



## State of New Jersey

DEPARTMENT OF THE PUBLIC ADVOCATE

DIVISION OF RATE COUNSEL

31 CLINTON STREET, 11<sup>TH</sup> FL

P. O. BOX 46005

NEWARK, NEW JERSEY 07101

JON S. CORZINE  
*Governor*

RONALD K. CHEN  
*Public Advocate*

STEFANIE A. BRAND  
*Director*

**REMARKS OF STEFANIE A. BRAND,  
DIRECTOR  
DIVISION OF RATE COUNSEL  
PRESENTED BY PAUL FLANAGAN, ESQ.  
DEPUTY PUBLIC ADVOCATE**

**In The Matter of the Petition of New Jersey American Water Company For  
Authorization To Implement A Distribution System Improvement Charge**

**("DSIC")**

**BPU Docket No. WO08050358**

**Public Hearing  
Maplewood Library  
51 Baker Street  
Maplewood, NJ 07040  
January 6, 2009 at 2:00 p.m.**

Good afternoon, my name is Paul Flanagan. I am an attorney representing the New Jersey Division of Rate Counsel. The Division of Rate Counsel ("Rate Counsel") was created by the New Jersey Legislature to protect the interests of all utility consumers and to represent ratepayers in cases such as this where a utility seeks changes in their rates or services.

In order to effectively represent the public in utility rate cases, our office uses a team of lawyers, accountants, and economists to analyze requests for rate and service changes filed by companies who provide energy, water, wastewater,

and telecommunications services in New Jersey.

On May 23, 2008, New Jersey American Water Company (“NJAWC” or “the Company”) filed a Petition with the New Jersey Board of Public Utilities (“Board” or “BPU”) seeking approval of a Distribution System Improvement Charge (DSIC). The DSIC as currently proposed will result in self implementing, provisional rate adjustments each calendar quarter to customer bills to recover the cost for water and sewer system improvements. Compliance Filings will be made within sixty days of the close of each calendar quarter and at the close of each calendar year, NJAWC proposes to file a base rate Petition to make the provisional quarterly rates permanent. At the conclusion of the base rate filings, the DSIC rate will be reset to zero. The Company proposes to apply the DSIC as a percentage of each customer’s bill and that percentage will not exceed 7.5% of the Company’s gross revenues from the prior year, exclusive of DSIC charges.

The Company claims that the intent of the DSIC mechanism is to recover the cost of projects that are not revenue producing and projects that will reduce expenses. Some water utility plant projects, the Company is proposing eligible for inclusion in the DSIC surcharge calculations include: replacement water mains, replacement valves, replacement meters, replacement of hydrants and infrastructure security projects. In addition, the Company also proposes to include the following items of sewer utility plant in the DSIC surcharge calculations: new mains to address health and safety concerns, the cleaning and relining of existing mains, the relocation of existing facilities without limitation and the replacement of manholes.

We, at the Division of Rate Counsel, are conducting a comprehensive examination of NJAWC’s DSIC proposal. For example, we have issued questions to the Company, seeking to discover detailed information regarding the underlying

mechanics of the DSIC and its impact, if approved on ratepayers. Rate Counsel has attorneys and expert witnesses analyzing data from the Company to evaluate:

- (1) Whether a DSIC mechanism should be approved;
- (2) The legal sufficiency and the reasonableness of a DSIC mechanism;
- (3) The type of physical improvements that may be eligible for inclusion in a DSIC surcharge calculations;
- (4) The proper methodology for computing the DSIC surcharge rate; and
- (5) The appropriate timing of the DSIC implementation (quarterly, semi-annually, annually, etc.).

Presently, evidentiary hearings are scheduled to be held at the Board of Public Utilities on March 2, 3, 4, 5 and 6, 2009, before Commissioner Frederick F. Butler, at the evidentiary hearings we will cross-examine any witnesses that the Company might present, and submit expert testimony in support of our own recommendations. However, it is important that you are aware that the Board of Public Utilities makes the ultimate decision regarding all rate modifications in New Jersey.

The purpose of this open public hearing is for you, the customer, to voice your opinion, relate your experiences with the Company, and offer comments about the Company's DSIC proposal and any service problems you may be experiencing. It is important that you express your views, because they will

become part of the record on which the Board of Public Utilities makes its decisions. Rate Counsel also needs to hear your views in order to represent your interests in this legal process. We strongly encourage your participation, which will help us evaluate the Company's proposal and prepare for the evidentiary hearings.

This public hearing is being transcribed and your comments will become part of the record. The Commissioner will instruct you to give your name and address before you speak. I would like to reiterate the importance of your participation so that Rate Counsel can have a clear record of your concerns and interests.

On behalf of the Division of Rate Counsel, I thank you for attending this public hearing.