December 11, 2003

VIA EMAIL ONLY

RE: I/M/O the Petition of the Mount Holly Water Company for an Increase in Rates for Water Service and Other Tariff Modifications
BPU Docket No. WR03070509
OAL Docket No. PUCRL 07280-2003N

TO SERVICE LIST MEMBERS:

Enclosed please find electronic copies of the direct testimonies of the Division of the Ratepayer Advocate's witnesses, Robert J. Henkes, James A. Rothschild, Barbara R. Alexander, Howard J. Woods, and Brian Kalcic, in connection with the above referenced matter.

Should you require anything further, please do not hesitate to contact our office.

Very truly yours,
SEEMA M. SINGH, ESQ.
RATEPAYER ADVOCATE

By: _____
Robert J. Brabston, Esq.
Deputy Ratepayer Advocate

RJB/slc

BEFORE THE
STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
OFFICE OF ADMINISTRATIVE LAW

In the Matter of:

THE PETITION OF THE MOUNT HOLLY WATER COMPANY FOR AN INCREASE IN RATES FOR WATER SERVICE	**BPU Docket No. WR03070509** **OAL Docket No. PUCRL 07280-2003N**

DIRECT TESTIMONY

AND EXHIBITS

OF

HOWARD J. WOODS, JR., P.E.

On Behalf of the New Jersey
Division of the Ratepayer Advocate

December 1, 2003

Mount Holly Water Company
BPU Docket No. WR03070509
Direct Testimony of Howard J. Woods, Jr., P.E.

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I. STATEMENT OF QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Howard J. Woods, Jr. and my address is 138 Liberty Drive, Newtown, Pennsylvania 18940-1111.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am an independent consultant and the Division of the Ratepayer Advocate has engaged me in this matter.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS.

A. I hold a Bachelors of Civil Engineering Degree from Villanova University (1977) and a Master of Civil Engineering Degree with a concentration in water resources engineering also from Villanova University (1985). I am a registered professional engineer in New Jersey, New York, Maryland, Pennsylvania and New Mexico. I am an active member of the American Society of Civil Engineers, the National Ground Water Association, the American Water Works Association, the Water Environment Federation and the International Water Association.

Q. HAVE YOU PROVIDED TESTIMONY IN MATTERS ASSOCIATED WITH WATER AND SEWER SERVICE AND RATES ON PRIOR OCCASIONS?

A. Yes. I have testified in numerous rate setting proceedings and quality of service evaluations in matters before the Public Utility Commissions in New Jersey, New York, Connecticut and Kentucky. In addition, I have provided expert opinions in generic hearings related to water resource planning and drought management in New Jersey and Delaware. These hearings were sponsored by the respective utility commissions in these jurisdictions.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. From October 1977 through October 1981, I worked with the U.S. Environmental Protection Agency's Region III Water Supply Branch. In this position I developed system surveillance programs, evaluated the sanitary integrity of existing water supply facilities, provided technical assistance to water suppliers and engineers in regard to water treatment and the construction, operation and maintenance of water supply facilities. I recommended treatment techniques and the addition of sanitary facilities to municipal and investor owned utilities, coordinated emergency responses to cases of water supply contamination and was individually responsible for the implementation of the Safe Drinking Water Act in a 14 county area of Pennsylvania.

From October 1981 through May 1983, I worked as a project engineer for the engineering firm of Johnson, Mirmiran and Thompson, P.A. of Silver Spring, Maryland. While working for this firm I designed numerous water supply systems wastewater treatment and conveyance systems and storm drainage facilities. I investigated the suitability and condition of various existing water supply systems

and developed comprehensive facility plans for a number of the firm's clients. In this position I functioned as a project engineer responsible for defining and carrying out engineering work necessary for the timely and accurate completion of design projects. As a client's representative, I also bid projects involving the construction of facilities using construction documents I prepared for the client. These were for new projects as well as for projects requiring the renovation of existing facilities.

From May 1983 through November 1984, I served as Director of Engineering for American Water Works Service Company's Eastern Division. In this position I directed the long-range planning and design functions of New York-American Water Company and New Jersey-American Water Company. I supervised the execution of engineering projects related to the design, construction, operation and maintenance of company water and sewer facilities. In this position, I was responsible for the successful completion of an annual construction budget of approximately $15 million and a facility maintenance budget of approximately $10 million. This work included the maintenance and renovation of wells in Burlington and Camden Counties and the construction of new wells in Atlantic and Warren Counties. I evaluated facilities, prepared or directed the preparation of engineering designs, pre-qualified bidders, solicited bids, and served as the Company's representative in managing construction and maintenance projects. I had authority to review and execute change orders on construction projects when actual field conditions were found to differ from anticipated conditions.

From November 1984 through December 1985, I served as Manager of Operations for the Eastern Division of American Water Works Service Company. In this position I supervised all aspects of engineering, water quality, materials management and risk management for the Company's Eastern Division. This included the Company's operations in New York and New Jersey. I managed a $120 million maintenance and operations budget and a $20 million construction budget. I directed the procurement of engineering design services and construction services on approximately sixty major capital projects and hundreds of smaller maintenance and repair projects. During this period, I was responsible for the rehabilitation of the Company's Canoe Brook Well Field in Millburn, New Jersey. I also completed nearly $3 million in renovation work at Company wells in Burlington and Camden Counties.

From December 1985 through August of 1988, I served as System Director of Planning for American Water Works Service Company. In this position I directed the development of strategic and comprehensive plans for all American System companies located throughout the country through a staff of engineers and technical personnel working under my direction. I evaluated the suitability of existing source, treatment and distribution facilities, wastewater conveyance and treatment facilities and made long range projections concerning the need for new facilities or operational modifications to existing facilities.

In the next three assignments with American Water Works Company, I directed operations and maintenance budgets that averaged $150 million per year and capital budgets that ranged from $30 million to $120 million per year for the

Company's operations in New Jersey, New York and Connecticut. Engineering designs were prepared under my direction. I directed the competitive bidding of capital and maintenance projects. The largest of these was the design and construction of the Delaware River Regional Water Treatment Plant; a $192 million treatment plant and pipeline system that now serves much of Burlington, Camden and Gloucester Counties.

From August 1988 through April 1989, I served as Regional Manager of Engineering for American Water Works Service Company's Eastern Region. In this position I developed engineering goals and objectives for each of the Company's operating systems in Connecticut, New York and New Jersey. I analyzed operating reports to determine the status of all phases of engineering, administration, planning, design and construction necessary to meet the Company's goals and objectives in providing safe, adequate and proper water supply service.

From April of 1989 to July 1993, I served as Regional Manager of Operational Services for American Water Works Service Company's Eastern Region. In this position I was responsible for the provision of administrative, engineering, loss control, resource conservation and water quality services required by the operating companies in the Eastern Region. In this position I directed water company operations to assure compliance with approved operating and maintenance budgets, capital construction programs, long range corporate and comprehensive plans, risk exposure reduction, safety and loss control procedures, water conservation programs and water quality objectives. In this position I also

served as Vice President of New Jersey-American Water Company, Connecticut-American Water Company and New York-American Water Company.

From July 1993 through May 1997, I served as Vice-President of New Jersey-American Water Company. In this position, I served as chief operations officer for the Company. I was responsible for all operations functions including production, distribution, maintenance services and commercial services. I directed a staff of 450 management and unionized employees. These responsibilities included the maintenance of over 150 wells located throughout New Jersey, several large surface water treatment facilities, nearly 100 distribution storage tanks and approximately 4,000 miles of water distribution mains. I was also responsible for the Company's sanitary sewer operations. These facilities were composed of several hundred miles of pipe and numerous pump stations. I planned and directed work required to maintain these facilities in peak operating performance. This work included electrical and mechanical maintenance associated with pumping equipment and controls.

In June of 1991, I was appointed by Governor Florio to serve as the investor-owned water supplier representative on the New Jersey Water Supply Advisory Council. The Council advises the New Jersey Department of Environmental Protection ("NJDEP," formerly the New Jersey Department of Environmental Protection and Energy) on a wide range of water supply issues such as water quality, facility construction requirements, statewide water supply planning and water supply management. Governor Whitman reappointed me to the Council 1994 and I served through mid 1997.

From May of 1997 through July 2000, I directed the acquisition and business development activities of American Water Works Service Company and a joint venture operation of the Company known as AmericanAnglian Environmental Technologies. I directed the development of bids on operations and maintenance contracts to operate municipally owned water and wastewater systems. I reviewed contract documents and directed a staff of engineers and analysts in preparing responsive bids and proposals for prospective municipal clients. In 1999, my team returned the second best business development performance in the United States and we won the largest operations and maintenance contract awarded that year (Scranton Sewer Authority, Scranton, Pennsylvania). I also directed the operations of the joint venture. This business unit was the seventh largest private municipal water and wastewater contractor in the United States. I directed the maintenance and operations functions of over 175 contracts dedicated to the operation of municipal water and wastewater utilities and industrial and commercial clients.

Since July 2000, I have worked as an independent consultant. Representative clients include the New Jersey Division of the Ratepayer Advocate, the Delaware Public Advocate, Passaic Valley Water Commission, Consumers New Jersey Water Company, PricewaterhouseCoopers LLP, BOC Gases Inc., the Pittsburgh Water & Sewer Authority/U.S. Water L.L.C., Upper Dublin Township (PA) and the Elmira (NY) Water Board.

I directed and managed the procurement process leading to the sale of a municipal wastewater system in Southeastern Pennsylvania. The Upper Dublin

Township Sanitary Sewer System sold for $20,000,000. This system serves approximately 8,000 connections and has annual revenues of $3,000,000. I advised the Township on alternative outsourcing and contracting approaches, reduced interim operating expenses by 30% by renegotiating the plant operations contract prior to the sale of the system.

I completed an energy management evaluation for the Elmira (NY) Water Board and provided operator training on energy management strategies. Recommendations from the study allowed the client to reduce energy expenses by 30% through a series of operational modifications.

I completed an energy management audit of the Pittsburgh Water and Sewer Authority and identified strategies for reducing power consumption. The results of this investigation provided the foundation for the Authority and its contract manager (U.S. Water L.L.C.) to develop and implement more effective maintenance and operations procedures to reduce energy costs.

I assisted the Banco Gubernamental de Fomento para Puerto Rico, Autoridad para el Financiamiento de la Infrastructura de Puerto Rico and PricewaterhouseCoopers in developing a new operating contract for the Puerto Rico Aqueduct and Sewer Authority (PRASA). The contract was developed, bid and awarded in less than six months, cutting the normal procurement time by nearly two-thirds. The new ten-year agreement with Ondeo will allow the government of Puerto Rico to eliminate the annual operations subsidy while service is improved. The value of the contract is $300 million per year.

II. SCOPE AND PURPOSE OF TESTIMONY

Q. ARE YOU GENERALLY FAMILIAR WITH MOUNT HOLLY WATER COMPANY'S WATER SYSTEMS?

A. Yes, I am.

Q. MR. WOODS, PLEASE DESCRIBE YOUR AREA OF RESPONSIBILITY IN THIS MATTER.

A. I have been engaged by Division of the Ratepayer Advocate to review the cost of providing safe, adequate and proper service in the communities served by the Mount Holly Water Company. I have also been asked to review the capital improvements undertaken by the Company and to review matters significant to statewide water supply management and operations.

III. SUMMARY OF FINDINGS AND CONCLUSIONS

Q. HAVE YOU REVIEWED THE MOUNT HOLLY WATER COMPANY'S FILING FOR A RATE ADJUSTMENT?

A. Yes, I have.

Q. WHAT DOES THE COMPANY'S FILING AND THEIR PRE-FILED TESTIMONY REQUEST?

A. The Company is requesting an adjustment to rates that will result in an overall increase of 27.82%.[1] They claim this increase in necessary to recover fair and reasonable operating expenses and the cost of capital improvements to the system.

Q. DO YOU BELIEVE THAT THIS RATE INCREASE SHOULD BE GRANTED?

A. No. Several of the construction projects in the Company's plans will not be completed and in service by the end of the test year. Furthermore, the proposed expenses related to the American Water Resource Center appear to be duplicative of other costs incurred by American Water Works customers and the center itself would merely duplicate efforts already in progress in New Jersey.

Q. HAS THE COMPANY OFFERED SAVINGS RESULTING FROM SYNERGIES BETWEEN ELIZABETHTOWN/MOUNT HOLLY WATER COMPANY AND NEW JERSEY-AMERICAN WATER COMPANY?

A. Yes it has, however, those benefits are discounted to 75% of the full value of the savings and further, the savings are limited to those items the Company was willing to forecast as savings achievable by June 30, 2004. As noted in many of the Company's discovery responses, additional savings and improvements in service are possible as the new organizational and business plans take hold.

[1] In the Matter of the Petition of the Mount Holly Water Company for Approval of an Increase in Rates for Water Service; Mount Holly Water Company.; Westfield, NJ; July 10, 2003; p. 2, paragraph 5.

IV. ENGINEERING & OPERATIONS ISSUES

A. Capital Construction Program

Q. WHAT ARE THE PRINCIPAL CAPITAL INVESTMENTS CLAIMED IN THE COMPANY'S FILING?

A. The Company claims that it has made capital improvements to the system totaling $22.7 million in value since its last rate order, which became effective on January 1, 2000.[2] Mr. Chapman does not specify the exact nature of these projects and improvements. Mr. Robert R. Schaefer, however does offer testimony on the scope of projects undertaken and placed in service in 2003 and 2004. The value of these projects totals $11,635,121.[3] This portion of the Company's capital construction program is made up of projects that can be categorized in two general areas: Routine Construction and Major Projects. The Company claimed investments totaling $1,230,621 for Routine Construction net of Repayments, Deposits and Refunds. Major Projects totaling $10,404,500 make up the additional investments described in Mr. Schaefer's testimony. Within this group of projects, the Mansfield Expansion ($5,730,500) and the New Egypt Mains ($2,315,000) are the principal items of work. An additional project, the New Egypt Storage, represents an investment of $850,000. These three projects account for nearly 76% of the work described by Mr. Schaefer.

[2] Prepared Direct Testimony of Andrew M. Chapman, President; Mount Holly Water Company; Westfield, NJ; July 2003; p. 13; lines 4 through 6.
[3] Prepared Direct Testimony of Robert R. Schaefer, Director of Engineering and Technical Services; Mount Holly Water Company; Westfield, NJ; July 2003; Exhibit PT-4A, Schedule 1 as modified by the response to RAR-A-3.

Q. HAS THE COMPANY COMPLETED AND PLACED IN SERVICE ALL ITEMS INCLUDED IN ITS CAPITAL PROGRAM?

A. No. The Company's case is structured around a test year ending at December 31, 2003 with a request for rate treatment of post test year additions through June 30, 2004.[4] As a result, a number of items in the Company's capital program are not yet complete and in service.

Q. HAVE YOU REVIEWED THE MAJOR PROJECTS UNDERTAKEN BY THE COMPANY IN ITS CAPITAL PROGRAM?

A. Yes, I have, and I propose a number of adjustments to the maximum project costs proposed by the Company.

Q. **WOULD YOU TELL US ABOUT THE PROJECT CALLED "MANSFIELD EXPANSION"?**

A. Certainly. This is a major expansion of the source and treatment works serving the Mount Holly District of the Company's franchise area. The project will also provide additional reliability for Homestead customers once the Homestead system is interconnected with the Mount Holly system. The existing Mansfield Plant has the ability to treat 4 MGD of water from wells and deliver this to the system. The Mansfield Expansion will increase this capacity by 3 MGD to a total of 7 MGD.[5] The capacity will be sufficient to meet reasonable future water needs of the

[4] Prepared Direct Testimony of Gary S. Prettyman, Vice President, Rates and Regulation; Mount Holly Water Company; Westfield, NJ; July 2003; p. 5 lines 19 through 22 and p. 6 lines 1 through 12.
[5] Op. Cit.; Schaefer; p. 11, lines 16 through 18.

Company's customers. The estimated cost of the project is $5,730,500,[6] which alone represents nearly one-half of the Company's 2003/2004 capital program and 25% of the capital improvements undertaken since January 1, 2000.

Q. WHEN DOES THE COMPANY EXPECT TO COMPLETE THE MANSFIELD PROJECT AND PLACE THESE FACILITIES IN SERVICE?

A. This project will not result in used and useful utility plant in service until some time in 2004.

Q. WHAT IS THE PROJECT CALLED "NEW EGYPT MAIN REPLACEMENTS"?

A. This is a project intended to replace a collection of inadequate water mains in the Company's New Egypt system. The estimated cost of the total project is $2,315,000. Roughly half of the project will be completed and placed in service in 2003 and the balance will be complete in 2004.

Q. WHAT IS THE AVERAGE COST OF MAIN AND SERVICE FAILURES IN THE NEW EGYPT SYSTEM?

A. Considering the three year period from 2000 through 2002, the average cost of repairs in this system is approximately $114,000 per year.[7] At the weighted cost of

[6] Ibid.; Exhibit PT-4A, Schedule 1.
[7] See response to RAR-E-13.

capital recommended by the Company's consultant, Pauline Ahern, this level of expense would be comparable in its revenue impact to a $2,000,000 capital addition. The budget amount for this project is therefore only 16% higher than the level of investment that is supportable by an elimination of the repair expenses.

Q. ASIDE FROM REDUCING OPERATIONS AND MAINTENANCE EXPENSES, ARE THERE ANY OTHER REASONS TO UNDERTAKE SUCH AN EXTENSIVE MAIN REPLACEMENT PROGRAM IN NEW EGYPT?

A. Yes. The existing system is a source of customer complaints. These complaints include both water quality complaints and lack or loss of pressure. Much of the system is undersized, that is, less than 6-inch in diameter, so cleaning and relining would not be a practical and effective means of eliminating low pressure and "no water" complaints. In addition, cleaning and relining mains under 6-inch in diameter, although technically feasible, is generally not cost effective compared to the installation of a new main of the same size.

Q. SHOULD THE COMPANY HAVE PHASED THIS PROJECT OVER A LONGER PERIOD OF TIME?

A. Although they could have, doing so would prolong the documented service problems in New Egypt and increase the cost of the work.

Q. ARE THERE ANY OTHER PROJECTS BEING UNDERTAKEN IN NEW EGYPT?

A. Yes. The Company is also constructing a new storage tank in New Egypt. The existing tank will be replaced with a new 300,000 gallon tank. The new tank will provide peak hour equalization and fire protection reserves. Although a new school has a recommended fire flow requirement of 2,500 gallons per minute, there are other high fire flow requirements in New Egypt. These include light industrial and downtown commercial areas with a fire flow requirement of 1,750 gallons per minute.[8] A fire of two hours duration at this reduced magnitude would require a minimum storage volume of 210,000 gallons. Absent the new school, a slightly smaller tank may be possible. However, since the Company is well aware of the fire protection requirements associated with the new school, it would not be prudent to plan for any lower service requirement. Therefore, it is my conclusion that the tank is properly sized for this community.

Q. WHEN DOES THE COMPANY EXPECT TO COMPLETE THIS PROJECT?

A. The New Egypt tank project will be completed in 2004.

Q. WHAT IS THE "RANCOCAS CREEK" PROJECT?

[8] Response to RAR-E-17.

A. This is a transmission main improvement that will facilitate the movement of water between the Mount Holly and Mansfield portions of the Company's service area. This project will complete a multiphase transmission upgrade.

Q. WHEN WILL THIS PROJECT BE COMPLETE?

A. The project will be placed in service sometime in 2004.

Q. HAVE YOU PROPOSED ANY ADJUSTMENTS TO THE COMPANY'S CAPITAL CONSTRUCTION PROGRAM FOR RATEMAKING PURPOSES?

A. Yes. Schedule HJW-1 summarizes the changes I am recommending. I have adopted the position put forward by Ratepayer Advocate witness Robert J. Henkes concerning post test year additions. As a result, it is my opinion that only those projects complete and in service by the end of the test year should be transferred to utility plant in service for ratemaking purposes. This results in a downward adjustment of $7,561,500 for projects that will produce no used and useful plant by the end of the test year and an additional downward adjustment of $1,439,825 for projects that will be partially complete and in service by year end. The net impact of these adjustments is a reduction of the Company's proposed capital construction program of $11,635,121 to $2,505,797. However, based on the most recent information supplied by the Company, it is unlikely that the Company will meet its projected plant in service balance by 12/31/03; therefore, I adopt the recommendation of Mr. Henkes regarding the Company's proposed Utility Plant

in Service. (Direct Testimony of Robert J. Henkes at pg. 8-11). Since these are ongoing efforts, the actual expenses at year end should be determined. Appropriate further adjustments should be made to the utility plant in service balances to reflect the actual completed cost of these projects as soon as these costs are fully known.

B. Water Production

Q. HAVE YOU REVIEWED THE METHODOLOGY USED BY THE COMPANY TO FORECAST SYSTEM DELIVERY?

A. Yes. Essentially, the Company projected the number of customers it anticipated serving on a pro forma basis and calculated sales volume based on average historical use. Consumption was taken at the five year average for the period from 1996 through 2000.[9] An allowance for items including non-billed use and avoidable and unavoidable leakage was then added to sales to arrive at the total water production requirement.

Q. DO YOU AGREE WITH THIS APPROACH?

A. Under normal circumstances I would concur with such an approach to forecasting water demands. As Mr. Prettyman notes throughout his testimony on this subject, the intent of his method is to arrive at a basis for projecting future demands that accounts for reasonable and recurring variances in consumption. Mr. Prettyman

[9] Op. Cit.; Prettyman; p. 15, line 15.

used a five year period from 1996 through 2000 and I believe this discounts more recent trends in water use in the Company's service territory. The two most recent of the five years in this period were impacted by Drought Declarations by the New Jersey Department of Environmental Protection and the Governor. The focus of these measures was to reduce non-essential water demands like lawn watering. Using all years as the basis of the projection would tend to result in lower forecasts for average use since customer consumption was artificially modified by the Drought Declarations. It would be more appropriate to look to the most recent non-drought years as these periods would be more representative of "normal" demands

Q. DID YOU DEVELOP A FORECAST FOR SYSTEM DELIVERY CONSIDERING ONLY THE LAST THREE NON-DROUGHT YEARS?

A. Yes, I did. I developed a non-drought, three-year average production rate using per customer system delivery for 2003, 2001 and 1998. The average sales for this period for all of the Company's service areas were 93.23 thousand gallons per year. However, average use varies dramatically by customer class, ranging from 8.71 thousand gallons per year for PFP customers to a high of 593.76 thousand gallons per year for INS customers. If we assume all of the growth in the number of customers forecast by the Company is residential in nature, and apply the non-drought average sales to the 2003 actual customers plus these additional residential customers, we can see that the sales forecast by this method are within a few percentage points of the Company's estimate.

The Company has forecast non-revenue system delivery at 13%. This exceeds the average non-revenue percentage for the last three non-drought years, which was 11.82%. Nevertheless, the difference in annual system delivery is less than 1.4% when the lower estimate of non-revenue water is used. As a result, I concur with the estimate of pro forma production (1,735 MG) offered in Mr. Ciemniecki's testimony.

C. Operating Expenses

Q. WHAT ARE THE PRINCIPAL OPERATING EXPENSES INCURRED IN OPERATING THE COMPANY?

A. Operations Labor accounts for slightly more than one-third of the Company's operating expenses. In addition to direct labor expenses, 12.9% of the Company's annual operating expenses result from employee benefit expenses. Taken together, these charges represent 49.3% of the Company's operating costs. In addition to these expenses, Production Power represents 16.4% of the Company's annual operating costs. General O&M expenses, a collection of a variety of various operating expenses amounts to 21.1% of the Company's annual costs.

Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO THE COMPANY'S PRO FORMA EXPENSES?

A. Yes, I recommend elimination of the proposed expense for the American Water Resource Center. In addition to this adjustment, I have also reviewed the

testimony of Robert Henkes concerning tank painting and I concur with and support the adjustments he has made in regard to this item.

Q. HAS THE COMPANY PROPOSED THE CREATION OF A COMPREHENSIVE WATER RESOURCES ENTITY?

A. Yes. The Company has testified that there is a need to launch a comprehensive water resources research center to be located in New Jersey. According to Mr. Clerico, the center, to be known as the American Water Resource Center, will be an independent non-profit organization to "advance new watershed based solutions to enhance water quality and protect our water resources for the future."[10]

Q. WILL THE PROPOSED CENTER INCLUDE OTHER ENTITIES BEYOND THE NJOU'S?

A. As it has been proposed, the center will encourage participation from a variety of institutional and utility partners as well as by other independent non-profit groups such as watershed associations. The initial primary focus of the center will be water resources issues pertinent to New Jersey, but the Company suggests that this role may expand to other States in the future.[11]

[10] Prepared Direct Testimony of Edward A. Clerico; Exhibit PT-7; Mount Holly Water Company; Westfield, NJ; July 2003; p.6, lines 1-2.
[11] Response to RAR-E-58 and Elizabethtown RAR-E-84.

Q. HAS THE COMPANY SUGGESTED THAT OTHER AFFILIATED AMERICAN WATER WORKS COMPANIES PARTICIPATE IN THE AMERICAN WATER RESOURCE CENTER?

A. No. They have proposed to launch the Center and fund it solely through contributions from the three NJOU's. Further, the cost of $1,333,333 has been allocated to each NJOU on the basis of the number of customers served. The request for funding represents an annual and recurring operating expense amounting to $846,025 for New Jersey-American, $453,413 for Elizabethtown Water Company and $33,895 for the Mount Holly Water Company.[12] It is not apparent that the allocation extends to customers of Applied Wastewater Management, a New Jersey-based affiliate of the NJOU's and subsidiary of Elizabethtown Water Company, or the Company's operating affiliates like Liberty Water. Similarly, there does not appear to be any attempt to have the customers of affiliate American Water Services share in the cost of the Center. The impact of allocating the cost across all American Water affiliates is significant. The Company claims to provide service to 20 million customers in the Americas.[13] If the requested start up and operational costs were allocated on the basis of these 20 million customers, the Mount Holly Water Company share of the Center would drop to $1,044.

[12] Op.Cit.; Clerico; p. 5, lines 13 through 18.
[13] American Water Works web page; http://www.amwater.com/awpr/about_us/aboutus1172.html; November 2003.

Q. WILL MOUNT HOLLY WATER COMPANY'S CUSTOMERS SUPPORT RESEARCH EFFORTS IN ANY OTHER WAY?

A. Yes. Through Service Company charges, a new cost for this Company resulting from the merger, a portion of the Company's revenue requirement is allocated to water quality research and development performed at the American Water Works Company's Bellville, Illinois facility. Since some of this research is partially funded by the American Water Works Association Research Foundation, a water industry research group, there is a clear overlap and potential duplication of effort.

Q. ARE YOU FAMILIAR WITH ANY NEW JERSEY-BASED RESEARCH ORGANIZATIONS WITH A MISSION SIMILAR TO THAT PROPOSED FOR THE CENTER?

A. The Otto H. York Center for Environmental Engineering and Science at the New Jersey Institute of Technology is such an organization. It's "objectives are to:

- Conduct applied water research to address the needs of New Jersey's drinking water supply infrastructure and to complement national research foundations;
- Conduct applied research that has immediate impact and applications, such as 'security' related research;
- Encourage New Jersey water utilities, consultants and universities to conduct joint water research to minimize duplication;
- Provide an industrial perspective to graduate programs at New Jersey colleges and universities;
- Address all relevant drinking water issues and needs in New Jersey; and
- Establish an information system to disseminate to the public and private sectors results of academic and water research activities."[14]

[14] Informational Brochure, New Jersey Applied Water Research Center NJAWRC; American Water Works Association, New Jersey Section NJAWWA & Otto H. York Center for Environmental Engineering & Science at NJIT; Newark, NJ; September 2003; p. 1.

Q. ARE THE NJOU'S PROVIDING ANY SUPPORT FOR THE OTTO H. YORK CENTER?

A. Yes. As members of the New Jersey Section of the American Water Works Association, the NJOU's are directly and indirectly supporting the operation of the Otto H. York Center.

Q. WHAT IS YOUR CONCLUSION CONCERNING THE PROPOSED AMERICAN WATER RESOURCE CENTER?

A. The proposed Center is duplicative of ongoing efforts by American Water Works research and development group in Bellville, Illinois and the Otto H. York Center at NJIT. Creation of the new center would further dilute rather than concentrate research activities unless the Company is also proposing to eliminate its Bellville research activities and withdraw all support for the Otto H. York center. The suggestion that only the NJOU's bear the burden of both start-up and ongoing expenses of the proposed Center is an unfair burden on some, but not all New Jersey customers of American Water Works. This disparity results from the fact that no allocation of the costs is made to Applied Wastewater Management or the contract operations clients of the Company's affiliates.

Q. DO YOU HAVE A RECOMMENDATION CONCERNING THE EXPENSES OF THE PROPOSED CENTER?

A. Yes. The allocated cost amounting to $846,025 for New Jersey-American, $453,413 for Elizabethtown Water Company and $33,895 for the Mount Holly

Water Company should not be allowed for ratemaking purposes. If the Company's owners feel there is a need to create yet another research organization, the cost for such an entity should be a below-the-line expense.

D. Synergies

Q. WHAT IS YOUR GENERAL OPINION OF THE CONSOLIDATION OF THE NJOU'S?

A. This is a unique event in the history of water utility service in New Jersey. Although mergers and acquisitions have been routine for many years, the merger of regulated water utilities of this size, scope and significance to statewide water resource management is without precedence. The merger should create meaningful economies of scale throughout the NJOU's. In geographic areas where the formerly independent companies competed for service territory, coordinated resource and asset planning by the NJOU's should result in more effective application of capital and better service. We should also expect a company of this size and scope to make noticeable improvements in customer service.

Q. HAS THE COMPANY EVALUATED SYNERGIES RESULTING FROM THE MERGER AND PROPOSED SAVINGS AS A RESULT?

A. The Company has conducted a synergy study but its scope is time limited on many issues. That is, the organizational and business practices changes recommended in

the report are only those items that will produce an immediate, fixed, known and measurable result by June 2004.[15] The Company suggests that additional organizational changes will produce additional efficiencies in the future, but they have not attempted to quantify those efficiencies or even commit to a timeline under which the delivery of those efficiencies can be expected.

Q. WHAT SYNERGIES HAS THE COMPANY OFFERED IN THIS CASE?

A. In the Elizabethtown Water Company rate case, the Company offered synergies totaling $3,345,228, which is partially offset by Additional Outside Services (aka Service Company charges) of $1,551,000. These benefits will indirectly flow to Mount Holly Water Company through allocation methodologies adopted by the Company. As such, there are no specifically identified synergy benefits for the Mount Holly Water Company. The estimated Elizabethtown Water Company synergies are comprised of the following items: a reduction in labor expenses ($1,418,000), a reduction in Employee Benefits ($735,553), a reduction in General O&M ($737,194), a reduction in Leased vehicle expenses ($261,481), a reduction in customer invoice printing expenses ($123,000), a reduction in insurance ($50,000), and a reduction in chemical expenses ($20,000).[16]

Q. HOW ARE THESE SAVINGS ACHIEVED?

[15] Testimony of Thomas J. Flaherty, III, Exhibit PT-6; Mount Holly Water Company; Westfield, NJ; July 2003; p.18, line 23.
[16] The Petition of Elizabethtown Water Company for Approval of an Increase in Rates for Service; Elizabethtown Water Company; Westfield, NJ; July 2003; Exhibit P-2, Schedule 21, Page 2 of 2.

A. The reductions in labor and employee benefits are essentially the result of the Company eliminating executive and management positions made redundant by change in ownership and by changing the structure of New Jersey-American from a geographically centered organization to a functionally centered organization and eliminating the further redundancies that result from this change. The reductions in chemical expenses, insurance, vehicle leases, customer invoice printing and general O&M result generally from the elimination of outside vendors or the adoption of the most favorable procurement practices available in either Elizabethtown/Mount Holly Water Company or New Jersey-American Water Company.

Q. ARE THESE REASONABLE AND APPROPRIATE CHANGES IN BUSINESS PRACTICES THAT SHOULD BE EXPECTED FROM THE CONSOLIDATED MANAGEMENT OF THE NJOU'S?

A. Yes. Since the change in control was approved by the Board of Public Utilities in Docket No. WM01120833, the Company has been under the control of a single executive team. It is reasonable to expect that this team would have identified the best practices needed to manage and operate the NJOU's and that some of these practices would have been implemented by now.

Q. HAS THE COMPANY PROPOSED A REDUCTION IN THE BENEFIT OF THESE SAVINGS TO THE RATEPAYER?

A. Yes. They have reduced the benefit, after allowing for the cost to achieve the savings, by 25%.[17]

Q. DO YOU THINK THAT THIS IS PROPER?

A. No, I do not. These changes are normal and customary improvements that would be expected of any qualified management team. As noted by Mr. Flaherty, the savings identified in the synergy study are single year, steady-state savings that, once achieved, should occur annually into perpetuity.[18] In determining the revenue requirement for the Company, the pro forma level of operating expense should be adjusted to reflect the savings without reduction or discount.

Q. DO YOU BELIEVE THAT THERE ARE ANY IMPROVEMENTS IN EFFICIENCY OR EFFECTIVENESS THAT WILL RESULT FROM CONSOLIDATION OF THE NJOU'S BEYOND THOSE IDENTIFIED BY THE COMPANY?

A. Yes. The Company has adopted a functional organization for its statewide operations. The synergy study identified a number of redundant management and non-union positions and they have taken steps to eliminate these positions. They have not offered any synergies that could result from the implementation of this new management approach at the workforce level. Some of the potential changes may require negotiation with the various bargaining units over changes in work

[17] Ibid.
[18] Op. Cit., Flaherty; page 19, lines 10 through 13.

conditions or the composition of the work force. Nevertheless, it is undeniable that improvements in effectiveness and efficiency are possible with the new organization.

Q. COULD YOU GIVE US SOME EXAMPLES OF WHAT MAY BE ACHIEVABLE?

A. Yes. By adopting a functional organization in production, the assignment and performance of maintenance and repair work by management becomes more directly related to the location of the work rather than the location from which the employees are dispatched to do that work. In cases where the Company is combining geographically proximate entities into single functional organizations, one would expect to see a more effective and efficient means of managing and assigning work. Consider, for example, the production operations in the Short Hills operating center of New Jersey-American Water Company and the production operations of Elizabethtown Water Company. Prior to the change to a functional organization, production maintenance employees would have been dispatched from Elizabethtown's operations centers to perform work on outlying facilities. Similarly, management in Short Hills would have done the same for facilities owned by New Jersey-American Water Company. The assignment of work would have been done as though the resources needed to perform any specific task were completely independent and unrelated. Production mechanics could be dispatched from Short Hills to work on facilities in Bernards or Bedminster only to find that they are driving past similarly qualified employees on

their way to perform similar tasks in Pottersville. Not only will the new management structure be better able to schedule work in a more efficient manner, but it will also benefit from the ability to more efficiently manage stock for repair parts and consumables and the ability to better coordinate the provisioning of tools and equipment to perform the work. Similar benefits could be expected in other areas where the Company's service areas adjoin or are reasonably proximate. This occurs in the case of the New Jersey-American Burlington/Camden service area and the Mount Holly Water Company operations. The Company has indicated that it is evaluating options to improve the efficiency of its work force in this regard, but they have not yet arrived at specific plans.[19]

Q. DO YOU THINK THAT THESE MANAGEMENT EFFICIENCIES WILL RESULT IN A WORK FORCE REDUCTION?

A. Not necessarily, but I would expect the growth in the work force to be less than what would otherwise be necessary as the Company continues to add customers and facilities.

Q. DO YOU BELIEVE THAT THE NEW ORGANIZATIONAL STRUCTURE WILL ALLOW THE COMPANY TO MORE EFFICIENTLY PROCURE STOCK FOR NETWORK REPAIRS?

A. Yes. The Company should be able to reduce the aggregate level of stock maintained for network repairs. This includes items such as valves, fire hydrants,

[19] Responses to RAR-E-33 and Elizabethtown RAR-E-32.

pipe, fittings, repair clamps and the like. Before management consolidation, each NJOU would have been obligated to provide a level of repair stock and materials to allow maintenance and repair work of the system networks to proceed normally and without interruption due to stock shortages. The combined Company should see a benefit in the reduction in stock levels assuming organization wide stock control. In this case, we would expect the total to be less than the sum of the parts as minimum order quantities and reorder points are established on a consolidated basis. Again, the Company has indicated they are considering this issue, but no firm plans have been established.[20]

Q. DO YOU BELIEVE THE COMPANY WILL BE ABLE TO MANAGE CUSTOMER METERS MORE EFFECTIVELY AS A RESULT OF THE CONSOLIDATION?

A. Yes. The Company maintains fully equipped meter testing facilities in Elizabethtown Water Company and in Lakewood.[21] It is likely that consolidation of small meter testing could be achieved at a single location. This would permit the coordinated purchasing of meters for all of the NJOU's as well as the coordinated management of new meter stock levels. The Company has already made the decision to eliminate the use of outside meter testing services by New Jersey-American for large meters[22] for an anticipated savings of $30,000 annually.

[20] See Responses to RAR-E-35, 36 and 37.
[21] See response to RAR-E-50 and Elizabethtown RAR-E-76.
[22] Op. Cit., Doll; Exhibit PT-5A, page 11.

The potential savings associated with the consolidation of small meter management and testing could greatly exceed this level of savings.

Q. HAS THE COMPANY MADE A DECISION TO CLOSE ITS WESTFIELD CALL CENTER AND CONSOLIDATE THIS FUNCTION IN THE AMERICAN WATER WORKS CALL CENTER IN ALTON, ILLINOIS?

A. The Company indicated that it announced the Westfield call center functions will be moved by the end of October 2004 but the decision regarding the location of the new call center was not announced.[23] This leaves open the question as to a possible New Jersey location for the call center function in favor of a move to Alton, Illinois. In either case, the future of 61 full time employee positions and 14 temporary positions is uncertain.

Q. DO YOU BELIEVE THAT CLOSING THE WESTFIELD CALL CENTER AND MOVING THIS FUNCTION TO ALTON WOULD MAKE THE COMPANY MORE EFFECTIVE AND EFFICIENT?

A. No, I do not. Recent performance for New Jersey-American shows this to be neither more cost efficient than maintaining a local call center nor more effective at responding to customer inquiries. I will not attempt to reiterate the testimony of Ms. Barbara Alexander in the area of performance failures at Alton and the degradation in customer service since this function was moved to Alton. However, I will point out some areas where that lack of a local call center is

[23] Response to Elizabethtown RAR-E-32.

compromising New Jersey-American Water Company's ability to provide safe, adequate and proper service.

Q. HAS THE COMPANY INDICATED A TIMELINE BY WHICH IT EXPECTS TO CONSOLIDATE ITS INFORMATION MANAGEMENT FUNCTIONS RELATED TO CUSTOMER SERVICE?

A. Yes. It has indicated that this may not occur until 2007.[24] As a result of this delay, parallel business systems must be maintained for the Elizabethtown/Mount Holly customers and for the New Jersey-American customers. Given that the Company has already made changes to organize its production, network and service delivery functions on functional lines across the former companies, we can anticipate that coordination between two completely different customer service functions and organizations will be a continuing challenge.

Q. HAVE YOU EXAMINED ANY ASPECT OF WORK FLOW RELATED TO THE ALTON AND WESTFIELD CALL CENTERS?

A. Yes. I have considered the flow of work related to emergency calls.

Q. PLEASE DESCRIBE THE DIFFERENCES BETWEEN THE TWO ORGANIZATIONS.

A. In the case of New Jersey-American customers, an emergency call would arrive at Alton, Illinois. The customer service representative answering the call would

[24] Op.Cit., Chapman; p. 10, lines 18 through 24.

identify the issue as an emergency request and hand-off the matter to a special "Time Critical" group in Alton. "Time Critical" would first identify the responsible local water company office capable of addressing the problem. Since Alton is a national call center, at this point, "Time Critical" would determine that the emergency is from New Jersey, as opposed to some other state served by American Water Works, and then identify the local area of the company responsible for the work required. "Time Critical" then issues a service order and initiates a call to the local field office to follow-up on the service order. At this point, the problem is handed-off to a local on-call supervisor who then contacts the customer to determine what needs to be done to properly respond to the customer inquiry. At this point work is scheduled and dispatched by the local supervisor. On completion of the activity, "Time Critical" is notified by the supervisor of actions taken in response to the inquiry.

By contrast, a call arriving from an Elizabethtown/Mount Holly customer at the Westfield call center is handled by a single customer service representative who is able to determine the nature of the work, schedule the work with the customer and issue dispatch orders through a service coordinator.[25]

Q. WHAT PROBLEMS DO YOU SEE WITH THE NEW JERSEY-AMERICAN/ALTON ARRANGEMENT?

A. First, contact is lost with the customer before a final determination of the nature of the problem is made. In fact, the problem is handed off twice before a link between

[25] See Responses to New Jersey-American RAR-E-94 and 95.

the customer reporting the problem and an employee able to define the problem and marshal resources to address the problem is made. This creates opportunities for delay or simple misunderstanding. Particularly in the post September 11th world we live in, we must concern ourselves with issues and events that simply cannot tolerate delay and misunderstanding in initiating a proper response.

Q. DO YOU BELIEVE THAT THE ELIZABETHTOWN/WESTFIELD ARRANGEMENT IS SUPERIOR TO THE NEW JERSEY-AMERICAN/ALTON ARRANGEMENT?

A. Absolutely. The Westfield call center is able to define the nature of the emergency and dispatch work without a break in contact with the customer. This is not a feature of the New Jersey-American arrangement. Furthermore, the Westfield call center is under control of local management in New Jersey. It is not obligated to respond to the needs of customers (or utility managers) in multiple states as is the case with the Alton call center. Using the Elizabethtown/Westfield model, one could expect to see a coordinated response, involving customer relations, operations and service delivery, to the problem without interference from competing needs in other areas of the country.

Q. BUT DOESN'T IT COST MORE TO MAINTAIN A LOCAL CALL CENTER?

A. Apparently not. In response to New Jersey-American RAR-E-125, the Company indicated that the Alton Call Center is costing ratepayers slightly more. The sum of

the avoided and reduced costs is slightly less ($7,835 per year) than the Service Company Call Center costs. Given the deterioration in service within Alton and the poor comparison in service levels between Alton and Westfield, it seems hard to justify the continued routing of New Jersey-American calls out of state.

Q. IS IT POSSIBLE TO MOVE THE NEW JERSEY-AMERICAN CUSTOMERS TO THE WESTFIELD CALL CENTER?

A. In prior rate proceedings, Elizabethtown Water Company indicated that the SAP systems and call center functions were robust and scaleable. We see no reason to doubt these assertions at this point. Nevertheless, in response to Elizabethtown RAR-E-32, the Company indicated: "It is not feasible to transfer the New Jersey-American call center workload to Westfield given the significant cost to migrate New Jersey-American's customer functions from the Orcom platform to the SAP platform and given that corporate decisions regarding the future technology platform have not yet been made." (Emphasis added). We do not disagree that there would be additional costs in expanding SAP capacity to handle an additional 348,000 customers.[26] However, we see no reason to unnecessarily prolong the poor service received by New Jersey-American customers from Alton. Although the Company has announced a move of the Westfield call center, we believe the Company to be truthful when it indicates that the end point of the move has yet to be determined. If this is the case, it would seem reasonable to plan a move that

[26] Direct Testimony of Dennis L. Ciemniecki, Exhibit PT-2; New Jersey-American Water Company; Haddon Heights, NJ; July 2003; Exhibit PT-2A, Schedule 1.

would properly accommodate the future work load associated with the combined NJOU's along the current Westfield model at an appropriate location within New Jersey. Notwithstanding the assertion in the response to Elizabethtown RAR-E-32 noted above, it appears clear that "American Water plans to implement a fully integrated SAP information systems solution on a national level in approximately 2007."[27] As the Company moves its New Jersey-American customers from Orcom to SAP, and as the plans for the Westfield call center move are developed, we would anticipate the evolution of circumstances in which customer service improves and in which the ratepayers are only asked to pay once for a call center and its supporting information technologies. As the Company transitions from Alton and the existing Westfield call center to a centralized New Jersey-based call center, we would expect to see an increase in labor and labor related expenses with a corresponding decrease in Service Company charges.

Q. DOES THIS COMPLETE YOUR TESTIMONY AT THIS TIME?

A. Yes, it does.

[27] Op. Cit.; Doll; Exhibit PT-5A; p. 3.

SCHEDULE HJW-1

THE PETITION OF THE MOUNT HOLLY WATER COMPANY FOR AN INCREASE IN RATES FOR WATER SERVICE

BPU Docket No
WR03070509
OAL Docket No
PUCRL 07280-2003N

ROUTINE & RECURRING	Test Year	Post Test Year	RPA Adjustments	RPA Construction Estimate*
A - Mains	$ 1,086,089	$ -	$ -	$ 1,086,089
B - Hydrants	$ 79,437	$ -	$ -	$ 79,437
C - Services	$ 309,660	$ -	$ -	$ 309,660
D - Meters	$ 150,932	$ -	$ -	$ 150,932
E - Other - Water Treatment	$ -	$ -	$ -	$ -
F - Other - Operations	$ 128,830	$ -	$ -	$ 128,830
G - Other - Information Systems	$ -	$ -	$ -	$ -
H - NJDOT Mains	$ 7,162	$ -	$ -	$ 7,162
Subtotal For Routine Projects	$ 1,762,110	$ -	$ -	$ 1,762,110
I - NJDOT Repayments	$ (19,000)	$ -	$ -	$ (19,000)
J - Customer Deposits	$ (876,188)	$ -	$ -	$ (876,188)
K - Customer Refunds	$ 363,700	$ -	$ -	$ 363,700
TOTAL for Routine Projects	$ 1,230,622	$ -	$ -	$ 1,230,622
MAJOR PROJECTS				
Mains				
Rancocas Creek	$ 39,987	$ 750,013	$ (790,000)	$ -
New Egypt Main Replacements	$ 1,054,594	$ 1,260,406	$ (1,260,406)	$ 1,054,594
Homestead System Interconnection	$ 97,716	$ 30,284	$ (128,000)	$ -
Country Walk Phases 4&5	$ 10,000	$ 181,000	$ (191,000)	$ -
Tanks/Storage				
New Egypt Storage	$ 162,771	$ 687,229	$ (850,000)	$ -
Production/Treatment				
Mansfield Expansion	$ 3,063,592	$ 2,666,908	$ (5,730,500)	$ -
Security				
Security Upgrades Program	$ 220,581	$ 179,419	$ (179,419)	$ 220,581
Total Major Projects	$ 4,649,241	$ 5,755,259	$ (9,129,325)	$ 1,275,175
Total Construction Program	$ 5,879,863	$ 5,755,259	$ (9,129,325)	$ 2,505,797

*RPA Construction Estimate is based on Company estimates of completed construction through the end of the test year. All estimates shoud be adjusted to actual as final completed construction costs become known.