BEFORE THE
STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF
NEW JERSEY-AMERICAN WATER COMPANY, INC.
FOR APPROVAL OF INCREASED TARIFF RATES
AND CHARGES FOR WATER AND WASTEWATER SERVICE, AND
OTHER TARIFF MODIFICATIONS

BPU Docket No. WR2201____

Direct Testimony of

JOHN S. TOMAC

January 14, 2022

Exhibit P-6

NEW JERSEY-AMERICAN WATER COMPANY, INC.

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NEW JERSEY-AMERICAN WATER COMPANY, INC.

Introduction

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

A. My name is John S. Tomac and my business address is 1 Water Street, Camden, New Jersey 08102.

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

A. I am employed by American Water Works Service Company, Inc. ("AWWSC" or "Service Company") as the Senior Director of Rates & Regulatory for New Jersey-American Water Company, Inc. ("NJAWC" or the "Company"), Virginia-American Water Company ("VAWC') and Maryland-American Water Company ("MAWC").

3. Q. What are your responsibilities in this position?

A. My present responsibilities include managing the rates and regulatory functions for NJAWC, VAWC, and MAWC focusing on strategic planning in a regulatory environment. As Senior Director of Rates and Regulatory, I am also a member of NJAWC's Senior Management Team, and I participate in the decision-making process for all functional areas of the Company.

4. Q. Please describe your educational background and business experience.

A. Please refer to Appendix A for a summary of my educational background and business experience.

5. Q. Have you previously testified in regulatory proceedings?

A. Yes, I have testified before the New Jersey Board of Public Utilities ("BPU") in BPU Docket Nos. WR17090985 and WR19121516, as well as before the Virginia State Corporation Commission and the West Virginia Public Service Commission. I have also testified extensively before the Connecticut Public Utility Regulatory Authority from 1984 to 2012.

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

A. Yes, I am.

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

A. The general books of accounts and related records of the Company are kept in conformity with the Uniform System of Accounts ("USOA").

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

A. The purpose of my Direct Testimony is to support the Company's revenue requirement calculation in this case, which is based on a test year ending June 30, 2022, including *pro forma* adjustments to the test year Income Statement and Statement of Rate Base. I will discuss certain elements of the revenue requirement, including the calculation of rate base and related depreciation and amortization expense, as well as the components and computation of the Company's proposed capital structure. I will also sponsor various financial and accounting data required by the Board's regulations as set forth in Section 14:1-5.12 of the New Jersey Administrative Code ("NJAC") and update schedules in relation to the Tax Cuts and Jobs Act of 2017. Finally, I will support the rate base value of assets expected to be acquired by the Company during the pendency of this proceeding.

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

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

- Schedule RR- Revenue Requirement Computation
- Schedule 1 Comparative Balance Sheet
- Schedule 2 Comparative Income Statement
- Schedule 3 Balance Sheet at November 30, 2021
- Schedule 4 Pro-forma Income Statement under present and proposed rates
- Schedule 5 Statement of Operating Revenues
- Schedule 6 Statement of Operating and Maintenance Expenses
- Schedule 7 Uncollectible Expense
- Schedule 8 Summary of Depreciation and Amortization
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- Schedule 12 Utility Assessments
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- Schedule 15 Statement of Rate Base
- Schedule 16 Weighted Cost of Capital
- Schedule 17 Consolidated Tax Adjustment
- Schedule 18 Schedule of Payments to Affiliated Companies

TEST YEAR

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

A. NJAWC's test year is the twelve-month period ending June 30, 2022 ("Test Year"). This filing utilizes five months of actual data ended November 30, 2021, and seven months of estimated data through June 30, 2022. The actual data has been obtained from the Company's books and records. The estimated data will be replaced with actual data as the case progresses, ultimately containing all actual results in the 12-month update.

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

A. Yes. NJAWC is proposing to reflect changes in capital expenditures through December 31, 2022, and changes in revenues and expenses through March 31, 2023, as described later in my Direct Testimony as well as the Direct Testimony of Mr. Donald C. Shields (Exhibit P-5) and Ms. Jamie Hawn (Exhibit P-7). Including these post-test year adjustments is consistent with standards previously adopted by the Board and provides for an annualization and/or adjustment of revenues, expenses, and capital expenditures through the time period in which they are expected to be in effect. Specifically, the Board's policy concerning post-test year adjustments, as set forth in its order *Re Elizabethtown Water Company*, Docket No. WR8504330, is that utilities are afforded an opportunity to make a record concerning known and measurable changes to: (1) the capital structure that are three months beyond the test year; (2) rate base that are six months beyond the test year; and (3) expenses and revenues that are nine months beyond the test year. The post-test year adjustments included in this case are further discussed below.

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

A. The Company's revenue requirement is equal to the cost of providing water and fire protection service to approximately 660,000 customers and sewer service to approximately 49,900 customers in 190 communities in 18 counties throughout the State of New Jersey.[1] This includes everything from sourcing water supply, treating and monitoring that supply to support water quality compliance and pumping and distributing adequate supply through approximately 9,420 miles of main, to providing high quality customer service to our customers through customer service center teams, 24-hour emergency call handling, and providing self-service options. These efforts support the Company's continued provision of safe, reliable water, sanitation, and fire protection services to our customers.

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

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

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

A. The Company's projected revenue requirement, equal to the cost of providing service, is approximately $903.1 million, as supported by Company witnesses in this proceeding.

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

A. The Company's revenue deficiency is measured as the difference between the forecasted revenue requirement and the Company's forecasted revenues including the Distribution System Infrastructure Charge ("DSIC") at present rates. The Company's revenue deficiency proposed in this application is calculated to be $94.7 million which represents an approximate 11.7% overall deficiency. The Company calculated a rate of return of 5.98% under present rates and 7.48% under proposed rates when calculated on the proposed rate base approximating $4.3 billion. The requested increase is also based on a rate of return on common equity of 10.50%.

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

A. The proposed revenue increase in large part is driven by capital investment since the Company's last base rate case (BPU Docket No. WR19121516) (the "2019 Rate Case"). Since the effective date of rates in the 2019 Rate Case, the Company has invested, or will invest, approximately $985 million in capital expenditures through the end of 2022. Of the proposed increase of $94.7 million, nearly 68% is driven by new capital investments.

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

A. No. Although O&M expenses are increasing, they are not a particular driver of the rate increase nor are they unusual when they are placed into context. The Company is seeking to recover $230.1 million in operating expenses, which represents expense levels into 2023. For perspective, the Company's O&M expense in 2010 – more than a decade ago – was $216 million. Although, the Company's proposed O&M expenses have increased since then, and from the 2019 Rate Case, the Company's overall O&M expense remains reasonable. For example, the average per customer O&M cost for the ten-year period 2010 through 2020 was $307 (excluding purchased water and wastewater costs), whereas our proposed O&M cost per customer (excluding purchased water and wastewater costs) is $320 in this case. This represents a 4.23% increase over that ten-year average, or a compound annual growth rate of 0.42%. In comparison, inflation as measured by the Consumer Price Index ("CPI") increased 15.78% based on the average CPI rate measured over the same ten-year period 2010 through 2020 compared with the estimated CPI rate at the end of 2022. This represents an annual compound growth rate of 1.48%. If the Company's O&M expense per customer had increased by the CPI rate of 15.78%, O&M expenses proposed in this case would be approximately $25.6 million higher at pro-forma customer levels. Since those savings would have occurred incrementally over the ten-year period, on average over that ten-year period, the saving would have been $12.8 million per year (1/2 of $25.6 million). Given that each dollar of O&M expense that is avoided permits NJAWC to invest $8 in plant, the O&M savings that the Company has been able achieve over that 10-year period translates into over $1.0 billion of investment with no additional rate impact on customers. This is a significant achievement and is a testament to the Company's commitment to operating efficiency. As Company witness Mr. Shroba explains in his Direct Testimony, the Company strives to manage costs as efficiently as possible to provide a more cost-effective level of service for our customers over the long term.

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

A. As proposed, the average residential water customer's monthly bill, using 5,520 gallons per month, would increase $6.78 from the current charge of $62.44 to $69.23, an increase of $.23 per day. The annual bill for the average residential water customer would be $830.70 per year, an increase of $81.38. Even at the proposed rates, water costs remain a good value. Proposed water costs would approximate $2.28 per day, or $.0125 per gallon. As Mr. Rea's testimony further demonstrates, the Company's water and wastewater services remain affordable for most of our residential customers.

18. Q. Is the Company seeking any rate relief associated with its wholly owned subsidiary, Environmental Disposal Corp. ("EDC")?

A. No. Recovery of expenses and capital expenditures associated with EDC, a wastewater subsidiary of NJAWC, is not requested in this proceeding.

FILING REQUIREMENTS

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

A. Schedule 1 reflects the Comparative Balance Sheets that have been prepared from the books and records of the Company. None of the statements or schedules contained in this Petition, either present or pro-forma, include any financials for EDC.

Schedule 2 is a "Comparative Statement of Income" for the twelve-month periods ended December 31, 2018, 2019 and 2020, respectively, as recorded from the Company's books and records. Schedule 2 also includes dividend payments on preferred and common stock of the Company for each twelve-month ended period.

Schedule 3 shows a Balance Sheet for the period ended November 30, 2021.

Schedule 4 reflects the Company's income statement on a pro forma basis under present and proposed rates. Column (2) on Schedule 4 indicates the results for the period ending June 30, 2022 (the Test Year) based on five months of actual and seven months of projected data. Annualized and normalized adjustments are made to the Test Year to reflect known or measurable changes in the Company's operations through March 31, 2023. The result is a pro forma income statement that is representative of the Company's prospective financial condition. Schedules 5, 6, 8, 10, and 14-16 support the values on Schedule 4.

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

Rate Base

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

A. The proposed rate base in this proceeding is approximately $4.3 billion. Rate base was calculated in the traditional manner and in accordance with past practices. The calculation of rate base starts with utility plant in service ("UPIS") less accumulated depreciation to arrive at net utility plant. Cash working capital, utility plant acquisition adjustments and prepayments were then added to net utility plant. Customer advances for construction and contributions, MTBE and aluminum sulfate litigation settlements, pre-1971 ITC, consolidated FIT tax adjustment and deferred taxes were deducted from net utility plant. The components of rate base are shown on Exhibit P-2, Schedule 15.

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

A. The balance for UPIS was calculated starting with the actual balance as of November 2021. Forecast plant additions for the period December 2021 through

June 30, 2022, were then added and estimates for plant retirement for the same period were deducted to develop the estimated Test Year ending balance of June 30, 2022. The Company also included forecasted plant additions, reduced for plant retirements for the six-month post-Test Year period ending December 31, 2022 ("PTY" or "Post-Test Year"). The Company's PTY capital expenditures for utility plant include all known and measurable capital projects for that period as well as the roll in of the DSIC capital expenditures. The forecast plant additions are discussed further in the Direct Testimony of Mr. Shields.

22. Q. Please explain the methodology used to compute accumulated depreciation as shown on Exhibit P-2, Schedule 15 and all proposed Post-Test Year adjustments.

A. The computation of accumulated depreciation as of December 31, 2022, as set forth on Exhibit P-2, Schedule 15 is consistent with prior cases. It begins with the actual balance on November 30, 2021 and computes the additional depreciation expense beginning with that period through June 30, 2022 and then again for the period July 1, 2022 through December 31, 2022 on all assets that will be in service at that date.

The computation of depreciation expense can be seen on Exhibit P-2, Schedule 9. Depreciation expense uses both the life and cost of removal rate for computation of depreciation expense authorized in the 2019 Rate Case. The accumulated depreciation reserve is reduced for estimated retirements and cost of removal charges through June 30, 2022, and then through December 31, 2022. Projections for retirements are based on a three-year average of retirements for the period July

1, 2018 through June 30, 2021. Cost of removal charges are also based on the same three-year average. The accumulated depreciation reserve reflects the continued return to customers of a Non-Legal Asset Retirement Obligation of $48 million at $1.2 million a year over a forty-year period as established in the Stipulation of Settlement in Docket No. WR08010020.

23. Q. Please explain the methodology used to compute cash working capital as shown on Exhibit P-2, Schedule 15, and any Post-Test Year adjustments.

A. The calculation of cash working capital is provided by Mr. Harold Walker, as described in his Direct Testimony and schedules filed in this case.

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

A Yes, however, only the acquisition adjustments previously approved by the BPU have been included in rate base. Acquisition adjustments for the Shorelands Water Company, Inc. ("Shorelands") and the Borough of Haddonfield's Water and Sewer System ("Haddonfield") were rejected by the Board in the 2019 Rate Case and that result is on appeal to the Appellate Division of the Superior Court. The Company has not included those acquisition adjustments in rate base in this Petition.[2] For the proposed purchases of Egg Harbor City's water and wastewater systems as well as the wastewater system of the Village of Bound Brook, there are no acquisition adjustments included in rate base in this filing. I will discuss the acquisitions of Egg

[2] The Company reserves the right to seek cost recovery of the Shorelands and Haddonfield acquisition adjustments in a future ratemaking proceeding pending the outcome of the appeal currently before the Appellate Division.

Harbor City's water and wastewater systems and the wastewater system of the Village of Bound Brook later in my Direct Testimony.

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

A. The computation of customer advances begins with the actual balance on November 30, 2021, and adds the number of new advances the Company expects to receive for the period December 1, 2021 through June 30, 2022, and for the period July 1, 2022 through December 31, 2022. For contributions in aid of construction, the rate base balances on June 30, 2022, and December 31, 2022, are each lower than the November 30, 2021 starting balance. This is a result of the amortization of contributions in aid of construction over the life of the underlying assets that the contributions originally funded.

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

A. The Company has received funds from settlements in both the MTBE and Aluminum Sulfate cases. The rate base reduction is the mechanism by which funds received are shared between customers and shareholders.

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

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

28. Q. Has the Company calculated a consolidated tax adjustment ("CTA") consistent with the BPU regulation?

A. Yes. The Company computed its consolidated tax adjustment in accordance with the BPU's regulations consistent with N.J.A.C. 14:1-5.12(a)(11) ("CTA Rule" or "Rule"). Under the Rule promulgated in 2019, the CTA is calculated using each affiliate's taxable income/loss for each of the five consecutive years, (the "five-year look back", including the complete tax year within the utility's test year), using statutory income tax rates or the alternative minimum tax, whichever is applicable. The Rule also provided for rate base to be reduced by 25% of the CTA. In 2021, the Appellate Division of the Superior Court, in an appeal brought by Rate Counsel, upheld the five-year look back period but overturned the 25% rate base reduction and directed that 100% of the CTA go to customers. ("CTA Appeal Decision"). The Company in this application has reduced rate base by 100% of the CTA.

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

A. The Company's calculation of the CTA using the BPU's CTA Rule, as modified by the CTA Appeal Decision, results in a rate base reduction of $21.4 million. The Company used the years 2016 through 2020 as the five-year look back period due to the availability of completed tax returns for those years.

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

A. Deferred income taxes are a result of timing differences between book and tax depreciation because of the normalization process. The computation begins with the actual values on November 30, 2021. Deferred taxes are increased by computing the difference between book and tax deprecation times the federal statutory rate of 21% on the capital additions for the period December 1, 2021, through June 30, 2022, and then again for the period July 1, 2022, through December 31, 2022. This computation increases deferred taxes which results in a further reduction to rate base.

31. Q. Why is it important to include all capital additions in the PTY period?

A. Pursuant to the previously-discussed *Elizabethtown* precedent, the Company can record changes to rate base for a period of six months beyond the end of the test year, provided: there is clear likelihood that the proposed utility plant additions will be in service by the end of the six-month period; that the utility plant additions are major in nature and consequence; and that the utility plant additions be substantiated with very reliable data. As the BPU knows and Mr. Shields demonstrates in his testimony, NJAWC has a track record of completing its capital program as planned year after year.[3] Consequently, there is no reason to believe that the Company will not do so again in 2022, and the data provided to support the capital investments through December 31, 2022, can be relied upon by the BPU.

In addition, although *Elizabethtown* uses the term "major in nature and consequence," neither it, nor cases decided under it, define exactly what that means. An arbitrary listing of a few larger projects based on a threshold amount that is undefined and often debatable, while not including other projects and improvements just as important in providing service to our customers, disregards

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

the fact that the Company should recover its costs for UPIS during the time those rates are in effect. In fact, an arbitrary cost percentage says nothing about the value to customers of one project over another. Considering the level of investments the Company makes every year and its track record of completing the capital investment it plans each year, it is reasonable to allow the Company to recover its capital costs and associated depreciation expense on all assets that are completed, and in service when new rates are in effect. Undue regulatory lag is perpetuated when timely cost recognition is not afforded to these in-service utility plant assets. The Company is simply asking for recovery of its capital investments that are in service and for which the customer is benefiting at the time new rates are in effect. This is not radical ratemaking. In fact, establishing revenue requirements based on a rate base which includes utility plant that is in service is essentially setting rates based on a historical perspective.

In addition, as discussed below, the capital additions in this application are funded by the proposed capital structure. Because the PTY capital additions reflect the funding requirements of the capital structure on December 31, 2022, the proposed capital structure has also been brought forward to December 31, 2022, to match rate base.

32. Q. Please explain how future DSIC filings impact the Company's proposed Post-Test Year plant additions.

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

Capital Structure

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

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

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

A. The Company used the capital structure for the forecasted period ending December 31, 2022. The capital structure proposed by the Company is shown on Exhibit P-2, Schedule 16. Schedule 16 indicates the capital structure and WACC on which the Company based its cost of service and revenue requirement in this case. The proposed capital structure is composed of 45.44% long-term debt and 54.56% common equity.

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

A Yes. It is virtually the same capital structure used to set rates in the Company's 2019 Rate Case. Furthermore, Ms. Bulkley has examined the proposed capital structure and explains that it is reasonable and appropriate. She further explains that NJAWC's equity ratio is well within the range of equity ratios of the proxy group used to determine the Company's rate of return on equity.

36. Q. Why did you choose to forecast the capital structure to the period ending December 31, 2022?

A. While *Elizabethtown* generally provides for pro forma capital structure adjustments that extend three months beyond the Test Year, the Company believes it is reasonable and appropriate to look out six months to December 31, 2022, because it is in our customers' best interest to do so. By capturing pro forma adjustments to the capital structure through December 31, 2022, it aligns the Company's capital additions included in rate base with the funding of that rate base.

37. Q. In what manner does the Company currently obtain its long-term and short-term debt?

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

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

A. Capital improvements to meet the new and changing regulations in the water industry, to replace aged treatment and distribution facilities, and to continue to provide safe, reliable water and wastewater service to its customers have driven, and will continue to drive, the need for new capital. The Company's proposed capital structure includes a new long-term debt financing through AWCC in the amount of $133 million and total borrowings of $103.6 million through the iBank. NJAWC's proposed capital structure also includes equity infusions from American Water totaling $140 million for the forecasted Test Year and PTY period. It is important that the Company maintain a strong financial position to allow it to continue to attract capital at a reasonable cost, which will assist the Company in its effort to provide service improvements at a cost that is beneficial to its customers over the long-term.

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

A. The Company's proposed capital structure includes $133 million of new long-term debt to be placed through AWCC in May 2022. The Company used an expected taxable interest rate of 3.90% for this financing. This rate is based on the rate for a 30-year U.S. Treasury bond ("Treasury") for May 2021, plus a credit spread.

40. Q. Why did the Company assume a 30-year term to estimate the interest rate on the new long-term AWCC debt issuance?

A. The Company's expectation is that the new long-term debt will be a 30-year taxable offering by AWCC, for which NJAWC will issue a note to AWCC for its share of the total debt placement. The basis for assuming a 30-year term is that it more closely matches the expected life of the utility plant assets being financed than would the use of shorter-term maturities.

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

A. Yes, the Company will provide actual rates for the proposed long-term debt issuance once it is completed, likely in its 12+0 filing.

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

A. The Company currently has construction loans through the iBank that total $103.6 million. The Company expects that these loans will be converted to long-term debt prior to December 31, 2022, which is the forecasted date of the Company's capital structure in this case.

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

A. The interest rates used in the Company's projections are consistent with NJAWC's most recent financing petition for 2022-2024. The interest rate and other terms of any long-term debt issuance in conjunction with the iBank would be determined by the terms obtained for the NJEIT. The Company will monitor the projected rates and reflect any changes in its update filings through the pendency of this case.

44. Q. Does NJAWC intend to refinance any of its existing long-term debt issues during the Test Year or PTY period?

A. No, the Company exhausted the refinancing of its long-term debt in 2020 as demonstrated in the Company's 2019 Rate Case.

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

A. As shown on Exhibit P-2, Schedule 16, the effective cost of long-term debt, based on the projected principal amount outstanding of $1.93 billion on December 31, 2022, is 3.8564%.

46. Q. You noted previously that the Company's forecasted capital structure at December 31, 2022 reflects the addition of equity infusions from American Water totaling $141 million. When are these infusions expected to occur?

A. The forecasted equity infusion is anticipated to occur in May 2022. This equity infusion will be booked to paid-in capital. The total forecasted common equity balance at December 31, 2022 will be $2.32 billion.

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

A. The overall WACC being requested is 7.4811%, as shown on Exhibit No. P-2, Schedule 16. The Company is requesting the ROE be set at 10.5%, which is the ROE recommended by Company witness Ann E. Bulkley, and the cost of long-term debt be set at 3.8564%.

<u>Tax Cuts and Jobs Act of 2017 ("TCJA")</u>

48. Q. Has the Company submitted an updated amortization schedule for EADIT relating to TCJA with this application.

A. Workpaper Schedule 15-21 sets forth the calculation of the amortization of excess accumulated deferred income taxes ("EDIT" or "EADIT") and establishes the amount that will be returned to customers on an annual basis through base rates during the first year rates are in effect ("Rate Year"). The calculation amortizes the components for remeasured EDIT for protected assets over the Average Rate Assumption Method ("ARAM"), and 15 years for the unprotected assets as agreed upon in the Stipulation as adopted by the Board in the 2019 Rate Case. The proposed amortization for EADIT for the Rate Year amounts to $12,375,429.

49. Q. In addition to reducing base rates for the pass-back of EADIT to customers in the 2019 Rate Case, the Company also passed back to customers EADIT credits relating to the "catch up period". Were these credits based on actual amounts or estimated amounts?

A. Both. The amortization schedule for EADIT presented in the 2019 Rate Case shows the EADIT amortization amounts for the years 2018 through 2021 for the components of both the protected and unprotected related assets. Since EADIT for the unprotected related assets is being returned to customers over 15 years as per the Stipulation, the amortization amounts were based on actual amounts and will not change. The EADIT amortization amounts calculated using ARAM, however, were based on actual amounts for 2018 and estimated amounts for 2019 through 2021. Estimated values for ARAM only become known when the Company files its tax return for the relevant years.

50. Q. Did the Company calculate a true-up for the estimated amount of EADIT passed back to customers in the 2019 Rate Case?

A. Yes. Workpaper Schedule 15-21 presents the proposed amortization schedule for EADIT for the years 2018 through 2023 using ARAM for protected related assets and a 15-year period for unprotected related assets. Actual amounts are shown for the year 2018 through 2020 while estimated amounts are shown for the years 2021through 2023. The Company calculated a true-up on that workpaper using actual ARAM amounts for 2019 and 2020 versus estimates used in the 2019 Rate Case. The true-up was calculated for the "catch up period" amounts as well as the amount in base rates. The true-up also accounts for the actual amounts of credits passed to customers versus the agreed upon amount of $32,500,000. The workpaper shows that the calculated credits in the 2019 Rate Case for both the "catch up period" and base rates versus the actual amounts calculated in this filing amounts to $233,794, meaning customers were passed credits more than the actual amounts. In addition, the amount of EADIT passed back to customers was $233,774 over the agreed amount of $32,500,000. These two values completely offset each other, requiring no adjustment.

New Acquisitions

51. Q. Are there any new acquisitions proposed in this Petition?

A. Yes, the acquisition of Egg Harbor City's water and wastewater systems as well as the wastewater system of the Borough of Bound Brook have been included in this filing.

52. Q. Please explain the proforma adjustments associated with the two proposed acquisitions.

A. The Company added the value of the systems acquired through the Egg Harbor City and Bound Brook acquisitions to rate base. For Bound Brook, the net plant value of $4.5 million for the wastewater system[4] was included in rate base. The Company also included in rate base the purchase price amount of $21.8 million for Egg Harbor City's water and wastewater systems. The rate base value is based on the

[4] The net plant value of $4.5 million is based on the addition of $6.8 million to UPIS less $2.3 million in accumulated depreciation.

value of the water and wastewater systems as determined under the provisions of the Water Infrastructure Protection Act, N.J.S.A. 58:30-1 et seq, *et seq.* ("WIPA"), which is currently being evaluated in conjunction with BPU Docket No. WM21091150. The value included in rate base will be adjusted based on the outcome of the pending WIPA proceeding if warranted.

53. Q. Has the Company included any acquisitions adjustments in Rate Base in conjunction with these acquisitions?

A. No.

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

A. No, but the Company expects to close on both the acquisitions before new rates go into effect.

CONCLUSION

55. Q. Does this conclude your Direct Testimony?

A. Yes, it does.

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Appendix A

Q. Please describe your educational background and business experience.

A. Currently I hold the position of Sr. Director of Rates and Regulation for American Water's Eastern Division which includes New Jersey, Virginia and Maryland. I was promoted to this position in November of 2017. In July of 2014, I joined West Virginia American Water Company as Sr. Manager of Rates and Regulatory Affairs. At West Virginia American, I was responsible for all of the Regulatory Flings including a Rate Case Filing in 2015 and the Companies first DSIC application in 2016. From 2008 to 2014, I was President and Owner of John S. Tomac Consulting LLC, based in North Carolina. The firm provided Management, Financial and Rate Case Services for water utilities throughout the United States. Between 1997 and 2008, I served as President and Chief Financial Officer of Birmingham Utilities Inc., an investor-owned public water utility serving 18 municipalities throughout Connecticut. I was responsible for all the operations and financial aspects of the Company whereby I directed Company growth that increased market capitalization of over four hundred percent, leading to the sale of the Company in 2008. Prior to becoming President of Birmingham Utilities, I was employed for almost 20 years by Aquarion Water Company of Connecticut, the largest investor owned water utility in New England, where I served as Assistant Controller. In that capacity, I was responsible for the regulatory affairs and budgeting activities of the utility's subsidiaries. I was also responsible for the filing of all rate applications, providing testimony on all financial matters of the Company and testifying as an expert witness on those matters. I was also responsible for filing of all SEC and regulatory reports as well as managing all aspects of the accounting department. I previously held a professional membership in the National Association of Water

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Appendix A

Companies (NAWC). I served as a Board Member, Chairman of the Rates and Revenue Committee, Chairman of the New England Chapter and Vice Chairman of the Small Water Committee. I also served as President of the Connecticut Water Works Association and I am currently a member of the American Water Works Association. I am also a faculty member of the National Association of Regulatory Utility Commissioners (NARUC) Rate School. I hold an MBA in Finance from the University of New Haven and a BS degree in Accounting from Central Connecticut State University.