



MOVING WATER FORWARD

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April 4, 2011

Hon. Kristi Izzo  
Secretary of the Board  
NJ Board of Public Utilities  
Two Gateway Center, Suite 801  
Newark, New Jersey 07102

**Re: I/M/O the Possible Implementation of a Distribution System Improvement Charge (DSIC) for Water and Wastewater Utilities  
BPU Docket No. WO10090655**

Dear Secretary Izzo:

On behalf of the National Association of Water Companies-New Jersey Chapter, please find attached an original and ten (10) copies of our supplemental comments in the DSIC proceeding. Our comments are also being filed via email.

Thank you for the opportunity to provide additional comments and participate in the process. We would be happy to provide any additional information that the Board of Public Utilities would find helpful to the process and are available to assist the Board in developing any rule proposal that results from this process.

Also enclosed is an additional copy of the comments. Please file stamp the additional copy and return to us in the self-addressed, postage prepaid envelope provided.

Sincerely,

Michael A. Sgro  
Chairman, NAWC-NJ Chapter

MAS:kac  
Enclosures

**STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES**

<b>THE POSSIBLE IMPLEMENTATION OF A</b>	<b>:</b>	
<b>DISTRIBUTION SYSTEM IMPROVEMENT</b>	<b>:</b>	<b>DOCKET NO. WO10090655</b>
<b>CHARGE (DSIC) FOR WATER AND</b>	<b>:</b>	
<b>WASTEWATER UTILITIES</b>	<b>:</b>	

**ADDITIONAL COMMENTS OF THE NATIONAL ASSOCIATION  
OF WATER COMPANIES-NEW JERSEY CHAPTER**

The New Jersey Chapter of the National Association of Water Companies (NAWC-NJ) would like to thank the Board for its continuing examination of the potential implementation of a DSIC in New Jersey. The three formal stakeholder sessions that have taken place have provided ample opportunity for interested parties to voice their views on the subject.

The need for a DSIC in New Jersey has been clearly demonstrated in the record by numerous commenters and witnesses. Much of the New Jersey's underground water infrastructure is near or beyond its useful life - and a mechanism to allow acceleration of water infrastructure projects in New Jersey is critical to address the need.

As demonstrated by the attached chart, the water industry is by far the most capital intensive of all utilities, investing on average \$3.48 in utility plant in service for each \$1 in revenue they receive. The NAWC-NJ companies have consistently met their obligation to invest in order to provide safe, adequate and proper service. However, given the magnitude of the investment facing the industry, there is a need to accelerate investment to avoid any future service impact. A DSIC should be structured to provide an incentive for that increased need. The inevitable outcomes of a failure to adequately address this problem now include increased service disruptions, more frequently and costly repairs and inadequate water infrastructure to support the well-being of New Jerseyans and the economic development in the many towns and communities our member companies serve across the state.

The significant customer benefits from a DSIC have also been clearly demonstrated in the record. A DSIC, over time, will assure the long-term sustainability of water delivery systems in the state, improve water quality and enhance fire flow and pressure. Resource conservation would improve through reduced leakage that over time would increase the availability of source water. Customers would see additional benefits from reduced costs over time as planned work is increased and emergency work is reduced. Customers would also see reduced main breaks

and associated disruption. Communities would be able to continue to rely on viable water distribution systems that support economic development across the state. NAWC-NJ also believes that any DSIC include transparency and customer safeguards that would include an earnings test, the ability for the BPU to audit the program, and filings that would allow for advance review and approval of projects by BPU Staff and Rate Counsel.

We continue to believe that a traditional water DSIC – like the one that has been operating successfully in Pennsylvania for many years – would be the most effective way to address the significant water infrastructure issues in New Jersey as it would provide effective incentives for water companies accelerate the number of infrastructure projects completed. Steve Klick, Executive Policy Manager to Pennsylvania Public Utility Commission President Robert Powelson testified to the significant positive impact that the DSIC program has had in Pennsylvania since it was first implemented in 1997. As can be seen from the attached charts from Mr. Klick's presentation, the miles of main replaced for Aqua Pennsylvania and Pennsylvania American dramatically increased since DSIC was implemented. Ryan Connors Director – Water Wastewater for the investment firm Janney Montgomery Scott ("Janney") testified that Janney recommends investment in water companies that earn competitive returns on equity capital or where regulation is improving - and advises clients to steer capital away from companies where the regulatory environment precludes them from earning competitive returns on equity.

The NAWC recognizes that there may be unique needs in New Jersey that might distinguish it from other states; and that a water infrastructure program here may not be identical to those in other states. The NAWC is willing to consider modifications that do not alter the fundamental purpose of a DSIC—to provide a real and effective incentive for more water infrastructure projects to be completed more quickly. As can be seen from the attached chart, the NAWC-NJ companies have earned well below their authorized return. We firmly believe that a DSIC program requiring incremental investment for which a company would earn less of a return on investments than it would have received without accelerating investment is clearly a disincentive, not an incentive. Additionally, a rate of return based on a company's long term debt rate would not be workable as it would not encourage the investment needed to address what is a clearly demonstrated need, and therefore does not meet the basic definition of a DSIC.

The record also clearly shows the potential customer bill impact based on a traditional DSIC. The average residential customer would see a modest increase of approximately 10 cents month over month up to approximately \$2.50 in the last month if you assume a 24-month period before the DSIC rate is reset and a 5% cap. We have received some feedback from certain large volume customers – large commercial and industrial customers - that they are concerned they will bear a disproportionate impact through implementation of a DSIC. We agree that they should not be disproportionately impacted and would be agreeable to having the DSIC charge based on a customer's meter size to address that concern. We believe that charging based on meter size is an equitable method of implementing the DSIC that should significantly alleviate any disproportionate impact on large volume users.

Finally, the member companies of NAWC-NJ are eager to work with the Board in developing a DSIC program that can achieve critical investment in water infrastructure now so as to avoid more expensive and disruptive emergency investment when problems arise in the future. New Jersey has an opportunity to make a modest investment in the near term to ensure continued delivery of high quality water in the future. We encourage the Board to seize this opportunity.

Respectfully submitted,

NATIONAL ASSOCIATION OF WATER  
COMPANIES-NEW JERSEY CHAPTER

By: 

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