



Agenda Date: 3/19/08
Agenda Item: 1B

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.nj.gov/bpu/

AUDITS

IN THE MATTER OF THE COMPREHENSIVE)
MANAGEMENT AUDIT OF UNITED WATER NEW)
JERSEY AND UNITED WATER TOMS RIVER)

ORDER

DOCKET NO. WA05060550

(SERVICE LIST ATTACHED)

BY THE BOARD:

At its regular meeting of December 19, 2007, the New Jersey Board of Public Utilities ("Board") accepted the final audit report of consultant PMC Management Consultants, Inc. ("PMC") in the comprehensive management audit of United Water New Jersey ("UWNJ") and United Water Toms River ("UWTR") (collectively, "the Company") and released the report ("Final Audit Report") to the public and appropriate parties for comment. The Board now orders the implementation of all 37 audit recommendations set forth in the final audit report, directing United Water New Jersey and its affiliate, United Water Toms River, to jointly implement the recommendations, as formulated, compiled, and put forward by PMC.

Background/Procedural History:

UWNJ has not had a comprehensive management audit since 1996, nor since its acquisition in 2000 by Suez, a foreign corporation based in Paris. UWTR, a much smaller utility, was included in the audit because of a formal petition by the Township of Dover, Ocean County (since renamed the Township of Toms River), wherein that Township (the seventh largest municipality in New Jersey) urged the Board to revoke UWTR's franchise to provide potable water service to Toms River because of its alleged ongoing failure to provide safe, adequate, and proper utility service (Docket Number WE06030148).

The management audit of UWNJ began on November 1, 2006, with the work proceeding over a period of six months, resulting in a draft final audit report, as submitted by PMC on April 30, 2007. After the exchange of written comments among the Company, the Department of the Public Advocate's Division of Rate Counsel ("RC"), Board staff, and PMC, and an exit conference of all those parties, PMC submitted its final audit report on October 28, 2007.

Immediately following the Board's action of December 19, the Final Audit Report was placed upon the Board's World Wide Web site for public comment by January 11, 2008. Only the Department of the Public Advocate's Division of Rate Counsel ("RC") filed comments. RC's comments, which are dated January 11, 2008, incorporated comments submitted by the RC on November 9, 2007 and July 13, 2007. The Company, which had previously responded to RC's comments of November 13, 2007 and July 13, 2007, waived any further comment.

Positions of the Parties:

In its comments, RC concurred with many of the conclusions of the Final Audit Report and raised additional areas of concern. RC referenced the settlement of UWNJ's base rate petition, where the Company agreed to address the level of non-revenue water at UWNJ. RC noted that the settlement addresses its concerns on this issue, but indicated it would continue to monitor the level of non-revenue water. RC also commented that the Company should adopt a "life cycle approach" to asset management and noted that it and the Final Audit Report address the issue of main replacement and non-revenue water. Rate Counsel suggested other possible factors for UWNJ's level of non-revenue water such as meter inaccuracies and poor estimates of unmetered service. To illustrate its concerns on asset management, RC addressed ongoing construction projects reviewed by PMC: the Haworth Water Treatment Plant Upgrade Project, the Hillsdale Booster Station, the Apple Ridge Road Main Replacement Project and projects intended to phase-out the Berkeley Radionuclide Treatment. On the issue of valve maintenance at UWTR, RC concluded that the rapid increase in valve maintenance costs over a short period of time is indicative of inadequate past funding. On the issue of capacity planning, RC agrees that a proper approach is to include capacity planning in the Company's master plans, but is concerned that the Company does not have in place a complete assessment of its source needs and inadequacies. RC raised customer service issues in its Initial Comments, but acknowledged that those issues were satisfactorily addressed by the additional information provided in the Company's Reply Comments. RC also expressed appreciation for its recurrent inclusion in the entire audit process, as it unfolded and proceeded to an orderly conclusion. RC's comments were given careful consideration by both the Company and Staff.

In response to RC's concerns, the Company responded that the Management Audit Process recognizes that the operation of a regulated public utility involves a delicate balance between costs and benefits, which takes place in the context of sometimes complex external events and fact situations. The Company noted that the audit report made favorable findings regarding asset management generally and that the factual basis for RC's comments were not clear. The Company commented that RC's concerns on issues such as capacity planning were expressed without the benefit of the extensive audit work conducted by PMC. The Company noted that it has an extensive control program and that the amount of lost water is lower than it would other be without the Company's substantial efforts. The Company explained that UWNJ has adequate safe yield and allocations to meets its short term projected system demand and long term needs will be addressed by additional allocations from the Wanaque South Project and if needed from Dundee Dam. The Company noted that UWNJ has never exceeded its safe yield or allocation permits. Regarding capacity planning for UWTR, the Company noted that issues concerning water supply and quality are one of the primary reasons for including UWTR in the audit, that the issues are complex and involve system design, customer input, DEP permitting and changing conditions and are under constant study by the Company.

It should also be noted that PMC's reaction to RC's comments, when first filed following RC's preliminary review of the draft final report, was that nothing expressed by RC gave the former any cause to modify its independent report, as presented in its original draft form.

Audit Recommendations:

There are 37 recommendations for improvement in the management and operations of both UWNJ and UWTR, and neither utility, nor Staff, takes any exception to any recommendation as it appears in the audit report document. Indeed, both UWNJ and UWTR have advised staff that they have already implemented several recommendations. RC's comments, similarly, do not

specifically call any of the recommendations into question. RC's comments on "life cycle approach" to asset management are more appropriately raised in the context of a rate case, and Staff notes that in the UWNJ settlement noted above, UWNJ agreed to complete a long term planning study before October 1, 2008.

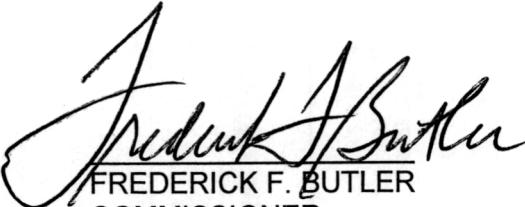
Findings:

Upon careful review of the final audit report and the comments received, the Board HEREBY ORDERS both UWNJ and UWTR to implement all 37 recommendations in PMC's final audit report. Specifically, the Board HEREBY DIRECTS the staff of the Division of Audits, along with UWNJ's and UWTR's assistance, to formulate detailed implementation plans for all 37 recommendations within 90 days from the date of this Order. The two utilities shall implement all recommendations as soon as possible and not later than two years from the date of this Order. Furthermore, the Board HEREBY DIRECTS both UWNJ and UWTR to file quarterly reports to the Division of Audits, by the fifteenth day of the month following the conclusion of each calendar quarter, regarding the status of all recommendations. The Division of Audits shall monitor, evaluate, and modify, as necessary, the implementation of the recommendations.

The recommendations of the management audit report shall not be dispositive of issues raised in any other proceeding before this Board.

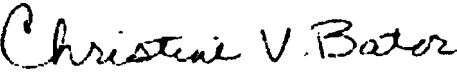
DATED: 3/19/08

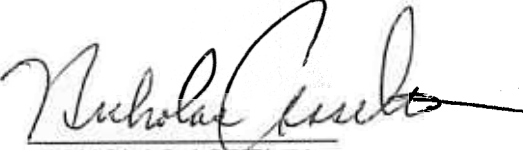
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KRISTI IZZO
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I HEREBY CERTIFY that the within
document is a true copy of the original
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