



Agenda Date: 11/16/15  
Agenda Item: 5E

**STATE OF NEW JERSEY**  
**Board of Public Utilities**  
44 South Clinton Avenue, 9<sup>th</sup> Floor  
Post Office Box 350  
Trenton, New Jersey 08625-0350  
[www.nj.gov/bpu/](http://www.nj.gov/bpu/)

WATER

IN THE MATTER OF THE PETITION OF NEW )  
JERSEY-AMERICAN WATER COMPANY, INC. FOR )  
REVIEW AND RE-APPROVAL OF A SERVICE )  
AGREEMENT WITH AMERICAN WATER WORKS )  
SERVICE COMPANY, AN AFFILIATE OF PETITIONER )      ORDER OF APPROVAL  
  
DOCKET NO. WO13050374

**Parties of Record:**

**Robert Brabston, Esq, Corporate Counsel**, New Jersey-American Water Company  
**Stefanie A. Brand, Esq., Director**, New Jersey Division of Rate Counsel

**BY THE BOARD:**<sup>1</sup>

On May 2, 2013, New Jersey-American Water Company (“NJAW”, “Petitioner”, “Company”), a public utility of the State of New Jersey having its principal offices at 1025 Laurel Oak Road, Voorhees, New Jersey filed a petition with the New Jersey Board of Public Utilities (“Board”) pursuant to N.J.S.A. 48:3-7.1 for approval of its continuing participation in its Service Agreement with American Water Works Service Company, Inc. (“Service Company”). NJAW states in its petition that the Service Agreement was approved by the Board in I/M/O New Jersey-American Water Company for Approval of a Modified Service Agreement with American Water Works Service Company, an Affiliate of Petitioner, (Docket No. WE89030322. (August 21, 1989). The Petitioner further states that it agreed to have the Board review the Service Agreement in I/MO the Petition of New Jersey-American Water Company, Inc. for Approval of Increased Tariff Rates and Charges for Water and Sewer Service; Change in Depreciation Rates and Other Tariff Modifications, Docket No. WR11070460. (May 1, 2012).

NJAW is engaged in the production, treatment and distribution of water and the collection and treatment of wastewater and serves approximately 613,000 metered water customers and approximately 35,500 wastewater customers in all or part of 188 municipalities in portions of the following counties within the State of New Jersey: Atlantic, Bergen, Burlington, Camden, Cape May, Essex, Gloucester, Hunterdon, Middlesex, Mercer, Monmouth, Morris, Ocean, Passaic, Salem, Somerset, Union and Warren.

<sup>1</sup> Commissioner Upendra J. Chivukula recused himself due to a potential conflict of interest and as such took no part in the discussion or deliberation of this matter.

According to the petition both the Service Company and NJAW are wholly-owned subsidiaries of American Water Works Company, Inc. ("American"), a Delaware corporation with offices at 1025 Laurel Oak Road, Voorhees, New Jersey. The petition further states that American owns 16 utility subsidiaries as well as various non-utility subsidiary companies that together provide water, wastewater and other water resource management services to approximately fourteen million people in the United States and Canada.

The Petitioner states that:

1. The Service Company has provided administrative and operating services to NJAW and its predecessor companies pursuant to a Service Agreement dated January 1, 1971 and approved by the Board in I/M/O the Application of the Bernards Water Company, Commonwealth Water Company, Gravity Water Supply Company, New Jersey Water Service Company, Monmouth Consolidated Water Company, and New Jersey Water Company for Approval of Modified Service Contracts with American Water Works Service Company, Inc., Docket No. 7012-701. (January 15, 1971).
2. The Service Agreement was modified on January 1, 1989 and approved by the Board in I/M/O the Petition of New Jersey-American Water Company for Approval of a Modified Service Contract with American Water Works Service Company, an Affiliate of Petitioner, Docket No. WE89030322. (August 21, 1989).
3. In 2003, the then-affiliated Elizabethtown Water Company ("Elizabethtown") and Mount Holly Water Company ("Mount Holly") entered into an identical agreement with the Service Company in I/M/O Elizabethtown Water Company and the Mount Holly Water Company for Approval of a Service Agreement with American Water Works Service Company, Inc., Docket No. WO03050359 (11/17/2003).<sup>2</sup>
4. The Service Agreement has thus essentially been presented to the Board, and approved, on three separate occasions in approximately 40 years.
5. The Service Company will continue to provide the services described in the Service Agreement at a lower cost and on a more efficient basis than NJAW could obtain said services on a standalone basis.

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<sup>2</sup> Elizabethtown and Mount Holly were not affiliated with the Service Company. The Board approved the merger of NJAW and the parent company of Elizabethtown and Mount Holly in I/M/O the Joint Petition of New Jersey-American Water Company, Inc. and Thames Water Aqua Holdings GmbH for Approval of a Change in Control of New Jersey-American Water Company, Inc., Docket No. WM01120883. (11/26/02). The Mount Holly Water Company subsequently merged with and into Elizabethtown Water Company, which in turn merged with and into New Jersey-American Water Company in I/M/O the Joint Petition of New Jersey-American Water Company, Inc., Elizabethtown Water Company, Inc., and the Mount Holly Water Company, Inc. for Approval of the Merger of Elizabethtown Water Company and the Mount Holly Water Company into New Jersey-American Water Company and for Related Authorizations, Docket No. WM06030253. (November 15, 2006).

6. The nature of NJAW's operations have not materially changed since the January 1, 1989 effective date of the Service Agreement approved by the Board in I/M/O the Petition of New Jersey-American Water Company for Approval of a Modified Service Contract with American Water Works Service Company, an Affiliate of Petitioner, Docket No. WE89030322. (August 21, 1989). The services provided by the Service Company to NJAW still fall within the categories set forth in the Service Agreement. The Service Agreement so approved and presented here for review is virtually identical in all substantive respects to the agreement that the Service Company has with all other regulated subsidiaries of American and this form of agreement has been uniformly approved in all states with jurisdiction. Therefore, there has been no change in the Service Agreement between NJAW and the Service Company.

By letter dated July 25, 2014, the Division of Rate Counsel ("Rate Counsel") submitted its comments concerning the petition. Rate Counsel stated that it has devoted increased attention to the Service Company in recent years because the charges that the Service Company has billed to NJAW have increased from approximately \$37,000,000.00 in 2009 to almost \$62,000,000.00 in 2012. While a majority of this increase is attributable to the New Business Transformation platform, the increase is still very significant for the ratepayers who have to pay these charges. Rate Counsel went on to say that following discussions with the Company and a review of the discovery, it was satisfied that: (a) the Company has begun making improvements to the areas that are of greatest concern to Rate Counsel; (b) NJAW appears to be responding to Rate Counsel's concern that its percentage of allocated charges has been too high; and (c) the Company is moving in the direction of increasing its percentage of direct charges. By increasing the percentage of direct charges, the Company has taken steps towards greater transparency in Service Company charges.

Rate Counsel stated that it would not object to the re-adoption of the Service Agreement if the Board adopted the following recommendations:

1. Petitioner be directed to increase the percentage of fees that it pays to the Service Company to at least fifty percent (overhead included) by the end of 2016 because the Company must continue its focus on increasing direct charges to ensure that NJAW ratepayers are paying only for those services that are benefiting New Jersey and not now subsidizing operations in other states or unregulated affiliates.
2. Approval of the petition should not include authorization to include in rates any expenses or capital items associated with the Service Agreement because such issues are properly reserved for base rate cases.
3. The Board's approval be limited only to the re-approval of the Service Agreement.

By letter dated August 24, 2015, the Petitioner responded to Rate Counsel's comments and requested that the Service Agreement be reapproved without the direct charge condition recommended by Rate Counsel. The Company stated that:

1. Rate Counsel did not offer any cost based justification for its recommendation; nor did Rate Counsel examine whether or not such a condition would create additional costs to comply or otherwise impede the efficiency to which services are provided to NJAW's customers.

2. Contrary to Rate Counsel's assertions, Rate Counsel and the Board have routinely reviewed the services provided by the Service Company to NJAW.
3. The Service Agreement has been scrutinized in at least two Board Ordered Management Audits.
4. The Service Company provides its services to NJAW and its affiliates at cost.
5. The Service Company endeavors to provide its services in the most efficient and cost effective fashion.

With regard to the requirement that Petitioner be required to increase the percentage of fees, the Board is not convinced that this additional requirement is necessary at this time. To the extent a question or issue arises regarding the charges allocated to NJAW, Rate Counsel and any other party will have the opportunity to examine any charges in the context of future rate proceeding.

The Board, after investigation, **HEREBY FINDS** that Service Agreements have been executed between Petitioner or its predecessor companies and the Service Company since 1971. The Board **ALSO FINDS** that the Service Company has provided administrative and operating services to NJAW and its predecessor companies pursuant to the terms of the Service Agreement. The Board, after review of the matter and the positions of both New Jersey-American Water Company, Inc. and Rate Counsel, **HEREBY APPROVES** the Petitioner's request to re-approve the Service Agreement subject to the following additional conditions:

1. This Order shall not be construed as directly or indirectly fixing for any purposes whatsoever the value of any tangible or intangible assets not owned or hereafter to be owned by Petitioner.
2. This Order shall not affect nor in any way limit the exercise of the authority of this Board or of this State in any future petition or in any proceedings with respect to rates, franchises, service, financing, accounting, capitalization, depreciation, or in any other matters affecting New Jersey-American Water Company.
3. The Service Agreement with American Water Works Service Company, Inc. shall not be assigned to any party without prior approval of this Board.
4. American Water Works Service Company, Inc. shall maintain its books and records at its offices at 1025 Laurel Oak Road, Voorhees, New Jersey 08043 and shall make available its books and records for inspection by this Board, upon request of this Board, furnish any and all information with respect to the management services rendered by American Water Works Service Company, Inc. and the details and cost thereof.
5. The cost and expense of any examination of the books and records related to the Service Agreement by Board Staff or other duly appointed representative of the Board shall be borne by American Water Works Service Company, Inc.
6. The Petitioner shall obtain Board approval prior to the termination, renewal or amendment of the Service Agreement.

This Order shall be effective on November 26, 2015.

DATED: 11-10-15

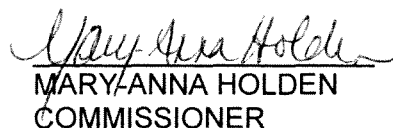
BOARD OF PUBLIC UTILITIES  
BY:



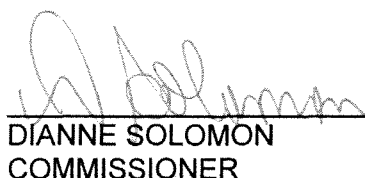
RICHARD S. MROZ  
PRESIDENT



JOSEPH L. FIORDALISO  
COMMISSIONER



MARY-ANNA HOLDEN  
COMMISSIONER

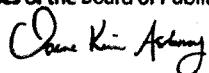


DIANNE SOLOMON  
COMMISSIONER

ATTEST: 

IRENE KIM ASBURY  
SECRETARY

I HEREBY CERTIFY that the within  
document is a true copy of the original  
in the files of the Board of Public Utilities



I/M/O THE PETITION OF NEW JERSEY-AMERICAN WATER COMPANY, INC. FOR REVIEW  
AND RE-APPROVAL OF A SERVICE AGREEMENT WITH AMERICAN WATER WORKS  
SERVICE COMPANY, AN AFFILIATE OF PETITIONER  
DOCKET NO. WO13050374

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