank and the full cost of the structure, including the initial painting, is treated as a capital cost; all subsequent painting activities in the life of the tank are to be expensed.

It should also be noted that the Board has never approved the capitalization of tank painting costs and there are no other utilities in New Jersey that are capitalizing their tank painting expenses.[12]

Q. IS THE COMPANY'S RECENT REFERRAL TO TANK PAINTING AS "ENGINEERED COATING OF STEEL STRUCTURES" DUE TO A CHANGE IN THE PROCESSING OF TANK PAINTING?

A. No. In data request SE-58, NJAWC was asked how the process of engineered coating was performed differently in the past 10 years for the Company. In response, the Company stated:

> "There are no major differences in the process. However, manufacturers continue to make changes and improvements in coating system materials."

Thus, there should be no compelling reason to make a change in accounting treatment (from expense to capitalization) for a process that has experienced no major changes in the past 10 years.

Q. DOES THE COMPANY'S PROPOSED REVENUE REQUIREMENT IN THIS CASE REFLECT THE CAPITALIZATION OF ITS TANK PAINTING EXPENSES?

A. No. The Company's original 5+7 filing did not include the capitalization of tank painting costs and while Mr. Simpson (now Tomac) in his direct testimony stated that "the Company will present schedules supporting recognition of this capitalization in our nine

[12] See response to RCR-A-104 in NJAWC's prior base rate case, BPU Docket No. WR15010035.

and three update[13]," neither did the 9+3 updated filing reflect the capitalization of tank painting expenses. Instead, in both the original 5+7 and updated 9+3 filings, the Company has presented an annualized tank painting expense level of $9 million based on its assumption that it will repaint an average of 6 tanks annually at an estimated cost of $1.5 million per tank.

Q. WHAT IS THE COMPANY'S PROPOSED POSITION REGARDING THE RATEMAKING TREATMENT OF TANK PAINTING EXPENSES IN CASE THE BOARD REJECTS THE CAPITALIZATION APPROACH?

A. As stated in the testimony of Mr. Simpson (now Tomac), "If the capitalization methodology is not adopted in this proceeding, the Company would propose the normalization methodology." As discussed above, the Company is proposing a normalized annual tank painting expense level of $9 million in this case.

Q. DO YOU BELIEVE THAT THE BOARD SHOULD ACCEPT NJAWC'S PROPOSED NORMALIZED ANNUAL TANK PAINTING EXPENSE ESTIMATE OF $9 MILLION?

A. No. I believe that the Company's proposed normalized annual tank painting expense level of $9 million is unreliable and cannot be considered known and measurable. The $9 million cost estimate is not based on actual painting contracts and is significantly in excess of the actual tank painting expenses incurred by NJAWC during each of the last 10 years which are shown below:

[13] Simpson PT-4, p. 22, Q. 46.

2008 -	$ 3.6 million
2009 -	4.3
2010 -	6.2
2011 -	4.4
2012 -	5.9
2013 -	2.6
2014 -	2.7
2015 -	4.5
2016 -	4.0
2017 -	2.9
10-Year Avg -	$ 4.2 million

Q. WHAT NORMALIZED ANNUAL TANK PAINTING EXPENSE LEVEL DO YOU RECOMMEND FOR NJAWC IN THIS CASE?

A. I recommend that the pro forma tank painting expenses in this case be based on the $4.2 million average of the actual tank painting expenses incurred by NJAWC in this 10-year period. I believe that this recommended expense amount is more reasonable than the Company's estimate since it is based on the most recent available tank painting expenses actually experienced by NJAWC.

- **Regulatory Expense**

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO THE COMPANY'S PROPOSED REGULATORY COMMISSION EXPENSES SHOWN ON SCHEDULE RJH-22.

A. The Company has proposed estimated rate case expenses amounting to $1,429,286 to be shared on a 50/50 basis between ratepayers and stockholders and to be amortized in rates over a 2-year period. While at this time I do not take exception to the total estimated expense of approximately $1.4 million, I do recommend that this estimated expense be updated for actual rate case expenses that have become available by the close of record in this case.

Furthermore, I recommend that the Company's proposed amortization period of 2 years be increased to 3 years. From the response to RCR-A-92, one can derive that the average rate effective period of the Company's most recent three base rate cases is approximately 3 years[14] and I have based my recommendation on this fact.

As shown on Schedule RJH-22, my recommendation at this time would reduce the Company's proposed annual rate case expense amount by $119,110.

- **Insurance Other Than Group Expense**

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENT TO THE COMPANY'S PROPOSED INSURANCE OTHER THAN GROUP EXPENSE SHOWN ON SCHEDULE RJH-23.

A. I recommend that one adjustment be made to the Company's proposed insurance other than group expense. This adjustment is made for the reasons discussed in the preceding "Payroll Expense" section of this testimony. Specifically, I recommend the use of a capitalization ratio of 42.05%, based on the updated two-year average approach involving calendar years 2016 and 2017 as opposed to the 38.39% ratio proposed by NJAWC that is based on the outdated two-year average approach for the two-year period ended March 31, 2017.

[14] The response also shows that the Company's current rates will be in effect for 3 years by August 15, 2018.

Schedule RJH-23, line 6 shows that this adjustment reduces the Company's pro forma test year insurance other than group expense by $79,163.

- **General Service Company Expense Adjustments**

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENTS TO NJAWC'S PROPOSED SERVICE COMPANY EXPENSES SHOWN ON SCHEDULE RJH-24.

A. As shown on Schedule RJH-24, I recommend that three adjustments be made to the Company's proposed general Service Company fees which reduce the Company's proposed 9+3 test year general Service Company fees by a total amount of $4,651,315.

First, for the reasons previously discussed in this testimony, I recommend the removal of all AIP and LTIP incentive compensation expenses included in the Service Company fees. As shown on Schedule RJH-24, line 1, these incentive compensation expenses total $4,626,312, consisting of $3,515,255 for AIP incentive compensation and $1,111,057 for LTIP incentive compensation.

Second, I have removed $16,623 worth of expenses for employee awards that are included in the Service Company fees charged to NJAWC. Similar to prizes, gifts and Christmas bonuses, employee awards represent expenses that should not be borne by the ratepayers but, instead, should properly be the responsibility of NJAWC's stockholders.

Finally, I have removed $8,380 for NARUC Conference expenses. These Service Company-incurred expenses have very little to do with the direct provision of safe, adequate and reliable water service to the NJAWC ratepayers and should therefore not be charged to them.

- **<u>Central Services Expense</u>**

Q. WHAT REPRESENTS THE RECOMMENDED ADJUSTMENT TO THE COMPANY'S PROPOSED CENTRAL SERVICES EXPENSES SHOWN ON SCHEDULE RJH-13, LINE 17?

A. The recommended adjustment of $627,995 represents the removal of (1) Business Development expenses ($462,192); and (2) the compensation for certain External Affairs employees ($165,803) that are included in the total Central Services charges allocated to NJAWC.

Q. PLEASE EXPLAIN WHY YOU RECOMMEND THE REMOVAL OF $462,192 BUSINESS DEVELOPMENT EXPENSES ALLOCATED FROM THE SERVICE COMPANY TO NJAWC.

A. As shown in SIR-18, NJAWC has employees on staff who, presumably, are dedicated to business development specific to NJAWC and the Company's service territory. SIR-18 indicates that the annual compensation associated with NJAWC's business development department amounts to approximately $392,000. On top of this, the ratepayers are also being requested to fund additional business development expenses amounting to approximately $616,941[15] that are allocated to NJAWC from the Central Services division of American Water. Thus, in total the NJAWC ratepayers are being requested to pay approximately $1 million for business development activities. While I have taken no exception to the rate inclusion of the "direct" NJAWC business development expenses, I recommend that the additional business development expenses of $616,941 allocated from Central Services be disallowed for ratemaking purposes in this case. In this regard, it should be noted that NJAWC, in response to RCR-A-138(e) in its prior 2015 rate case, stated that approximately 90% of American Water Works Services Company's (AWWSC) business development function was for general nationwide activities of which a portion was allocated to NJAWC. I do not believe that business development costs that are simply allocated to NJAWC based on a formula allocation factor should be funded by NJAWC ratepayers. There is no quantitative information in the record of this case showing the direct dollar benefit received by the NJAWC ratepayers from business development activities performed by the Central Services division. In addition, given that NJAWC already annually spends almost $400,000 on business development, it leaves one to wonder to what extent the additional business development charges allocated from Central Services are truly necessary or of value for the provision of safe, adequate and proper water and sewer services. In fact, this was confirmed in a prior management audit report[16] involving NJAWC which, on page IV-9, concludes that:

> The potential for cross-subsidization is significant because allocated charges represent over 90 percent of charges from AWWSC. For the portfolio of

[15] See response to RCR-A-105.
[16] *Comprehensive Management Audit of New Jersey American Water Company, Final Audit Report dated December 20, 2010 by NorthStar Consulting Group.*

> allocated charges from AWWSC, approximately 90 percent are charged to regulated entities of which NJAW is a prominent member while approximately ten percent are charged to unregulated entities. For example, <u>the New Jersey ratepayer receives questionable value from AWK business development activities but is charged for these activities on a regular monthly basis</u>. (emphasis supplied)

Q. WHY IS YOUR CENTRAL SERVICES BUSINESS DEVELOPMENT EXPENSE ADJUSTMENT AN AMOUNT OF $462,192 RATHER THAN THE FULL AMOUNT OF $616,941?

A. Incentive compensation makes up about $154,749 of the total Central Services Business Development expense of $616,941. Since I have made a separate adjustment to remove all incentive compensation expenses that were allocated to NJAWC from all of the AWWSC service companies, I have only removed a net Central Services business development expense amount of $462,192 ($616,941 less $154,749).

Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT TO REMOVE THE COMPENSATION OF CERTAIN CENTRAL SERVICES EXTERNAL AFFAIRS EMPLOYEES?

A. I have removed the compensation of Central Services Manager of External Affairs (State), Manager of External affairs (Corp) and SVP External Affairs. As shown in the response to RCR-A-143, the total compensation (net of incentive compensation) for these External Affairs employees that was allocated to NJAWC in this case amounts to **[begin confidential]** [**end confidential]** As shown in the same data response, the primary role of these employees is **[begin confidential]**

[**end confidential]** It is my opinion that the expenses associated with such institutional, promotional and lobbying activities should not be borne by the ratepayers but, rather, should be treated below-the-line as these activities have little to do with the provision of safe, adequate and proper water and sewer service.

- **Transportation Expense**

Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT TO NJAWC'S PROPOSED TRANSPORTATION EXPENSES SHOWN ON SCHEDULE RJH-26.

A. The issue regarding the Company's proposed pro forma test year transportation expenses resides in its proposed choice of a capitalization ratio of 34.8 %. This ratio represents the average of the 3-year period ended March 31, 2017. The same 3-year average approach for the more updated 3-year period ending December 31, 2017 indicates a capitalization ratio of 37.3%. Since I believe it is more appropriate to consider the most recent available information in the determination of the Company's near-future transportation capitalization ratio, I recommend the use of the 37.3% ratio. As shown on Schedule RJH-26, this recommendation reduces the Company's proposed test year transportation expense by $103,596.

- **<u>Uncollectible Expense</u>**

Q. PLEASE EXPLAIN THE DERIVATION OF YOUR RECOMMENDED UNCOLLECTIBLE EXPENSES THAT ARE SHOWN ON SCHEDULE RJH-13, LINE 30.

A. My recommended uncollectible expenses for NJAWC were calculated by applying NJAWC's proposed uncollectible ratio of .49% to the recommended operating revenues on Schedule RJH-8, line 1.

- **<u>Lobbying Expense Removal</u>**

Q. PLEASE EXPLAIN YOUR LOBBYING AND PROMOTIONAL EXPENSE ADJUSTMENT SHOWN ON SCHEDULE RJH-27.

A. This recommended adjustment concerns the removal of the compensation[17] expenses for NJAWC's Manager of Government and Regulatory Affairs. As shown in the response to RCR-A-88, the primary role of this employee is **[begin confidential]**

[17] Exclusive of incentive compensation which already been removed elsewhere in this testimony.

[**end confidential]** I believe that most of the activities of this employee fall into the category of promotional and lobbying activities and, for that reason, should be disallowed for ratemaking purposes in this case. This recommendation would be consistent with previously established Board policy. Based on information provided in the response to RCR-A-88, I have calculated that the total compensation (net of incentive compensation and life insurance) in the test year for this employee amounts to **[begin confidential**] [**end confidential]**

- **<u>Other O&M Expense</u>**

Q. PLEASE DESCRIBE THE OTHER O&M EXPENSE ADJUSTMENTS SHOWN ON SCHEDULE RJH-28.

A. The expense adjustment shown on line 2 represents the removal of NJAWC's proposed test year expense of $11,621 associated with the proposed RSM mechanism. I have removed this expense consistent with Rate Counsel witness Howard Woods' recommendation that the Board should reject the proposed implementation of the RSM mechanism.

The expense adjustment on line 3 represents the removal of all institutional (goodwill, image building) and promotional expenses that were not already separately removed by NJAWC. As shown in the response to RCR-A-130 (as updated in SIR-53 9+3 Update), the total recommended expense removal of $147,897 consists of $50,948 for Community Partnerships, $68,210 for Community Relations – Events, and $28,739 for Community

Relations – Specialty. In accordance with Board ratemaking policy, these expenses should be treated below-the-line for ratemaking purposes.

The expense adjustment on line 4 concerns the removal of $160,000 worth of Choose New Jersey contribution expenses that are still included in the Company's proposed 9+3 test year results. As is Board policy, the ratepayers of NJAWC should not be charged with donations/contribution expenses. These expenses should be the responsibility of the Company's stockholders.

The expense adjustment shown on line 5 concerns the removal of employee award expenses. As stated in the response to RCR-A-133, these expenses represent the costs of employee recognition awards for years of service with American Water. SIR-53 9+3 Update, page 2 shows that the 9+3 updated test year includes approximately $55,000 in expense for these prizes and award items. Such expenses should be the responsibility of NJAWC's stockholders.

- **<u>Incremental Sales Expense</u>**

Q. PLEASE EXPLAIN THE RECOMMENDED INCREMENTAL SALES EXPENSE ADJUSTMENT SHOWN ON SCHEDULE RJH-13, LINE 35.

A. This recommended adjustment represents the estimated variable expense increase associated with the recommended thousand gallons sales increases resulting from the GMS revenue adjustments recommended by Mr. Woods and my recommended Regular Sales For

Resale (SFR) revenue adjustment. The calculations underlying this estimated variable expense increase are shown under footnote (3) on Schedule 13.

- **Depreciation Expense**

Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT TO NJAWC'S PRO FORMA TEST YEAR DEPRECIATION EXPENSES SHOWN ON SCHEDULE RJH-29.

A. As shown on this schedule, NJAWC's proposed pro forma depreciation expense excluding its proposed cost of removal ("COR") flowback amounts to approximately $137.9 million which is calculated by applying NJAWC's proposed composite deprecation rate of 2.676% to its proposed depreciable plant in service balance. By contrast, Rate Counsel's proposed pro forma depreciation expense excluding the COR flowback amounts to approximately $105.7 million, or approximately $32.1 million lower than the Company's proposed expense. There are two reasons for Rate Counsel's lower depreciation expense amount: first, Rate Counsel's recommended pro forma depreciable plant in service level is lower than NJAWC's proposed plant level; and, second, Rate Counsel's composite depreciation rate of 2.072%, as recommended by Mr. Majoros, is lower than NJAWC's proposed composite rate of 2.676%.

There is also a difference between NJAWC's proposed and Rate Counsel's recommended positions regarding the COR flowback. Specifically, while the Company in this case is proposing a COR flowback *charge* of about $2.9 million, Rate Counsel witness Majoros recommends the continuation of the COR flowback *credit* of $1.2 million that was established and approved by the Board in NJAWC's 2008 base rate case. Both Rate Counsel's recommended composite depreciation rate and COR flowback credit are discussed in detail in the testimonies of Messrs. Garren and Majoros who are the sponsoring witnesses for these issues. I have simply adopted their recommendations and incorporated them in my revenue requirement calculations.

- **Plant Acquisition Adjustment Amortization**

Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT TO NJAWC'S PLANT ACQUISITION ADJUSTMENT AMORTIZATION SHOWN ON SCHEDULE RJH-8, LINE 4B.

A. As previously discussed in this testimony, this amortization expense adjustment is a direct result of Mr. Woods' recommendation to disallow NJAWC's proposed acquisition adjustments for Shoreland, Haddonfield, and Roxiticus. More details regarding this adjustment can be found on Schedule RJH-6.

- **Payroll Taxes**

Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT TO NJAWC'S PROPOSED PAYROLL TAXES SHOWN ON SCHEDULE RJH-8, LINE 5B.

A. This recommended payroll tax adjustment reflects the payroll tax impact of my recommended payroll expense adjustment. I have calculated this payroll tax adjustment by applying a composite payroll tax ratio of approximately 7.5% to my recommended payroll operation and maintenance expense adjustment shown on Schedule RJH-13, line 1.

- **<u>Gross Receipts and Franchise Taxes</u>**

Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT TO NJAWC'S PROPOSED GROSS RECEIPTS AND FRANCHISE TAXES ("GRAFT") SHOWN ON SCHEDULE RJH-8, LINE 5C.

A. This recommended adjustment reflects the GRAFT impact of my recommended operating revenue adjustments. I have calculated this GRAFT adjustment by applying the appropriate GRAFT ratio of 13.4525% to the recommended operating revenue adjustment shown on Schedule RJH-8, line 1.

- **<u>BPU/RC Assessments</u>**

Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT TO NJAWC'S PROPOSED BPU AND RATE COUNSEL ("RC") ASSESSMENTS SHOWN ON SCHEDULE RJH-8, LINE 5D.

A. This recommended adjustment reflects the BPU/RC assessment impact of Rate Counsel's recommended operating revenue adjustments. I have calculated these BPU/RC assessment adjustments by applying the appropriate assessment ratio of .286015% to the recommended operating revenue adjustment shown on Schedule RJH-8, line 1.

- **Income Taxes**

Q. ARE THERE ANY ISSUES WITH REGARD TO NJAWC'S PROPOSED PRO FORMA INCOME TAX CALCULATIONS SHOWN ON SCHEDULE RJH-30?

A. No. As shown on the above-referenced schedule, I have used the same calculation method and calculation components as used by NJAWC to determine the recommended pro forma income tax amounts for NJAWC in this case. The difference between the recommended pro forma income taxes and NJAWC's proposed pro forma income taxes is merely caused by the "flow-through" effect of the recommended adjustments made by me to NJAWC's proposed pre-tax operating income and pro forma interest deduction.

Q. MR. HENKES, DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes, it does at this time. Rate Counsel reserves its right to present supplemental testimony based on any updated and/or new information.

RJH SCHEDULES

NJAWC
REVENUE REQUIREMENT

		NJAWC 9+3 (1)	Adjustments	RC	
1.	Rate Base	$ 3,034,686,418	$ (322,293,315)	$ 2,712,393,103	RJH-3
2.	Rate of Return	8.1121%		7.2545%	RJH-2
3.	Operating Income Requirement	246,178,024	(49,408,823)	196,769,201	
4.	Pro Forma Operating Income	170,282,026	35,995,725	206,277,751	RJH-8
5.	Income Deficiency	75,895,998	(85,404,548)	(9,508,550)	
6.	Revenue Conversion Factor	1.79504		1.79504	
7.	Revenue Deficiency	$ 136,236,106	$ (153,304,334)	$ (17,068,228)	
8.	Percent Rate Increase	20.00%		-2.49%	

(1) P-2, Schedule 4, Updated 1/15/18

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Sch. RJH-2

NJAWC
RATE OF RETURN

PROPOSED BY NJAWC (9+3):	Ratios	Cost Rates	Weighted Cost Rates
	(1)	(1)	(1)
1. Long-Term Debt	46.00%	4.9568%	2.2801%
2. Preferred Stock	0.00%		0.000%
3. Common Equity	54.00%	10.8000%	5.8320%
4. Total	100.00%		8.1121%

RECOMMENDED BY RC:	Ratios	Cost Rates	Weighted Cost Rates
	(2)	(2)	(2)
1. Long-Term Debt	48.50%	4.8700%	2.3620%
2. Preferred Stock	0.00%		0.000%
3. Common Equity	51.50%	9.5000%	4.8925%
4. Total	100.00%		7.2545%

(1) P-2, Schedule 60, Updated 1/15/18
(2) Testimony of Marlon Griffing

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Sch. RJH-3

NJWAC
RATE BASE

	NJAWC 9+3 (1)	Adjustments	RC	
1. Plant In Service	$ 5,196,966,601	$ (49,151,884)	$ 5,147,814,717	RJH-4
2. Accumulated Depr./Amort.	(1,145,980,109)	(26,461,260)	(1,172,441,369)	RJH-5
3. Net Utility Plant	4,050,986,492	(75,613,144)	3,975,373,348	
4. Cash Working Capital	73,300,000	(68,600,000)	4,700,000	(2)
5. Plant Acquisition Adj.	31,616,429	(28,706,009)	2,910,420	RJH-6, L5
6. Prepayments	3,928,363	(67,356)	3,861,007	(3)
7. Materials & Supplies	9,523,787	137,198	9,660,985	(3)
8. Customer Advances	(71,179,554)	9,880	(71,169,674)	(3)
9. CIAC	(231,273,650)	231,210	(231,042,440)	(3)
10. MTBE CIAC	(5,800,787)		(5,800,787)	
11. ADITC	(294,580)		(294,580)	
12. ADFIT	(825,725,884)	15,294,295	(810,431,589)	RJH-6
13. Consolidated FIT	(394,198)	(164,979,389)	(165,373,587)	(2)
14. Total Net Rate Base	$ 3,034,686,418	$ (322,293,315)	$ 2,712,393,103	

(1) P-2, Schedule 58, p.2, Updated 1/15/18
(2) Testimony of David Peterson
(3) Response to RCR-A-184. To be updated for actual 3/31/18 balances in 12+0 update.

NJWAC
RECOMMENDED UTILITY PLANT IN SERVICE BALANCE

		NJAWC 9+3 (1)	Adjustments	RC	
1.	Projected UPIS Balance at 3/31/18	$ 5,073,952,311		$5,073,952,311	(2)
2.	Reflect H. Woods Haddonfield Water & Sewer Plant Valuation Adjustment	-	1,781,817	1,781,817	(3)
3.	Remove Customer Side Lead Service Replacement Costs	-	(440,000)	(440,000)	(3)
4.	Projected Post-Test Year UPIS Additions	123,014,290	(50,493,701)	72,520,589	(3)
5.	Projected Total Post-Test Year UPIS	$ 5,196,966,601	$ (49,151,884)	$ 5,147,814,717	

(1) P-2, Schedule 58, p.2, Updated 1/15/18
(2) To be updated for actual 3/31/18 UPIS balance in 12+0 filing
(3) Testimony of Howard Woods, Schedules HJW-9 (post ty plant adj), HJW-10 (Haddonfield valuation adj), HJW-11 (lead service)

NJWAC
RECOMMENDED DEPRECIATION RESERVE BALANCE

1.	Projected Reserve Balance as of 3/31/18	$ 1,157,688,636	(1)
2.	Reflect H. Woods Haddonfield Water & Sewer Plant Valuation Adj	5,981,324	(2)
3.	Total Adjusted Reserve Balance as of 3/31/18	1,163,669,960	
	Post-Test Year Reserve Additions:		
4.	Total Depreciation Reserve Growth from 4/1/18 - 9/30/18	31,963,533	(3)
5.	Estimated % of Reserve Additions Associated with Major Inv Proj	27.44%	(4)
6.	RC's Recommended Post-Test Year Reserve Additions [L4 x L5]	8,771,409	
7.	RC's Recommended Post-Test Year Reserve Balance [L3+L6]	$ 1,172,441,369	

(1) Responses to RCR-A-184 and 185. To be updated for actual 3/31/18 reserve balance in 12+0 filing
(2) Testimony of Howard Woods, Schedule HJW-10
(3) Response to RCR-A-183
(4) Recommended post-test year plant additions for Major IP projects

Recommended post-test year plant additions for Major IP projects	$	72,520,589	RJH-4
Total post-test year plant additions		264,269,316	(3)
Ratio of IP vs Total plant additions		27.44%	

NJWAC
RECOMMENDED ACQUISTION ADJUSTMENT POSITIONS

IMPACT ON RATE BASE:

1.	NJAWC's Proposed Acquisition Adjustment Balance	$	31,616,429	(1)
2.	Remove Haddonfield Acquisition Adjustment		(1,798,369)	(2)
3.	Remove Roxiticus Acquisition Adjustment		(184,662)	(2)
4.	Remove Shorelands Acquisition Adjustment		(26,722,978)	(2)
5.	RC Recommended Acquisition Adjustment Balance	$	2,910,420	

IMPACT ON AMORTIZATION EXPENSE:

6.	NJAWC's Proposed Acquisition Adj Amortization:	$	1,085,744	(1)
7.	Remove Haddonfield Acquisition Adjustment		(44,959)	(2)
8.	Remove Roxiticus Acquisition Adjustment		(4,617)	(2)
9.	Remove Shorelands Acquisition Adjustment		(668,074)	(2)
10.	RC Recommended Acquisition Adjustment Balance	$	368,094	

(1) SIR-54
(2) Testimony of Howard Woods

NJWAC
RECOMMENDED ACCUMULATED DEFERRED INCOME TAX BALANCE

1. Projected ADIT Balance as of 3/31/18	$	804,121,488	(1)
Post-Test Year ADIT Additions:			
2. Total ADIT Growth from 4/1/18 - 9/30/18		22,994,383	(2)
3. Estimated % of ADIT Growth Associated with Investment Projects		27.44%	(3)
4. RC's Recommended Post-Test Year ADIT Additions [L2 x L3]		6,310,101	
5. RC's Recommended Post-Test Year ADIT Balance [L1+L4]	$	810,431,589	

(1) Response to RCR-A-184. To be updated for actual 3/31/18 ADIT balance in 12+0 filing
(2) Response to RCR-A-183

(3) Recommended post-test year plant additions for Major IP projects	$	72,520,589	RJH-4
Total post-test year plant additions		264,269,316	(2)
Ratio of IP vs Total plant additions		27.44%	

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Sch. RJH-8

NJAWC
OPERATING INCOME

		NJAWC 9+3 (1)	Adjustments	RC	
1.	Operating Revenues:	$ 681,016,313	$ 5,195,296	$686,211,609	RJH-9
	Operating Expenses:				
2.	O&M Expenses	209,079,415	(16,323,803)	192,755,612	RJH-13
3.	Depreciation Expenses	140,789,829	(36,260,127)	104,529,702	RJH-29
4.	Amortization Exp.:				
	a. ITC Amortization	(356,136)		(356,136)	
	b. Plt. Acq. Amortization	1,085,744	(717,650)	368,094	RJH-6, L10
	c. Reg. Asset - AFUDC	706,294		706,294	
	c. Total Amort. Expenses	1,435,902	(717,650)	718,252	
5.	Taxes o/t FIT:				
	a. Property	5,300,848		5,300,848	
	b. Payroll	3,875,145	(356,820) (2)	3,518,325	
	c. GRAFT	91,613,860	698,897 (3)	92,312,757	
	d. BPU/RC	1,947,808	14,859 (4)	1,962,667	
	e. Water Monitoring/Other	744,294		744,294	
	f. Total Taxes o/t FIT	103,481,955	356,937	103,838,892	
6.	Total Operating Exp.	454,787,101	(52,944,643)	401,842,458	
7.	Pre-Tax Operating Income	226,229,212	58,139,939	284,369,151	
8.	Income Taxes	55,947,186	22,144,214	78,091,400	RJH-30
9.	Net Operating Income	$ 170,282,026	$ 35,995,725	$ 206,277,751	

(1) P-2, Schedule 4, Updated 1/15/18
(2) P/R tax rate of approximately 7.5% x payroll adjustment on Schedule RJH-21, line 1
(3) Effective GRAFT rate of 13.4525% x operating revenue adjustment on line 1
(4) Assessment rate of .286015% x operating revenue adjustment on line 1

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NJAWC
SUMMARY OF OPERATING REVENUES

	NJAWC 9+3 (1)	Adjustments		RC	
General Metered Services					
1. SA-1 + SA-3 Homestead	$ 324,756,829	$ 1,558,762	(2)	$ 326,315,591	
2. SA-2 + SA-3 Main + SA-1A	200,676,474	1,470,259	(2)	202,146,733	
3. Manville & SA-1D Applied	2,271,811	8,191	(2)	2,280,002	
4. Southampton	232,684	6,817	(2)	239,501	
5. SA-1B Pennsgrove	2,744,008	46,967	(2)	2,790,975	
6. SA-1C Shorelands	8,152,528	311,359	(2)	8,463,887	
7. SA-1D Applied Irrigation	31,439			31,439	
8. SA-1E Haddonfield	2,489,463	22,240	(2)	2,511,703	
9. Total GMS Revenues	541,355,236	3,424,595		544,779,831	
OIW					
10. OIW	13,496,998	542,921		14,039,919	RJH-10
Sales For Resale (SFR)					
11. Commodity Demand	12,206,512			12,206,512	
12. Off Peak	1,612,494			1,612,494	
13. Manasquan	1,718,908			1,718,908	
14. SOS	25,019,402			25,019,402	
15. Regular SFR	6,028,769	1,185,241		7,214,010	RJH-11
16. Total SFR Revenues	46,586,085	1,185,241		47,771,326	
17. DSIC Revenues	56,600			56,600	
Private and Public Fire					
18. Private Fire	25,350,842			25,350,842	
19. Public Fire	28,294,388			28,294,388	
20. Total Private and Public Fire	53,645,230			53,645,230	
Other Water Operating Revenues					
21. NSF Charges	138,040			138,040	
22. Reconnection of Service Charges	605,208			605,208	
23. Rental Income Offices	1,713,566			1,713,566	
24. Antenna Lease Revenues	2,653,306			2,653,306	
25. Late Payment Charges	209,294			209,294	
26. SREC Revenues	672,007	42,538		714,545	RJH-12
27. Miscellaneous Service Revenues	228,479			228,479	
28. Low Income Payment Plan	(540,000)			(540,000)	
29. Total Net Other Revenues	5,679,900	42,538		5,722,438	
Sewer					
30 GMS & Flat Rate	20,185,452			20,185,452	
31. Other Operating Revenues	10,813			10,813	
32. Total Sewer Revenues	20,196,265			20,196,265	
33. Grand Total Revenues	$ 681,016,313	$ 5,195,295		$ 686,211,609	

(1) P-2, Schedule 5, Updated 1/15/18
(2) Testimony of Howard Woods, Summary Schedule HJW-1

NJAWC
REVENUE ADJUSTMENT FOR OIW

DOCUMENT CONTAINS CONFIDENTIAL INFORMATION

NJAWC
REVENUE ADJUSTMENT FOR REGULAR SFR SALES

	NJAWC 9+3 (1)	Adjustments (1)	RC	
1. Moorestown Annual Sales	327,000	169,067	496,067	(2)
2. Livingston Annual Sales	300,000	23,661	323,661	(3)
3. Total Annual Sales Adustment		192,728		
4. Unit Rate		$ 6.1498		
5. Total Regular SFR Revenue Adjustment [L3xL4]		$ 1,185,241		

(1) SIR-14, WP-5, page 14, Updated 1/15/18 and response to RCR-A-174

(2) Per RCR-A-52 Attachment:

	Actual Moorestown Sales	
2012	372,280	
2013	334,257	
2014	331,604	
2015	656,685	
2016	785,510	
5-yr avg 2012-2016	496,067	Recommended Use

(3) Per RCR-A-52 Attachment:

	Actual Livingston Sales	
2012	311,881	
2013	276,261	
2014	397,885	
2015	368,755	
2016	263,524	
5-yr avg 2012-2016	323,661	Recommended Use

NJAWC
SREC REVENUES

	NJAWC 9+3 (1)	Adjustments	RC	
1. Pro Forma SRECs Generated:				
a. NJAWC Based on Actual Yr Ended Nov 2016	3,060			
b. RC Based on Actual Yr Ended December 2017			3,323	(2)
2. Weighted Average Price per SREC:				
a. NJAWC Price as of April 2017	$ 219.61			
b. 13-Month Average Price in 2017			$ 215.03	(2)
3. Pro Forma SREC Revenues	$ 672,007	$ 42,538	$ 714,545	

(1) SIR-14 WP 5-O, page 1, footnote (5), Updated 1/15/18
(2) Response to RCR-A-187

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Sch. RJH-13

NJAWC
OPERATION AND MAINTENANCE EXPENSES

	NJAWC 9+3 (1)	Adjustments	RC	
1. Salaries and Wages	$ 49,950,434	$ (4,757,596)	$ 45,192,838	RJH-14
2. Group Insurance	6,869,996	(215,917)	6,654,079	RJH-15
3. Pension	5,956,771	(437,794)	5,518,977	RJH-16
4. OPEB	481,396	(63,915)	417,481	RJH-17
5. 401(k)	1,153,361	(61,355)	1,092,006	RJH-18
6. Defined Contr. Plan	1,013,648	(10,856)	1,002,792	RJH-19
7. Other Benefits	240,542		240,542	
8. Power	19,424,760	(71,080)	19,353,680	RJH-20
9. Chemicals	10,146,422	-	10,146,422	
10. Water Diversion	728,047		728,047	
11. Waste Disposal - Water	3,311,373		3,311,373	
12. Tank Painting	9,109,000	(4,909,000)	4,200,000	RJH-21
13. Regulatory	357,324	(119,110)	238,214	RJH-22
14. Insurance o/t Group	7,913,784	(79,163)	7,834,621	RJH-23
15. Gen. Service Co. Exp Adjs	-	(4,651,315)	(4,651,315)	RJH-24
16. Customer Service Center	7,526,552		7,526,552	
17. Central Services	15,887,897	(627,995)	15,259,902	RJH-25
18. Technology & Innovation	9,711,134		9,711,134	
19. Central Lab Services	760,796		760,796	
20. Regulated Ops Services	3,080,374		3,080,374	
21. Finance Services	4,829,423		4,829,423	
22. Supply Chain Services	429,793		429,793	
23. Rental - Real Property	392,563		392,563	
24. Vehicle Lease/Fuel/Maintenance	2,703,627	(103,596)	2,600,031	RJH-26
25. Postage & Forms	3,590,345		3,590,345	
26. Security	629,030		629,030	
27. Paving	2,356,299		2,356,299	
28. Phone & Cell Phone	2,958,980		2,958,980	
29. Contract Services - Sewer	1,709,358		1,709,358	
30. Uncollectibles	3,336,979	25,458	3,362,437	(2)
31. Audit Fees	505,911		505,911	
32. Property Sales	(1,252,615)		(1,252,615)	
33. Sewage Treatment/Disposal	650,428		650,428	
34. Lobbying Exp Adjustment	-	(141,298)	(141,298)	RJH-27
35. Incremental Sales Expense	-	275,337	275,337	(3)
35. Other O&M	32,615,684	(374,609)	32,241,075	RJH-28
37. Total O&M	$ 209,079,416	$ (16,323,804)	$ 192,755,612	

(1) P-2, Schedule 9, p.1, Updated 1/15/18
(2) RC recommended revenues on RJH-8, L1 x .0049
(3) Incremental 1,000 gal sales:

634,358	HJW-1					
192,728	RJH-11					
827,086	x	$	0.3329	=	$	275,337

NJAWC
PAYROLL EXPENSES

	NJAWC 9+3 (1)	Adjustments	RC
1. Total Payroll Expense Prior to Vacancy and Capitalization Allocations	$ 83,582,687		$83,582,687
2. Remove Incentive Compensation	-	(3,404,897)	(3,404,897)
3. Payroll Exclusive of Incentive Compensation	83,582,687	(3,404,897)	80,177,790
4. Vacancy Allocation	3.00%		3.64% (2)
5. Total Payroll Expense After Vacancy Allocation [L3x(1-L4)]	81,075,206	(3,815,888)	77,259,318
7. % Chargeable to Capital and Other	38.39%		41.51% (3)
8. Amount Charged to O&M Exp. [L5x(1-L6)]	$ 49,950,435	$ (4,757,596)	$ 45,192,838

(1) P-2, Schedule 10 and SIR-18 - Updated 1/15/2018

(2) Response to RCR-A-201: average vacancy rate of most recent 12-month period ended December 31, 2017. The vacancy rate should not be based on the experience of just one month as it can fluctuate significantly from month to month as shown in RCR-A-201

(3) Per RCR-A-203(a):

	Actual Capitalization
2016	40.79%
2017	42.22%
2-Yr Avg	41.51%

Use most recent 2-year average for the following reasons:
1. Consistent with NJAWC's proposed approach in this case and its prior rate case.
2. In SR-64, the Company states that "it elected to use a two-year average capitalization rate and apply the rate to all labor and related expenses. The two-year average was more aligned with the current trend of capitalization when compared to a three-year average."
3. In RCR-A-179, the Company states that "With the expansion of the Company's capital projects in recent years, the Company has made a determination to have more of that work performed internally, and the result has been an increasing capitalization ratio."

Docket No. WR17090985 Sch. RJH-15
Test Year Ended 3/31/18

NJAWC
GROUP INSURANCE EXPENSES

	NJAWC 9+3 (1)	Adjustments	RC	
1. Total Grp Insurance Exp Prior to Vacancy and Capitalization Allocations	$ 11,495,650		$11,495,650	
2. Vacancy Allocation	3.00%		3.64%	(2)
3. Total 401(k) Expense After Vacancy Allocation [L1x(1-L2)]	11,150,781	(73,572)	11,077,208	
4. % Chargeable to Capital and Other	38.39%		39.93%	(3)
5. Amount Charged to O&M Exp. [L3x(1-L4)]	$ 6,869,996	$ (215,917)	$ 6,654,079	

(1) P-2, Schedule 11 and SIR-18, Updated 1/15/18

(2) Response to RCR-A-201: average vacancy rate of most recent 12-month period ended December 31, 2017. The vacancy rate should not be based on the experience of just one month as it can fluctuate significantly from month to month as shown in RCR-A-201

(3) Per RCR-A-203(b):

	Actual Capitalization
2016	38.43%
2017	41.43%
2-Year Average	39.93%

Use most recent 2-year average for the following reasons:

1. Consistent with NJAWC's proposed approach in this case and its prior rate case.
2. In SR-64, the Company states that "it elected to use a two-year average capitalization rate and apply the rate to all labor and related expenses. The two-year average was more aligned with the current trend of capitalization when compared to a three-year average."
3. In RCR-A-179, the Company states that "With the expansion of the Company's capital projects in recent years, the Company has made a determination to have more of that work performed internally, and the result has been an increasing capitalization ratio."

NJAWC
PENSION EXPENSES

		NJAWC 9+3 (1)	Adjustments	RC	
1.	Total Pension Expense Prior to Capitalization	$ 8,689,272		$ 8,689,272	(2)
2.	% Chargeable to Capital and Other	38.39%		41.93%	(3)
3.	Amount Charged to O&M Exp. [L3x(1-L4)]	5,353,460	(307,166)	5,046,295	
4.	Pro Forma Pension Exp Amortizations:				
	a. Deferred Pension Expenses	472,682		472,682	
	b. Shorelands Unfunded Pension Obligation	130,628	(130,628)	-	
	c. Total Pension Expense Amortizations	603,310	(130,628)	472,682	
5.	Total Pro Forma Pension O&M Expense	$ 5,956,770	$ (437,794)	$ 5,518,977	

(1) P-2, Schedule 12, Updated 1/15/18
(2) Reflects projected 2018 pension expenses which are to be updated for the actual 2018 expenses that will become available in February 2018

(3) Per RCR-A-203(c):

	Actual Capitalization
2016	41.66%
2017	42.19%
2-Yr Average	41.93%

Use most recent 2-year average for the following reasons:
1. Consistent with NJAWC's proposed approach in this case and its prior rate case.
2. In SR-64, the Company states that "it elected to use a two-year average capitalization rate and apply the rate to all labor and related expenses. The two-year average was more aligned with the current trend of capitalization when compared to a three-year average."
3. In RCR-A-179, the Company states that "With the expansion of the Company's capital projects in recent years, the Company has made a determination to have more of that work performed internally, and the result has been an increasing capitalization ratio."

NJAWC
OPEB EXPENSES

	NJAWC 9+3 (1)	Adjustments	RC	
1. Total OPEB Expense Prior to Capitalization	$ 781,360		$ 781,360	(2)
2. % Chargeable to Capital and Other	38.39%		46.57%	(3)
3. Total Pro Forma OPEB O&M Expense	$ 481,396	$ (63,915)	$ 417,481	

(1) P-2, Schedule 13, Updated 1/15/18
(2) Reflects projected 2018 pension expenses which are to be updated for the actual 2018 expenses that will become available in February 2018

(3) Per RCR-A-203(c):

	Actual Capitalization
2016	67.39%
2017	46.57%
2-Yr Average	56.98%
Recommended Use	47.00%

Use of the most recent 2-year average would be appropriate for the following reasons:
1. Consistent with NJAWC's proposed approach in this case and its prior rate case.
2. In SR-64, the Company states that "it elected to use a two-year average capitalization rate and apply the rate to all labor and related expenses. The two-year average was more aligned with the current trend of capitalization when compared to a three-year average."
3. In RCR-A-179, the Company states that "With the expansion of the Company's capital projects in recent years, the Company has made a determination to have more of that work performed internally, and the result has been an increasing capitalization ratio."

However, to be conservative, Rate Counsel eliminated the 2016 ratio and rounded up the 2017 ratio.

NJAWC
401(K) EXPENSES

	NJAWC 9+3 (1)	Adjustments	RC	
1. Total 401(k) Expense Prior to Vacancy and Capitalization Allocations	$ 1,929,935		$ 1,929,935	
2. Vacancy Allocation	3.00%		3.64%	(2)
3. Total 401(k) Expense After Vacancy Allocation [L1x(1-L2)]	1,872,037	(12,352)	1,859,685	
4. % Chargeable to Capital and Other	38.39%		41.28%	(3)
5. Amount Charged to O&M Exp. [L3x(1-L4)]	$ 1,153,362	$ (61,355)	$ 1,092,007	

(1) P-2, Schedule 14 and SIR-18, p.2, Updated 1/15/18

(2) Response to RCR-A-201: average vacancy rate of most recent 12-month period ended December 31, 2017. The vacancy rate should not be based on the experience of just one month as it can fluctuate significantly from month to month as shown in RCR-A-201

(3) Per RCR-A-112:

	Actual Capitalization
2016	40.50%
2017	42.06%
2-Yr Average	41.28%

Use most recent 2-year average for the following reasons:

1. Consistent with NJAWC's proposed approach in this case and its prior rate case.
2. In SR-64, the Company states that "it elected to use a two-year average capitalization rate and apply the rate to all labor and related expenses. The two-year average was more aligned with the current trend of capitalization when compared to a three-year average."
3. In RCR-A-179, the Company states that "With the expansion of the Company's capital projects in recent years, the Company has made a determination to have more of that work performed internally, and the result has been an increasing capitalization ratio."

NJAWC
DEFINED CONTRIBUTION PLAN EXPENSES

	NJAWC 9+3 (1)	Adjustments	RC	
1. Total DCP Expense Prior to Vacancy and Capitalization Allocations	$ 1,696,150		$ 1,696,150	
2. Vacancy Allocation	3.00%		3.64%	(2)
3. Total DCP Expense After Vacancy Allocation [L1x(1-L2)]	1,645,266	(10,855)	1,634,410	
4. % Chargeable to Capital and Other	38.39%		38.65%	(3)
5. Amount Charged to O&M Exp. [L3x(1-L4)]	$ 1,013,648	$ (10,856)	$ 1,002,792	

(1) P-2, Schedule 15 and SIR-18, p.2, Updated 1/15/18

(2) Response to RCR-A-201: average vacancy rate of most recent 12-month period ended December 31, 2017. The vacancy rate should not be based on the experience of just one month as it can fluctuate significantly from month to month as shown in RCR-A-201

(3) Per RCR-A-112:

	Actual Capitalization
2016	38.03%
2017	39.26%
2-Yr Average	38.65%

Use most recent 2-year average for the following reasons:

1. Consistent with NJAWC's proposed approach in this case and its prior rate case.
2. In SR-64, the Company states that "it elected to use a two-year average capitalization rate and apply the rate to all labor and related expenses. The two-year average was more aligned with the current trend of capitalization when compared to a three-year average."
3. In RCR-A-179, the Company states that "With the expansion of the Company's capital projects in recent years, the Company has made a determination to have more of that work performed internally, and the result has been an increasing capitalization ratio."

NJAWC
POWER EXPENSES

	NJAWC 9+3		Adjustments	RC	
	(1)			(1)	
NJCEP Program Credits Included In Pro Forma Power Expenses:					
2015	$ (456,558)			$ (456,558)	
2016	(233,783)			(233,783)	
2017	(370,133)			(370,133)	
3-Yr Avg	$ (353,491)		$ -	$ (353,491)	
Solar Energy Savings Included in Pro Forma Power Expenses:					
2015				$ (432,439)	
2016				(302,954)	
2017				(325,381)	
3-Yr Avg	$ (282,511)	(3)	$ (71,080)	$ (353,591)	(2)
Total Expense Credits and Savings Included in Pro Forma Power Expenses:	$ (636,002)		$ (71,080)	$ (707,083)	

(1) Response to RCR-A-101
(2) Response to RCR-A-199
(3) While RC used the same 3-year average approach as used for the determination of the NJCEP program credits, NJAWC did not use this consistent approach and based its solar energy savings on the savings generated in the base year ended 3/31/17.

Docket No. WR17090985 Sch. RJH-21
Test Year Ended 3/31/18

NJAWC
TANK PAINTING EXPENSES

	Actual Tank Painting Expense	
	(1)	
2008	$ 3,641,496	
2009	4,289,645	
2010	6,218,377	
2011	4,424,579	
2012	5,875,983	
2013	2,601,891	
2014	2,677,267	
2015	4,513,120	
2016	4,002,612	
2017	2,903,044	
10-Yr Avg	$ 4,114,801	
3-Yr Avg (2015-2017)	$ 3,806,259	
1. Recommended Expense Level	$ 4,200,000	
2. NJAWC's Proposed Expense	9,109,000	(2)
3. Expense Adjustment [L1 - L2]	$ (4,909,000)	

(1) Response to RCR-E-25
(2) P-2 Schedule 21, Updated 1/15/18

NJAWC
REGULATORY COMMISSION EXPENSES

		NJAWC 9+3 (1)	Adjustments	RC	
1.	Projected Current Rate Case Expenses	$ 1,429,286		$ 1,429,286	(2)
2.	Sharing Percentage	50%		50%	
3.	Ratepayer Share of Current Rate Case Exp.	714,643	-	714,643	
4.	Amortization Period (Yrs)	2		3	
5.	Normalized Annual Rate Case Expenses	$ 357,324	$ (119,110)	$ 238,214	

(1) P-2, Schedule 22, Updated 1/15/18
(2) To be updated for actual rate case expenses

NJAWC
INSURANCE OTHER THAN GROUP EXPENSES

		NJAWC 9+3 (1)	Adjustments	RC	
1.	Workers Comp (WC) Expense	$ 2,162,917		$ 2,162,917	
2.	% Charged to Capital and Other	38.39%		42.05%	(2)
3.	Amount Charged to Capital and Other [L1xL2]	830,344		909,507	
4.	WC Charged to O&M Expense [L1-L3]	1,332,573	(79,163)	1,253,410	
5.	All Other Insurance o/t Group (IOTG) Exp	6,581,211		6,581,211	
6.	Total Pro Forma IOTG Exp [L4+L5]	$ 7,913,784	$ (79,163)	$ 7,834,621	

(1) SIR-30, Updated 1/15/18
(2) Response to RCR-A-91 and 203(b):

	Actual Cap Ratios
2016	41.70%
2017	42.40%
2-Yr Avg	42.05%

Use most recent 2-year average for the following reasons:

1. Consistent with NJAWC's proposed approach in this case and its prior rate case.
2. In SR-64, the Company states that "it elected to use a two-year average capitalization rate and apply the rate to all labor and related expenses. The two-year average was more aligned with the current trend of capitalization when compared to a three-year average."
3. In RCR-A-179, the Company states that "With the expansion of the Company's capital projects in recent years, the Company has made a determination to have more of that work performed internally, and the result has been an increasing capitalization ratio."

NJAWC
GENERAL SERVICE COMPANY EXPENSE ADJUSTMENTS

1.	Remove Incentive Compensation Expenses:		
	a. AIP Incentive Compensation	$ (3,515,255)	(1)
	b. LTIP Incentive Compensation	(1,111,057)	(1)
	c. Total Incentive Compensation	(4,626,312)	
2.	Remove Employee Award Expenses	(16,623)	(1)
3.	Remove NARUC Conference Expenses	(8,380)	(1)
4.	Total Service Company Expense Removal	$ (4,651,315)	

(1) RCR-A-105 Attachment, page 1

NJAWC
CENTRAL SERVICES EXPENSE ADJUSTMENTS

PARTIALLY CONFIDENTIAL

1.	NJAWC's Proposed Central Services Expenses	$ 15,887,897	(1)
2.	Remove Business Development Department Expenses	(462,192)	(2)
3.	Remove Compensation Expenses Allocated to NJAWC for Certain External Affairs Employees **[BEGIN CONFIDENTIAL]**		**[END CONFIDENTIAL]**
4.	Total Expense Adjustments	(627,995)	
5.	RC's Recommended Central Services Expenses [L1 + L4]	$ 15,259,902	

(1) P-2, Schedule 25, Updated 1/15/18
(2) RCR-A-105 Attachment: $616,941 less $154,749 (incentive comp separately removed elsewhere) = $462,192
(3) **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

NJAWC
LEASED VEHICLE, FUEL AND MAINTENANCE EXPENSES

	NJAWC 9+3 (1)	Adjustments	RC	
1. Total Leased Vehicle, Fuel & Maintenance Expense Before Capitalization	$ 4,146,559	-	$ 4,146,559	
2. % Charged to Capital & Other	34.80%		37.30%	(2)
3. Amount Charged to Capital & Other [L1xL2]	1,442,932	103,596	1,546,528	
4. Pro Forma Expense Charged to O&M Expense [L1-L3]	$ 2,703,627	$ (103,596)	$ 2,600,031	

(1) P-2, Schedule 33 Updated 1/15/18

(2) Response to RCR-A-90(a):

	Actual Cap Ratios
2015	30.85%
2016	45.93%
2017	35.11%
3-Yr Avg	37.30%

Docket No. WR17090988
Test Year Ended 3/31/15

Sch. RJH-27

NJAWC
LOBBYING AND PROMOTIONAL EXPENSE REMOVAL

CONFIDENTIAL

1. Remove NJAWC's Mgr of Gvt & Reg Affairs Compensation Expenses included in Pro Forma O&M Exp. **[BEGIN CONFIDENTIAL]** $ (- (1) **[END CONFIDENTIAL]**

(1) **[END CONFIDENTIAL]**

Docket No. WR17090985 Sch. RJH-28
Test Year Ended 3/31/18

NJAWC
OTHER OPERATION AND MAINTENANCE EXPENSES

		NJAWC 9+3 (1)	Adjustments	RC	
1.	Pro Forma Adjusted Other O&M Expenses	$ 32,615,684		$ 32,615,684	
	RC Recommended Adjustments:				
2.	Remove Expenses Related to RSM Mechanism	-	(11,621)	(11,621)	(1)
3.	Remove Institutional and Promotional Expenses	-	(147,897)	(147,897)	(2)
4.	Remove Choose New Jersey Contribution	-	(160,000)	(160,000)	(3)
5.	Remove Employee Award Expenses	-	(55,091)	(55,091)	(4)
6.	Total Adjusted Other O&M Expenses	$ 32,615,684	$ (374,609)	$ 32,241,075	

(1) P-2, Sch. 46, Updated 1/15/18
(2) Per RCR-A-130 Attachment and SIR-53 9+3 Update, page 2: $50,948+$68,210+$28,739=$147,897
(3) Response to RCR-A-130 and RCR-131 Attachment
(4) Response to RCR-A-133 and SIR-53 9+3 Update, page 2

NJAWC
DEPRECIATION EXPENSES

	NJAWC 9+3 (1)		Adjustments	RC	
1. Pro Forma Post-Test Year UPIS	$5,196,966,601		$ (49,151,884)	$5,147,814,717	RJH-3, L1
2. Less: Non-Depreciable UPIS	(45,029,883)			(45,029,883)	
3. Depreciable Pro Forma UPIS	5,151,936,718		(49,151,884)	5,102,784,834	
4. Composite Depreciation Rate	2.676%			2.072%	(3)
5. Pro Forma Deprecation Expense [L3 x L4]	137,867,348		(32,137,646)	105,729,702	
6. Plus: Cost Of Removal Flowback	2,922,481	(2)	(4,122,481)	(1,200,000)	(3)
7. Pro Forma Depr Exp Including COR Flowback	$ 140,789,829		$ (36,260,127)	$ 104,529,702	

(1) P-2, Schedule 48, pages 1 - 11
(2) P-2, Schedule 48, page 2, line 22
(3) Testimony of Snavely-King Majoros, Exhibit MJM-1

NJAWC
INCOME TAXES

	NJAWC 9+3	Adjustments	RC	
1. Pre-Tax Operating Income	$ 226,229,212	$ 58,139,939	$ 284,369,151	RJH-8, L7
2. Amortization Adjustments:				
a. ITC	(356,136)		(356,136)	RJH-8, L4a
b. Reg. Asset - AFUDC	706,294		706,294	RJH-8, L4c
c. Total Amortization Adjs	350,158		350,158	
3. Permanent Book/Tax Diff.	815,025		815,025	
4. Interest Deduction	(69,194,613)	5,129,244	(64,065,369)	(1)
5. Taxable Income	158,199,782	63,269,183	221,468,965	
6. FIT @ 35%	55,369,924	22,144,214	77,514,138	
7. Plus: Flo-Thru Tax Amort.	681,166		681,166	(2)
8. Less: S. Georgia Adj.	(103,904)		(103,904)	(2)
9. Total Federal Income Tax	$ 55,947,186	$ 22,144,214	$ 78,091,400	

(1) Rate Base	$ 3,034,686,418	$ 2,712,393,103	RJH-3
Weighted Cost of Debt	2.2801%	2.3620%	RJH-2
Pro Forma Interest	$ (69,194,613)	$ 64,065,369	

(2) P-2, Schedule 57, p.1, Updated 1/18/18

Docket No. wr17090985
Test Year Ending 3/31/18

Sch. RJH-31

NJAWC
REVENUE REQUIREMENT IMPACT BY ISSUE
$000's

1.	NJAWC's Proposed 9&3 Rate Increase	$	136,236	RJH-1
	Rate Counsel Recommended Adjustments:			
2.	ROE @ 9.50% vs. 10.80% *(Griffing)*		(38,084)	RJH-2
2.	Cost of Debt 4.87% vs 4.96%		(1,264)	RJH-2
3.	Capital Structure of Debt 48.5% - Equity 51.5%		(7,710)	RJH-2
4.	Haddonfield Valuation adjustment *(Woods)*		(447)	RJH-4/5
5.	Remove Customer Lead Service Replacement from UPIS *(Woods)*		(66)	RJH-4
6.	Post-TY UPIS adjustment *(Woods)*		(7,594)	RJH-4
7.	Depr. Reserve Update + Post-TY adjustment		(2,441)	RJH-5
8.	ADIT Update + Post-TY adjustment		1,823	RJH-7
9.	Remove Haddonfield/Shorelands/Roxiticus Acq. Adj. *(Woods)*		(4,258)	RJH-6
10.	CWC adjustment *(Peterson)*		(8,175)	RJH-3
11.	CIT adjustment *(Peterson)*		(19,662)	RJH-3
12.	Misc. Rate Base Updates		37	RJH-3
13.	Trended Revenue adjustments *(Woods)*		(3,427)	RJH-9
14.	OIW Revenue adjustment		(543)	RJH-10
15.	Regular SFR Revenue adjustment		(1,186)	RJH-11
16.	SREC Revenue adjustment		(43)	RJH-12
17.	Incremental Sales Expense adjustment		320	RJH-13
18.	Incentive Compensation Removal (NJAWC + ServCo)		(7,772)	RJH-14/24
19.	Vacancy % adjustment		(438)	RJH-14/15/18/19
20.	Capitalization Ratio adjustment		(3,721)	RJH-14 thru 19 + 26
21.	Remove Shorelands Unfunded Pension Liability		(152)	RJH-16
22.	Solar Energy Power Credit adjustment		(83)	RJH-20
23.	Tank Painting adjustment		(5,728)	RJH-21
24.	Rate Case Expense adjustment		(139)	RJH-22
25.	Central Services Exp adjs (Remove Bus. Dev and Lobbying)		(733)	RJH-25
26.	Lobbying Expense adjustment		(165)	RJH-27
27.	Other O&M Expense adjustments		(466)	RJH-28
28.	Depreciation Rate adjustment *(Majoros)*		(36,377)	RJH-29
29.	Cost of Removal Flowback adjustment *(Majoros)*		(4,810)	RJH-29
30.	Total Rate Counsel Recommended Adjustments		(153,304)	
31.	Rate Counsel's Recommended Rate Increase	$	(17,068)	

APPENDIX I

<u>PRIOR TESTIMONIES PREPARED AND SUBMITTED</u>
<u>BY</u>
<u>ROBERT J. HENKES</u>

ARKANSAS

Southwestern Bell Telephone Company Divestiture Base Rate Proceeding	Docket 83-045-U	09/1983

DELAWARE

Delmarva Power and Light Company Electric Fuel Clause Proceeding	Docket 41-79	04/1980
Delmarva Power and Light Company Electric Fuel Clause Proceeding	Docket 80-39	02/1981
Delmarva Power and Light Company Sale of Power Station Generation	Complaint Docket 279-80	04/1981
Delmarva Power and Light Company Electric Base Rate Proceeding	Docket 81-12	06/1981
Delmarva Power and Light Company Gas Base Rate Proceeding	Docket 81-13	08/1981
Delmarva Power and Light Company Electric Fuel Clause Proceeding	Docket 82-45	04/1983
Delmarva Power and Light Company Electric Fuel Clause Proceeding	Docket 83-26	04/1984
Delmarva Power and Light Company Electric Fuel Clause Proceeding	Docket 84-30	04/1985
Delmarva Power and Light Company Electric Fuel Clause Proceeding	Docket 85-26	03/1986
Delmarva Power and Light Company Report of DP&L Operating Earnings	Docket 86-24	07/1986
Delmarva Power and Light Company Electric Base Rate Proceeding	Docket 86-24	12/1986 01/1987
Delmarva Power and Light Company Report Re. PROMOD and Its Use in Fuel Clause Proceedings	Docket 85-26	10/1986

Diamond State Telephone Company Base Rate Proceeding	Docket 86-20	04/1987
Delmarva Power and Light Company Electric Fuel Clause Proceeding	Docket 87-33	06/1988
Delmarva Power and Light Company Electric Fuel Clause Proceeding	Docket 90-35F	05/1991
Delmarva Power and Light Company Electric Base Rate Proceeding	Docket 91-20	10/1991
Delmarva Power and Light Company Gas Base Rate Proceeding	Docket 91-24	04/1992
Artesian Water Company Water Base Rate Proceeding	Docket 97-66	07/1997
Artesian Water Company Water Base Rate Proceeding	Docket 97-340	02/1998
United Water Delaware Water Base Rate Proceeding	Docket 98-98	08/1998
Artesian Water Company Water Base Rate Proceeding	Docket 99-197 (Direct Test.)	09/1999
Artesian Water Company Water Base Rate Proceeding	Docket 99-197 (Supplement. Test)	10/1999
Tidewater Utilities/ Public Water Co. Water Base Rate Proceedings	Docket No. 99-466	03/2000
Delmarva Power & Light Company Competitive Services Margin Sharing Proceeding	Docket No. 00-314	03/2001
Artesian Water Company Water Base Rate Proceeding	Docket No. 00-649	04/2001
Chesapeake Gas Company Gas Base Rate Proceeding	Docket No. 01-307	12/2001
Tidewater Utilities Water Base Rate Proceeding	Docket No. 02-28	07/2002

Artesian Water Company Water Base Rate Proceeding	Docket No. 02-109	09/2002
Delmarva Power & Light Company Gas Base Rate Proceeding	Docket No. 03-127	08/2003
Artesian Water Company Water Base Rate Proceeding	Docket No. 04-42	08/2004
United Water Delaware Water Base Rate Proceeding	Docket No. 06-174	10/2006
United Water Delaware Water Base Rate Proceeding	Docket No. 09-60	06/2009
United Water Delaware Water Base Rate Proceeding	Docket No. 10-421	05/2011
Tidewater Environmental Services, Inc. Wastewater Base Rate Proceeding	Docket No. 11-329WW	03/2012
TESI/Holland Mills Wastewater Base Rate Proceeding	Docket No. 11-419WW	05/2012

<u>DISTRICT OF COLUMBIA</u>

District of Columbia Natural Gas Co. Gas Base Rate Proceeding	Formal Case 870	05/1988
District of Columbia Natural Gas Co. Gas Base Rate Proceeding	Formal Case 890	02/1990
Chesapeake and Potomac Telephone Co. Base Rate Proceeding	Formal Case 850	07/1991
Chesapeake and Potomac Telephone Co. Base Rate Proceeding	Formal Case 926	10/1993
Bell Atlantic - District of Columbia Price Cap Plan and Earnings Review	Formal Case 814 IV	07/1995

<u>GEORGIA</u>

Southern Bell Telephone Company Base Rate Proceeding	Docket 3465-U	08/1984

Southern Bell Telephone Company Base Rate Proceeding	Docket 3518-U	08/1985
Georgia Power Company Electric Base Rate and Nuclear Power Plant Phase-In Proceeding	Docket 3673-U	08/1987
Georgia Power Company Electric Base Rate and Nuclear Power Plant Phase-In Proceeding	Docket 3840-U	08/1989
Southern Bell Telephone Company Base Rate Proceeding	Docket 3905-U	08/1990
Southern Bell Telephone Company Implementation, Administration and Mechanics of Universal Service Fund	Docket 3921-U	10/1990
Atlanta Gas Light Company Gas Base Rate Proceeding	Docket 4177-U	08/1992
Southern Bell Telephone Company Report on Cash Working Capital	Docket 3905-U	03/1993
Atlanta Gas Light Company Gas Base Rate Proceeding	Docket No. 4451-U	08/1993
Georgia Power Company Earnings Review - Report to GPSC	Non-Docketed	09/1995
Savannah Electric Power Company Electric Base Rate Case/Alternative Rate Plan	Docket No. 14618-U	03/2002
Georgia Power Company Electric Base Rate / Alternative Rate Plan Proceeding	Docket No. 18300-U	12/2004
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Georgia Power Company Electric Base Rate Case/Alternative Rate Plan	Docket No. 25060-U	10/2007
Georgia Power Company Electric Base Rate Case/Alternative Rate Plan	Docket No. 31958	10/2010

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Kentucky Power Company Electric Base Rate Proceeding	Case 8734	06/1983
Kentucky Power Company Electric Base Rate Proceeding	Case 9061	09/1984
South Central Bell Telephone Company Base Rate Proceeding	Case 9160	01/1985
Kentucky-American Water Company Base Rate Proceeding	Case 97-034	06/1997
Delta Natural Gas Company Base Rate Proceeding	Case 97-066	07/1997
Delta Natural Gas Company Experimental Alternative Regulation Plan	Case No. 99-046	07/1999
Delta Natural Gas Company Base Rate Proceeding	Case No. 99-176	09/1999
Louisville Gas & Electric Company Gas Base Rate Proceeding	Case No. 2000-080	06/2000
Kentucky-American Water Company Base Rate Proceeding	Case No. 2000-120	07/2000
Jackson Energy Cooperative Corporation Electric Base Rate Proceeding	Case No. 2000-373	02/2001
Kentucky-American Water Company Base Rate Rehearing	Case No. 2000-120	02/2001
Kentucky-American Water Company Rehearing Opposition Testimony	Case No. 2000-120	03/2001

Union Light Heat and Power Company Gas Base Rate Proceeding	Case No. 2001-092	09/2001
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Louisville Gas & Electric Company Gas Base Rate Proceeding	Case No. 2003-0433	03/2004
Delta Natural Gas Company Base Rate Proceeding	Case No. 2004-00067	07/2004
Union Light Heat and Power Company Gas Base Rate Proceeding	Case No. 2005-00042	06/2005
Louisville Gas & Electric Company Value Delivery Surcredit Mechanism	Case No. 2005-00352	12/2005
Kentucky Utilities Company Value Delivery Surcredit Mechanism	Case No. 2005-00351	12/2005
Kentucky Power Company Electric Base Rate Proceeding	Case No. 2005-00341	01/2006
Cumberland Valley Electric Cooperative Electric Base Rate Proceeding	Case No. 2005-00187	05/2006
South Kentucky Rural Electric Cooperative Electric Base Rate Proceeding	Case No. 2005-00450	07/2006
Duke Energy Kentucky Electric Base Rate Proceeding	Case No. 2006-00172	09/2006
Atmos Energy Corporation Gas Show Cause Proceeding	Case No. 2005-00057	09/2006
Inter County Electric Cooperative Electric Base Rate Proceeding	Case No. 2006-00415	04/2007
Atmos Energy Corporation Gas Base Rate Proceeding	Case No. 2006-00464	04/2007
Columbia Gas of Kentucky Gas Base Rate Proceeding	Case No. 2007-00008	06/2007

Delta Natural Gas Company Gas Base Rate Proceeding – Alternative Rate Mechanism	Case No. 2007-00089	08/2007
Nolin Rural Electric Cooperative Corporation Electric Rate Proceeding	Case No. 2006-00466	09/2007
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Jasckson Energy Cooperative Electric Base Rate Proceeding	Case No. 2007-00333	03/2008
Jackson Purchase Energy Corporation Electric Base Rate Proceeding	Case No. 2007-00116	04/2008
Blue Grass Energy Cooperative Electric Base Rate Proceeding	Case No. 2008-00011	7/2008
Louisville Gas & Electric Company Electric and Gas Base Rate Proceedings	Case No. 2008-00252	10/2008
Kentucky Utilities Company Electric Base Rate Proceeding	Case No. 2008-00251	10/2008
Kentucky-American Water Company Water Base Rate Proceeding	Case No. 2008-00427	04/2009
Grayson Rural Electric Cooperative Electric Base Rate Proceeding	Case No. 2008-00254	04/2009
Farmers Rural Electric Cooperative Electric Base Rate Proceeding	Case No. 2008-00030	04/2009
Big Sandy Electric Cooperative Electric Base Rate Proceeding	Case No. 2008-oo401	04/2009
Columbia Gas Company Gas Base Rate Proceeding	Case No. 2009-00141	09/2009
Duke Energy Kentucky Gas Base Rate Proceeding	Case No. 2009-00202	10/2009
Atmos Energy – Kentucky Electric Base Rate Proceeding	Case No. 2009-00354	03/2010

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Central Maine Power Company Electric Base Rate Proceeding	Docket 90-076	03/1991
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Delmarva Power and Light Company Electric Base Rate Proceeding	Case 7427	08/1980
Chesapeake and Potomac Telephone Company Base Rate Proceeding	Case 7467	10/1980
Washington Gas Light Company Gas Base Rate Proceeding	Case 7466	11/1980
Delmarva Power and Light Company Electric Base Rate Proceeding	Case 7570	10/1981
Chesapeake and Potomac Telephone Company Base Rate Proceeding	Case 7591	12/1981
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Atlantic City Electric Company Electric Base Rate Proceeding	Docket 772-113	04/1977
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Rockland Electric Company Electric Base Rate Proceeding	Docket 795-413	09/1979
New Jersey Bell Telephone Company Base Rate Proceeding	Docket 802-135	02/1980
Rockland Electric Company Electric Fuel Clause Proceeding	Docket 8011-836	02/1981
Rockland Electric Company Electric Base Rate Proceeding	Docket 811-6	05/1981
Rockland Electric Company Electric Fuel Clause Proceeding	Docket 8110-883	02/1982
Public Service Electric and Gas Company Electric Fuel Clause Proceeding	Docket 812-76	08/1982
New Jersey Bell Telephone Company Base Rate Proceeding	Docket 8211-1030	11/1982
Rockland Electric Company Electric Fuel Clause Proceeding	Docket 829-777	12/1982
Public Service Electric and Gas Company Electric and Gas Base Rate Proceedings	Docket 837-620	10/1983
New Jersey Bell Telephone Company Base Rate Proceeding	Docket 8311-954	11/1983
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AT&T Communications of New Jersey Base Rate Proceeding	Docket 8311-1064	05/1985
Public Service Electric and Gas Company Electric and Gas Base Rate Proceedings	Docket ER8512-1163	05/1986
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Rockland Electric Company Electric Fuel Clause Proceeding	Docket ER9009-10695	09/1990
Elizabethtown Gas Company Gas Base Rate Proceeding	Docket GR9012-1391J	05/1991
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Middlesex Water Company Water Base Rate Proceeding	Docket WR92090885J	01/1993
Elizabethtown Water Company Water Base Rate Proceeding	Docket WR92070774J	02/1993
New Jersey Natural Gas Company Gas Base Rate Proceeding	Docket GR93040114	08/1993
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New Jersey American Water Company Base Rate Proceeding	Docket WR95040165	01/1996
United Water of New Jersey Base Rate Proceeding	Docket WR95070303	01/1996
Elizabethtown Water Company Base Rate Proceeding	Docket WR95110557	03/1996
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United Water Vernon Sewage Company Base Rate Proceeding	Docket WR96030204	07/1996
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Atlantic City Electric Company Fuel Adjustment Clause Proceeding	Docket No.ER96030257	08/1996
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Rockland Electric Company Electric Fuel Clause Proceeding	Docket No.EC96110784	01/1997
Consumers New Jersey Water Company Base Rate Proceeding	Docket No.WR96100768	03/1997
Atlantic City Electric Company Fuel Adjustment Clause Proceeding	Docket No.ER97020105	08/1997
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Consumers New Jersey Water Company Base Rate Proceeding	Docket No. WR97080615	01/1998
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Atlantic City Electric Company Fuel Adjustment Clause Proceeding	Docket No.ER98090789	02/1999
Middlesex Water Company Base Rate Proceeding*	Docket No.WR98090795	03/1999
Mount Holly Water Company Base Rate Proceeding - Phase I	Docket No. WR99010032	07/1999
Mount Holly Water Company Base Rate Proceeding - Phase II	Docket No. WR99010032	09/1999
Environmental Disposal Corporation (Sewer) Base Rate Proceeding	Docket No.WR99040249	02/2000
Consumers Water Company Water Base Rate Proceeding	Docket No. WR00030174	09/2000
Trenton Water Works Water Base Rate Proceeding	Docket No. WR00020096	10/2000
Middlesex Water Company Water Base Rate Proceeding	Docket No. WR00060362	11/2000
Pineland Water Company Water Base Rate Proceeding	Docket No. WR00070454	12/2000
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Public Service Electric & Gas Company Gas Base Rate Proceeding Surrebuttal Testimony	Docket No. GR01050328	09/2001
Elizabethtown Water Company Water Base Rate Proceeding	Docket No. WR01040205	10/2001
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Public Service Electric & Gas Company Electric Base Rate Proceeding Direct Testimony	Docket No. ER02050303	10/2002
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Rockland Electric Company Electric Base Rate Proceeding Supplemental Direct Testimony	Docket No. ER02100724	02/2003
Mount Holly Water Company Water Base Rate Proceeding	Docket No. WR03070509	12/2003
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New Jersey-American Water Company Water and Sewer Base Rate Proceeding	Docket No. WR03070511	12/2003
Applied Wastewater Management, Inc. Water and Sewer Base Rate Proceeding	Docket No. WR03030222	01/2004
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Pinelands Water Company Water Base Rate Proceeding	Docket No. WR05080681	03/2006
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Aqua New Jersey Water Company Water Base Rate Proceeding	Docket No. WR05121022	06/2006
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New Jersey American Company Consolidated Water Base Rate Proceeding, New Jersey American Water Company, Elizabethtown Water Company, and Mount Holly Water Company	Docket No. WR06030257	10/2006
United Water Company of New Jersey Water Base Rate Proceeding	Docket No. WR07020135	09/2007
New Jersey American Water Company	Docket No. WR08010020	07/2008

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Elizabethtown Gas Gas Base Rate Proceeding	Docket No. GR09030195	10/2009
Andover Utility Company Wastewater Base Rate Proceeding	Docket No. WR09050413	11/2009
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Rockland Electric Company Electric Base Rate Proceeding	Docket No. ER09080668	03/2010
Atlantic City Electric Company Electric Base Rate Proceeding	Docket No. ER09080664	04/2010
South Jersey Gas Company Gas Base Rate Proceeding	Docket No. GR10010035	05/28/10
United Water New Jersey Water Base Rate Proceeding	Docket No. WR09120987	06/08/10
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New Jersey Natural Gas Company Energy Efficiency Program Proceeding	Docket No. GR11070425	11/2011
Elizabethtown Gas Company Energy Efficiency Program Proceeding	Docket No. GO11070399	12/2011
New Jersey American Water Company Water Base Rate Proceeding	Docket No. WR11070460	01/2012
Jersey Central Power & Light Company Electric Base Rate Proceeding	Docket No. ER12111052	06/2013
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Southwestern Public Service Company Electric Base Rate Proceeding	Case 1957	11/1985
El Paso Electric Company Electric Base Rate Proceeding	Case 2092	06/1987
Gas Company of New Mexico Gas Base Rate Proceeding	Case 2147	03/1988
El Paso Electric Company Electric Base Rate Proceeding*	Case 2162	06/1988
Public Service Company of New Mexico Phase-In Plan	Case 2146/Phase II	10/1988
El Paso Electric Company Electric Base Rate Proceeding	Case 2279	11/1989
Gas Company of New Mexico Gas Base Rate Proceeding	Case 2307	04/1990
El Paso Electric Company Rate Moderation Plan	Case 2222	04/1990
El Paso Electric Company Base Rate Proceeding	Case 2722	02/1998
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Dayton Power and Light Company Electric Base Rate Proceeding	Case 76-823	1976
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Duquesne Light Company Electric Base Rate Proceeding	R.I.D. No. R-821945	09/1982
AT&T Communications of Pennsylvania Base Rate Proceeding	Docket P-830452	04/1984
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National Fuel Gas Distribution Company Gas Base Rate Proceeding	Docket R-870719	12/1987

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Blackstone Valley Electric Company Electric Base Rate Proceeding	Docket No. 1289	10/1988

VERMONT

Green Mountain Power Corporation Electric Base Rate Proceeding	Docket No. 5695	01/1994
Central Vermont Public Service Corp. Rate Investigation	Docket No. 5701	04/1994
Central Vermont Public Service Corp. Electric Base Rate Proceeding	Docket No. 5724	05/1994
Green Mountain Power Corporation Electric Base Rate Proceeding	Docket No. 5780	01/1995
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