STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE JACOB S. GERTSMAN

IN THE MATTER OF THE PETITION	)	
OF NEW JERSEY-AMERICAN WATER	)	
COMPANY, INC. FOR APPROVAL OF	)	
INCREASED TARIFF RATES AND	)	BPU DOCKET No. WR17090985
CHARGES FOR WATER AND	)	OAL DOCKET No. PUC 14251-2017S
WASTEWATER SERVICE; CHANGE	)	
IN DEPREICATION RATES AND	)	
OTHER TARIFF MODFICATIONS	)	

DIRECT TESTIMONY OF DAVID PETERSON
ON BEHALF OF THE DIVISION OF RATE COUNSEL

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TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is David E. Peterson. I am a Senior Consultant employed by Chesapeake Regulatory Consultants, Inc. ("CRC"). Our business address is 1698 Saefern Way, Annapolis, Maryland 21401-6529. I maintain an office in Dunkirk, Maryland.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE IN THE PUBLIC UTILITY FIELD?

A. I graduated with a Bachelor of Science degree in Economics from South Dakota State University in May of 1977. In 1983, I received a Master's degree in Business Administration from the University of South Dakota. My graduate program included accounting and public utility courses at the University of Maryland.

In September 1977, I joined the Staff of the Fixed Utilities Division of the South Dakota Public Utilities Commission as a rate analyst. My responsibilities at the South Dakota Commission included analyzing and testifying on ratemaking matters arising in rate proceedings involving electric, gas and telephone utilities.

Since leaving the South Dakota Commission in 1980, I have continued performing cost of service and revenue requirement analyses as a consultant. In December 1980, I joined the public utility consulting firm of Hess & Lim, Inc. I remained with that firm until August 1991, when I joined CRC. Over the years, I have analyzed filings by electric, natural gas, propane, telephone, water, wastewater, and steam utilities in connection with utility rate and certificate proceedings before federal and state regulatory commissions. A copy of my curriculum vitae is provided in Appendix A attached to my testimony.

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN PUBLIC UTILITY RATE PROCEEDINGS?

A. Yes. I have presented testimony in 163 other proceedings before the state regulatory commissions in Alabama, Arkansas, California, Colorado, Connecticut, Delaware, Indiana, Kansas, Maine, Maryland, Montana, Nevada, New Jersey, New Mexico, New York, Pennsylvania, South Dakota, West Virginia, and Wyoming, and before the Federal Energy Regulatory Commission. Collectively, my testimonies have addressed the following topics: the appropriate test year, rate base, revenues, expenses, depreciation, taxes, capital structure, capital costs, rate of return, cost allocation, rate design, life-cycle analyses, affiliate transactions, mergers, acquisitions, and cost-tracking procedures.

In addition, I testified twice before the Energy Subcommittee of the Delaware House of Representatives on the issues of consolidated tax savings and tax normalization. Also, I have presented seminars on public utility regulation, revenues requirements, cost allocation, rate design, consolidated tax savings, income tax normalization and other ratemaking issues to the Delaware Public Service Commission, to the Commissioners and Staff of the Washington Utilities and Transportation Commission, and to the Colorado Office of Consumer Counsel.

II. SUMMARY

Q. HAVE YOU TESTIFIED IN OTHER PROCEEDINGS BEFORE THE NEW JERSEY BOARD OF PUBLIC UTILITIES ("BOARD")?

A. Yes, I have. I have submitted testimony in the following proceedings before the Board:

Utility	Docket No.
South Jersey Gas Company	GR8704329
	GR03050413
	GR03080683
	GR10010035
New Jersey-American Water Company	WR88070639
	WR91081399J
	WR92090906J
	WR94030059
	WR95040165
	WR98010015
	WR03070511
	WR06030257
ACE/Delmarva Merger	EM97020103
ACE/Conectiv-Pepco Merger	EM01050308
Atlantic City Electric Company	ER03020110
	ER11080469
	EM14060581
	ER17030308
FirstEnergy/GPU Merger (JCP&L)	EM00110870
Jersey Central Power & Light	ER02080506
	ER05121018
	ER12111052
	EM14060581
	EM15060733
	ER12111052

	EM15060733
Rockland Electric Company	ER02100724
	ER06060483
	ER09080668
Public Service Electric and Gas	EM00040253
	GR09050422
	GO12030188
Exelon/PSE&G Merger	EM05020106
Exelon/Pepco Holdings Merger	EM14060581
Elizabethtown Gas Company	GR02040245
	GR09030195
The Southern Company/AGL Resources	GM15101196
United Water New Jersey, Inc.	WR07020135
United Water Toms River	WR15020269
New Jersey Natural Gas Company	GR07110889

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. My appearance in this proceeding is on behalf of the Division of Rate Counsel ("Rate Counsel").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I was asked by Rate Counsel to review and to analyze the Petition, testimonies and exhibits filed by New Jersey-American Water Company Inc. ("NJAWC" or "the Company") relating to the cash working capital and consolidated tax savings issues. The purpose of my testimony is to present the results of my analyses and my recommendations to Your Honor and the New Jersey Board of Public Utilities ("the Board).

Q. ARE YOU FAMILIAR WITH NJAWC'S CASH WORKING CAPITAL AND CONSOLIDATED TAX SAVINGS PROPOSALS IN THIS PROCEEDING?

A. Yes, I am. I have carefully reviewed the Direct Testimony and Exhibits sponsored by NJAWC witness Harold Walker, III relating to the cash working capital issue and that of NJAWC witness David L. Weber, relating to the consolidated tax savings issue. My review also included an evaluation of the Company's responses to data requests of Rate Counsel and the Board Staff relating to the issues that I address in my testimony.

Q. BEFORE DISCUSSING YOUR SPECIFIC FINDINGS AND RECOMMENDATIONS, PLEASE SUMMARIZE NJAWC'S REQUESTS RELATING TO THE ISSUES THAT YOU ADDRESS IN YOUR TESTIMONY.

A. Mr. Walker's testimony presents the results of his cash working capital "lead-lag study," which I will describe in more detail in the next section of my testimony. Mr. Walker's lead-lag study relied on NJAWC's revenue and expense leads and lags for the twelve month period ended March 31, 2017. Ultimately, Mr. Walker proposed a $73.3 million rate base allowance for cash working capital.

Concerning the cost savings that results from NJAWC participating with corporate affiliates in filing a consolidated federal income tax return, the entirety of Mr. Weber's testimony supporting his proposed rate base adjustment is as follows:

> "The Consolidated Federal Income Tax calculation was done in compliance with the methodology adopted by the BPU in Docket No. EO12121772. The calculated consolidated tax adjustment is

> $1,576,494 with a resulting reduction to the Company's rate base of $394,198 after the application of 75%/25% sharing methodology."[1]

Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS ON NJAWC'S CASH WORKING CAPITAL AND CONSOLIDATED TAX SAVINGS PROPOSALS.

A. Following is a brief summary of my findings and recommendations.

- **Cash Working Capital.** The lead/lag analysis prepared by Mr. Walker goes far beyond the measurement of NJAWC's cash working capital requirement. It does so by including non-cash expenses, principally depreciation, amortization and deferred income tax expenses, in his lead/lag study and by assigning improper expense lead days to NJAWC's net income. Correcting these errors reduces Mr. Walker's claimed $73.3 million requirement for cash working capital to just $4.7 million.
- **Consolidated Tax Savings.** Mr. Weber proposed a $394,198 rate base deduction for the tax savings NJAWC receives through its participation in filing a single, consolidated tax return with its corporate affiliates. Under the Board's current policy, however, ratepayers are entitled to a much larger share of the benefit the Company receives through its participation in the consolidated tax filing. Using the Board's "Rockland method," the appropriate rate base deduction for the consolidated tax savings is approximately $168 million. The Board's Rockland method, however, does not recognize that under IRS regulations in effect at the time, tax losses expire within 20 years. In order to remedy this concern, if the

[1] NJAWC Weber PT-8, page 8.

Board were to limit the "look-back" period under the Rockland method to 20 years, as I recommend, the rate base reduction is approximately $165.4 million

The bases for these findings and recommendations are explained in more detail in the following sections of this testimony.

III. CASH WORKING CAPITAL

Q. FOR WHAT PURPOSE SHOULD A CASH WORKING CAPITAL ALLOWANCE BE INCLUDED IN RATE BASE?

A. A cash working capital allowance should be included in rate base to compensate investors for investor-supplied funds, if any, used to provide the day-to-day cash needs of the utility. These cash needs can be measured in a lead/lag study. A lead/lag study measures the time between (1) the provision of service to utility customers and the receipt of revenue for that service by the utility, and (2) the provision of service by the utility and its disbursements to employees and suppliers in payment for the associated costs. The difference between the revenue "lag" and the expense "lead" is expressed in days. The difference, which can be either a net lag or a net lead, multiplied by the average daily cash operating expense, quantifies the cash working capital required for, or available from, utility operations.

In this proceeding, Mr. Walker sponsored a lead/lag study based on accounting and payment information for the twelve month period ended March 31, 2017. Mr. Walker's lead/lag analysis, however, goes far beyond the measurement of NJAWC's cash working capital requirement.

Q. HOW DOES MR. WALKER'S CASH WORKING CAPITAL CALCULATION OVERSTATE NJAWC'S WORKING CAPITAL REQUIREMENT?

A. It does so for two primary reasons, as follows: 1) Mr. Walker's lead/lag analysis improperly includes non-cash expenses; and 2) Mr. Walker's lead/lag analyses assigns incorrect expense lead days to the debt and equity components of NJAWC's revenue requirement.

Q. TURNING TO YOUR FIRST CRITICISM OF MR. WALKER'S LEAD/LAG ANALYSIS, HOW DID MR. WALKER TREAT NJAWC'S NON-CASH EXPENSES IN HIS LEAD/LAG STUDY?

A. Mr. Walker included approximately $228 million of non-cash expenses, including depreciation and amortization expense and deferred tax expense, in his lead/lag analysis and assigned a zero-day expense lead to each these expenses.

Q. WHY IS IT IMPROPER TO INCLUDE NON-CASH EXPENSES IN CASH WORKING CAPITAL?

A. As I stated earlier in my testimony, a rate base allowance for cash working capital is intended to compensate the utility for investor funds used to finance the day-to-day cash operating needs of the utility. Cash flows arising from non-cash expenses do not serve this purpose and, therefore, should not be included in the working cash allowance.

Q. SPECIFICALLY, WHAT IS YOUR OBJECTION TO INCLUDING DEPRECIATION AND AMORTIZATION EXPENSE IN THE LEAD-LAG STUDY?

A. Simply stated, there is no cash transfer involved in the depreciation transaction and, thus, there is no need for a cash working capital allowance for depreciation expense. The cash transaction associated with a plant asset occurred when the asset was first acquired. No additional investor-supplied funds for working capital purposes are required following the initial investment.

Rather, the depreciation expense is an accounting accrual established to provide a systematic means for the utility to recover the cost of a plant asset over its useful service life. The utility, however, does not write out a check at the end of each month for "depreciation expense" to investors. At the same time, ratepayers make cash payments to the utility for the utility's depreciation expense. For that reason, depreciation expense represents a significant source of cash flow for the utility even though it is a non-cash expense as far as NJAWC's cash working capital requirement is concerned. The monthly write-down of plant investment through the depreciation transaction does not create a need for cash working capital. Therefore, it is not appropriate to include depreciation and amortization expenses in a lead/lag cash working capital study.

Q. IS YOUR OBJECTION TO INCLUDING DEFERRED INCOME TAXES IN THE LEAD/LAG STUDY THE SAME AS IT WAS FOR DEPRECIATION AND AMORTIZATION EXPENSE?

A. Yes, but it is even more egregious to include deferred income taxes in a lead/lag study. Just as with the depreciation expense, there is no continuing cash payment required from the Company or from investors for deferred taxes. Because no periodic cash outlay is required, no investment in working capital is required. What makes it even more problematic to include deferred taxes in a lead/lag analysis is that investor-supplied capital was never involved in the Company's deferred tax balance. Deferred taxes have been collected from ratepayers, without being paid to the US Treasury by the utility. It is perverse to conclude that deferred tax expenses create a cash working capital requirement since no investor funds were ever expended for them.

Q. TURNING TO YOUR SECOND CONCERN WITH MR. WALKER'S LEAD/LAG STUDY, IS HIS TREATMENT OF RETURN ON INVESTMENT IN THE STUDY APPROPRIATE?

A. No, it is not. Essentially, Mr. Walker includes NJAWC's debt and equity returns in his lead/lag analysis using a zero-day expense lead. That is, Mr. Walker's treatment is as if stockholders and debt-holders are being compensated on a daily basis. He attempts to justify his proposed treatment of the Company's return with the following statement in his Direct Testimony: "A zero lag has been assigned to utility operating income because it is the property of investors."[2] But, contrary to Mr. Walker's statement, ownership of operating income is not the issue here. In fact, I willingly conceded that the Company (and therefore its investors) own all of the revenues it receives, not just that which becomes operating income after expenses are deducted. The fact that the Company owns all of its revenues, however, is not determinative of how much investor-supplied capital is required to meet the utility's day-to-day operating expenses. For that determination, we need to examine the specific cash flows associated with the utility's transactions. Regarding the Company's stockholders, they receive compensation in two forms: 1) through quarterly dividend payments, if any, and 2) through capital appreciation, if any, upon the sale of the stock. If one were to measure the actual delay in the utility's cash outlay to stockholders, one should refer to the quarterly dividends that are being paid, rather than assuming a zero lag as Mr. Walker has

[2] Direct Testimony of Harold Walker, III, page 11.

done. But, because there is no contractual requirement for NJAWC (or its parent company) to pay stockholders a quarterly dividend, the common equity should not be included in the lead/lag analysis.

Q. HOW DID MR. WALKER TREAT LONG-TERM DEBT INTEREST IN HIS LEAD/LAG ANALYSIS?

A. Mr. Walker treated interest on long-term debt in the same way that he treated the common equity return, i.e., he simply lumped debt interest in with the common equity return and applied a zero-day lag to NJAWC's total net income.

Q. SHOULD LONG-TERM DEBT BE ACCOUNTED FOR IN THIS MANNER?

A. No. Unlike common stock dividends, there are contractual requirements associated with debt interest that obligate NJAWC to make specified payments on certain dates. In this respect, the debt interest portion of NJAWC's return allowance more closely resembles its other cash operating expenses. Therefore, the average payment lead for long-term debt should be separately recognized in the lead/lag calculation. Long-term debt is paid semi-annually, creating a 91.25-day expense lead.

Q. HAVE YOU PREPARED AN EXHIBIT THAT SUMMARIZES THE IMPACT OF YOUR RECOMMENDED ADJUSTMENTS TO MR. WALKER'S LEAD/LAG STUDY?

A. Yes, I have. My Exhibit___(DEP-1) serves this purpose. This schedule shows the cumulative effect of my adjustments to Mr. Walker's claimed cash working capital requirement. My schedule shows that NJAWC's cash working capital requirement for its distribution operations is approximately $4.7 million, rather than the $73.3 million that Mr. Walker claimed in his Direct Testimony. I have asked Mr. Henkes to reflect my $68.6 million adjustment to cash working capital in his rate base determination.

IV. CONSOLIDATED TAX SAVINGS

Q. DOES NJAWC FILE AN INCOME TAX RETURN WITH THE INTERNAL REVENUE SERVICE?

A. No, it does not. NJAWC joins with its affiliates in filing a single, consolidated tax return with the IRS. American Water Works Company, Inc. ("AWWC") files the consolidated return on behalf of itself, NJAWC, and other corporate affiliates.

Q. WHY DO COMPANIES FILE CONSOLIDATED TAX RETURNS?

A. They do so to minimize their income tax payments.

Q. HOW DOES FILING A CONSOLIDATED RETURN ACHIEVE TAX SAVINGS?

A. Certain affiliates generate tax losses. Tax losses generated by these companies are used to offset a portion of the taxable income generated by other affiliates, including NJAWC, to reduce income taxes currently payable. Without a consolidated tax filing, it could take several years under the IRS' carry-forward and carry-back restrictions, if ever, before the recurring loss companies would be able to fully realize tax savings. By filing a consolidated return, however, the consolidated entity as a whole is better able to realize, in the current tax year, the tax benefits generated by the loss companies. The following simplified example demonstrates how filing a consolidated tax return can reduce the consolidated tax liability in the year in which an affiliate loss occurred.

CONSOLIDATED TAX SAVINGS ILLUSTRATION

	Affiliate A	Utility B	Consolidated
Taxable income/(loss)	($50,000)	$50,000	$0
Consolidated tax liability			$0
Stand-alone tax liability*	$0	$17,500	

***** Assumes a 35% Federal income tax rate

In the example above, the consolidated entity would owe no taxes to the IRS because the tax loss experienced by Affiliate A precisely offsets the taxable income earned by Utility B. Thus, on a consolidated basis, the entity as a whole had no net taxable income for the year. Yet, under the stand-alone approach, Utility B would collect $17,500 from its customers for fictitious income taxes that would not be remitted to the IRS.

Q. HOW ARE FEDERAL INCOME TAXES ACTUALLY COLLECTED AND PAID AMONG THE PARTICIPANTS TO AWWC'S CONSOLIDATED TAX RETURN?

A. The flow of funds for federal income taxes between AWWC and affiliates is governed by AWWC's "Tax Sharing Policy."[3] Under the terms of the Tax Sharing Policy, each affiliate is required to pay to AWWC an amount equal to the federal income tax liability that would have been payable if it had filed a separate or "stand-alone" tax return. AWWC then pays to the U.S. Treasury the amount that is due on a consolidated return basis. The excess of amounts that are collected by AWWC but not remitted to the U.S. Treasury are allocated, i.e., paid, to affiliates that had tax losses for the year. Thus, in years when NJAWC has taxable income, ratepayer funds subsidize AWWC affiliates, including unregulated companies, having taxable losses.

[3] A copy of AWWC's Tax Sharing Policy was provided in response to RCR-CTS-5_Attachment.

Q. DOES NJAWC'S PROPOSED RATEMAKING ALLOWANCE FOR FEDERAL INCOME TAX EXPENSE REFLECT THE TYPE OF CONSOLIDATED TAX SAVINGS THAT YOU ILLUSTRATED EARLIER?

A. No, it does not. The Company's proposed expense allowance for federal income taxes was calculated on a stand-alone basis as if NJAWC filed a tax return directly to the IRS. There are two consequences of this treatment that are adverse to New Jersey ratepayers. First, rates set on a stand-alone basis are higher than necessary because they do not reflect the saving arising by NJAWC's participation in AWWC's consolidated tax filing. Second, a portion of ratepayer funds collected for NJAWC's income tax liability are paid to affiliates that generated tax losses, including unregulated affiliates.

Q. HAS THE BOARD PREVIOUSLY GIVEN RATE CONSIDERATION TO THE CONSOLIDATED TAX SAVINGS?

A. Yes, it has. While the Board has not reflected the consolidated tax savings as a reduction to a utility's income tax expense, the Board has a longstanding policy that consolidated tax savings are to be shared with the regulated utility's customers through rate base deductions for the consolidated tax savings. I understand that the Board has used various methods over the years to calculate the consolidated tax savings adjustment.[4] But, for the past approximately 20 years, however, the Board has required a method that has become to be known as the "Rockland method."[5]

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[4] See the Board's *Order Opening a Generic Proceeding*, Docket No. EO12121072, January 23, 2013, page 1.

[5] *In re the Petition of Rockland Electric Company for Approval of Changes in Electric Rates, Its Tariff for Electric Service, Its Depreciation Rates, and for Other Relief*, BPU Docket No. ER02100724. Order dated April 20, 2004.

In January, 2013, the Board opened a generic proceeding to consider certain changes in the Rockland method.[6] In initiating that proceeding, however, the Board indicated its intention to continue the Rockland method until a new method is finalized, stating: "The Board FINDS that until such time as the Board makes a final determination on the consolidated tax adjustment issues, the current consolidated tax savings policy shall apply."[7] The "current" consolidated tax savings policy that the Board referenced in its January 2013 Order undoubtedly is the Rockland method. Rate Counsel took an appeal on the Board's final order in the generic proceeding and the appeal was ultimately upheld by the Appellate Division of the Superior Court of New Jersey ("Court") where the Court reversed the Board's final order.[8] Subsequent to that reversal, the Board initiated a rulemaking proceeding to explore changes in the consolidated tax savings calculation. That rulemaking proceeding is currently ongoing. Thus, until a final determination on changes to the Rockland method is made, the Board intended for the Rockland method to remain in effect, according to the explicit terms of the Board's January 2013 order.

Q. DOES MR. WEBER'S PROPOSED RATE BASE ADJUSTMENT FOR THE CONOLIDATED TAX SAVING REFLECT THE ROCKLAND METHOD?

A. No, it does not. Mr. Weber's proposed $394,198 rate base adjustment for the consolidated tax savings was not calculated using the Rockland method. Rather, his adjustment apparently reflects the method that was approved by the Board in Docket No. EO12121772, but which was later reversed by the Appellate Court.

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[6] See the Board's *Order Opening a Generic Proceeding*, Docket No. EO12121072, January 23, 2013.
[7] Ibid. page 2.
[8] *In re Board's Review of the Applicability & Calculation of a Consol. Tax Adjustment,* Superior Court of New Jersey, Appellate Division, Docket No. A-1153-14T1, decided September.

Q. PLEASE BRIEFLY EXPLAIN HOW THE RATE BASE ADJUSTMENT FOR THE CONSOLIDATED TAX SAVINGS IS CALCULATED USING THE ROCKLAND METHOD.

A. A succinct description of that calculation was provided by the Appellate Courts, as follows:

> "Under the Rockland methodology, a calculation of the CTA first requires a determination of the net taxable gains and losses of all the companies on the consolidated federal tax return for each year during a review period which begins in 1991 and ends in the most recent tax year. The companies that experienced net taxable gains are grouped together and their net taxable gains are aggregated. The companies that experienced net taxable losses are grouped together and their net taxable losses are aggregated. The aggregated losses are then multiplied by the applicable federal income tax rate to determine the group's consolidated tax benefit. The amount of the consolidated tax benefit is then allocated proportionately to the companies that experienced net taxable gains based on their proportionate share of the total aggregated gains."[9]

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[9] *In re Board's Review of the Applicability & Calculation of a Consol. Tax Adjustment,* Superior Court of New Jersey, Appellate Division, Docket No. A-1153-14T1, Decided September 18, 2017. Slip Op, page 3.

Q. HAVE YOU CALCULATED THE RATE BASE ADJUSTMENT FOR NJAWC USING THE ROCKLAND METHOD?

A. Yes, I have. Using the Rockland method, I calculated a $168,866,689 negative rate base adjustment for the consolidated tax savings for NJAWC's combined water and sewer operations for the test year.[10]

Q. IS THIS THE AMOUNT THAT RATE COUNSEL IS RECOMMENDING IN THIS PROCEEDING AS A RATE BASE ADJUSTMENT FOR THE CONSOLIDATED TAX SAVINGS?

A. No, it is not. To be sure, however, the $168.9 million amount that I calculated is consistent with the Board's Rockland method and, thus, is consistent with Board's current policy. But, so that Rate Counsel's recommended adjustment recognizes that under IRS regulations applicable at the time, tax losses generated more than 20 years ago are no longer available to reduce the taxpayer's income tax liability, I limited the "look-back" period in my calculation of the Rockland method to the past 20 years – i.e., the years 1997 through 2016. With this single modification, I calculated a consolidated tax savings allocable to NJAWC of $165,373,587.[11] This is the amount that I recommended to Mr. Henkes to include as a rate base deduction for NJAWC's combined water and sewer operations.

In summary, my recommended rate base reduction for NJAWC's proportionate share of the consolidated tax savings reflects the Board's current policy on that adjustment, modified to reflect the expiration of tax losses that are more than 20 years old.

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[10] NJAWC asserts the information that I relied on in calculating the consolidated tax savings is "confidential and trade secret." The underlying calculations supporting my determination of NJAWC's proportionate share of the consolidated tax savings are contained in my workpapers and are available to those that have signed an appropriate non-disclosure agreement.

[11] Ibid.

Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A. Yes, it does.

EXHIBIT DEP-1

NEW JERSEY-AMERICAN WATER COMPANY
Cash Working Capital Lead-Lag Analysis

	Description (A)	Revenue/ Expense (B)	Lead/Lag Days (C)	Weighted Amount (D)
	Operating Revenues			
1.	Water, Sewer, & Other	$813,645,553		
2.	Revenue Adjustments	51,926,703		
3.	Subtotal Operating Revenues	$865,572,256	46.8	$40,508,781,599
	Operating Expenses			
4.	Labor	49,950,434	11.5	574,429,997
5.	Group Insurance	6,912,387	10.4	71,888,829
6.	Fuel & Power	19,109,656	25.3	483,474,297
7.	Chemicals	9,955,445	36.5	363,373,743
8.	Water Diversion	0	0.0	0
9.	Waste Disposal	3,341,722	27.4	91,563,183
10.	Insurance Other Than Group	7,913,784	(78.3)	(619,649,278)
11.	Management Services Fees	42,225,970	(3.4)	(143,568,297)
12.	Purchased Water	36,056,261	51.1	1,842,474,938
13.	Sewage Treatment	16,520,870	25.7	424,586,368
14.	Depreciation & Amortization	0	0.0	0
15.	Other Expenses	71,640,125	45.0	3,223,805,625
16.	Subtotal Operating Expenses	$263,626,655	23.9	$6,312,379,405
	Taxes Other Than Income			
17.	Excise Tax at Present Rates	10,235,291	(240.3)	(2,459,540,427)
18.	GRFT at Present Rates	81,882,326	35.5	2,906,822,573
19.	Excise Tax on Proposed Increase	1,976,878	124.7	246,516,687
20.	GRFT on Proposed Increase	15,815,026	400.5	6,333,917,913
21.	Property Taxes	5,300,848	(18.7)	(99,125,851)
22.	Payroll Taxes	3,875,145	11.5	44,564,166
23.	Taxes - Other	3,079,350	45.0	138,570,772
24.	Subtotal Taxes Other Than Income	$122,164,864	58.2	$7,111,725,833
	Income Taxes & Utility Operating Income			
25.	Federal Taxes	8,098,920	37.0	299,660,040
26.	Deferred Taxes	0	0.0	0
27.	Total Income Taxes	$8,098,920	37.0	$299,660,040
28.	Interest on long-term debt	67,748,205	91.3	6,185,411,117
29.	Total cash operating expenses	$461,638,644	43.1	$19,909,176,395
30.	Cash working capital requirement (days)		3.7	
31.	Pro forma expense per day	$1,264,763		
32.	**Cash working capital requirement (dollars)**			$4,679,623
33.	Rounded			4,700,000
34.	Cash working capital as filed			73,300,000
35.	**Rate Counsel's rate base adjustment - total company**			($68,600,000)

ATTACHMENT A

STATEMENT OF EDUCATION AND EXPERIENCE
FOR
DAVID E. PETERSON

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Mr. Peterson is employed as a public utility rate consultant by Chesapeake Regulatory Consultants, Inc. Mr. Peterson has over thirty-nine years of experience analyzing regulated public utility ratemaking and service matters including three years as a member of a state regulatory commission staff and thirty-six years as a consultant. Mr. Peterson specializes in utility revenue requirement and cost of service analyses. He has presented testimony in more than 150 proceedings before twenty state regulatory commissions, the Delaware House Energy Subcommittee, and the Federal Energy Regulatory Commission. Utilities addressed in Mr. Peterson's analyses and testimonies have included electric, natural gas, propane, telephone, water, steam and sewer companies.

EMPLOYMENT

1991 - Present	Senior Consultant Chesapeake Regulatory Consultants, Inc. Annapolis, Maryland
1980 - 1991	Consultant Hess & Lim, Inc. Greenbelt, Maryland
1977 - 1980	Rate Analyst South Dakota Public Utilities Commission Pierre, South Dakota
1977	Research Assistant Economics Department South Dakota State University Brookings, South Dakota

As a rate analyst and consultant, Mr. Peterson has served a diverse group of public utility consumers and governmental agencies on utility ratemaking and service-related issues. Clients have included state regulatory commissions and their staffs, consumer advocate agencies of state governments, federal agencies, municipalities, privately owned, municipally owned and cooperatively owned utilities, civic organizations, and industrial consumers.

EDUCATION

December 1983	Master of Business Administration University of South Dakota Vermillion, South Dakota
May 1977	Bachelor of Science Degree in Economics South Dakota State University Brookings, South Dakota

EXPERT TESTIMONY

Among the issues that Mr. Peterson has addressed in testimony are the appropriate test year, construction work in progress, cash working capital lead/lag studies, rate base, excess capacity, revenues, expenses, depreciation, income taxes, capital structure, rate of return, cost allocation, rate design, customer service charges, flexible rates, life-cycle analyses, cost tracking procedures, affiliate transactions, mergers, acquisitions and the consequences of industry restructuring. Mr. Peterson has presented testimony to the following regulatory bodies.

Alabama Public Service Commission
Arkansas Public Service Commission
California Public Utilities Commission
Colorado Public Utilities Commission
Connecticut Public Utilities Control Authority

Delaware Public Service Commission
Indiana Public Service Commission
Kansas State Corporation Commission
Maine Public Utilities Commission
Maryland Public Service Commission

Montana Public Service Commission
Nevada Public Service Commission
New Jersey Board of Public Utilities
New Mexico Public Service Commission
New York Dept. of Environmental Protection

New York Public Service Commission
Pennsylvania Public Utility Commission
South Dakota Public Utilities Commission
West Virginia Public Service Commission
Wyoming Public Service Commission

Delaware House of Representatives (Energy Subcommittee)
Federal Energy Regulatory Commission

In addition, Mr. Peterson has presented several utility training seminars, including the following:

Consolidated Tax Savings and Income Tax Normalization
Presented to Delaware Public Service Commission 2006

Public Utility Ratemaking Principles
Presented to Washington Utilities and Transportation Commission 2011

Electric Cost Allocation and Rate Design
Presented to Colorado Office of Consumer Counsel 2012

Public Utility Revenue Requirements
Presented to Delaware Public Service Commission 2012

Electric Cost Allocation and Rate Design
Presented to Delaware Public Service Commission 2013