

## **Testimony for the Legislative Task Force on Drinking Water Infrastructure**

My name is Andrew Hendry, and I am the President of the New Jersey Utilities Association (NJUA). NJUA represents the investor-owned utility companies (IOUs) in this State, including water companies New Jersey American Water, Suez (formerly United Water), Aqua, Middlesex Water Company, Gordon's Corner Water Company, and Shorelands Water Company. Overall, NJUA's members employ nearly 30,000 people, with payroll in excess of \$2 billion a year. Our members own and operate utility infrastructure valued at more than \$37 billion and pay more than \$800 million a year in State and local taxes.

I would like to thank you for seeking the input of the investor owned water utilities as part of your review of water infrastructure in the State. You may be surprised to hear that our six water companies serve approximately 40 to 45 percent of the State's population in just over 300 municipalities. That is significantly more than in other states, where 15 to 20 percent is more the norm.<sup>1</sup> Our state has approximately 475 public community water systems. That of course means that the vast majority of water systems in New Jersey are small. The American Society of Civil Engineers (ASCE) reports that more than half of New Jersey's systems have a design capacity of less than 1 million gallons a day.<sup>2</sup> By comparison, New Jersey American Water estimates that it provides more than 300 million gallons per day in its service area.

NJUA believes that our State's economy and future depend heavily upon the quality of our infrastructure, be it roads and bridges, or pipes and wires. As we sit at the dawn of the 21<sup>st</sup> century much of the drinking water infrastructure in this State and nation is nearing the end of its useful life. According to the American Society of Civil Engineers' (ASCE) national infrastructure report card from 2016, New Jersey's water infrastructure is in need of significant investment, with ASCE grading NJ with a "C" for drinking water and a "D" for wastewater.<sup>3</sup> As ASCE has noted, "New Jersey's water supply systems were constructed largely during peak periods of development, primarily from 1890 to 1930 when major cities grew, and from 1950 to 1970, when the suburbs added roughly 3 million people."<sup>4</sup> About 20 percent of New Jersey's drinking water infrastructure is more than 100 years old. While age alone does not indicate a pipe's condition or ability to satisfy needs, failure to invest in our water infrastructure will result in higher costs down the road, damage to the State's economy, and deterioration of our quality of life.

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<sup>1</sup> It is also interesting to note that NJ was the first state to utilize chlorine to sanitize water in 1908, making us the first state to have a standardized process for disease free water. See: USEPA. "The History of Drinking Water Treatment." February 2000. <http://www.epa.gov/ogwdw/consumer/pdf/hist.pdf>

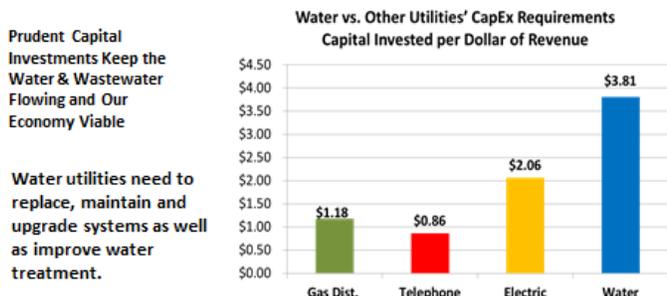
<sup>2</sup> <http://www.infrastructurereportcard.org/wp-content/uploads/2013/02/ASCE-Report-Card-for-NJ-Infrastructure-6.16.16.compressed.pdf>

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

It is important to note that of all of the sectors of the utility industry – e.g. water, electric distribution, natural gas distribution, telephone – water distribution is by far the most capably intensive. That’s demonstrated in the chart below.

## Understanding CapEx Requirements in a High Fixed-Cost Business



Source: Middlesex Water Company

I include this to emphasize one aspect of the challenge we face – **upgrading and repairing water infrastructure is very expensive, whether viewed in gross dollar figures or relative to other types of infrastructure investments.** Of course this is in part due to the fact that much of our water infrastructure is underground, and water companies are also responsible for the treatment of source water (electric generation was “deregulated” in New Jersey and thus the electric generation system is separate from the distribution system). Our companies have risen to that challenge, which I will detail, but I would first like to give you a bit more information on the investor-owned utility model.

It is important to understand that all water utilities in the United States and in New Jersey, public and private, must comply with the requirements of the National Primary Drinking Water regulations.<sup>5</sup> Additionally, all New Jersey water utilities, public and private, must comply with the more stringent requirements of the New Jersey “Safe Drinking Water Act” (SDWA).<sup>6</sup> The record of investor-owned utilities in meeting these requirements has been exceptional, and we are proud of our proven track record.

**Investor-owned utilities are rate-regulated by the New Jersey Board of Public Utilities (BPU).** The rate making process is a quasi-judicial proceeding, where an evidentiary record is developed before an Administrative Law Judge, and parties, including the New Jersey Division of Rate Counsel and affected municipalities, may file briefs and participate in the proceedings. Utilities are required by law to provide service at rates that are “just and reasonable”<sup>7</sup> and must prove that their investments are both

<sup>5</sup> 40 CFR 141 – National Primary Drinking Water Regulations

<sup>6</sup> N.J.A.C. 7:10 Safe Drinking Water Act Rules

<sup>7</sup> N.J.S.A.48:2-21

“reasonable” and “prudent.” The process also includes opportunities for public comment and recent enhancements place a number of requirements on the utilities for notifying the public about proposed rate changes and opportunities to comment.<sup>8</sup> This is unique to the private sector utilities in New Jersey.

Utility capital investments do frequently have an impact on rates, but it is important for ratepayers and policymakers to recognize that development of our rates is subject to a very balanced and transparent, litigated process. As a result, our customers can have confidence that our rates reflect the actual cost of the service – capital expenditures, cost of operations and maintenance, and cost of capital. It is also important to remember that there is significant cost associated with NOT making necessary investments – our companies estimate that it costs 10 times more to make emergency repairs than to upgrade infrastructure proactively. Of course, breaks in service also have a negative economic impact on your constituents and businesses.

**Investor-owned utility service is subject to BPU regulation and oversight.**<sup>9</sup> The BPU has a statutory obligation to ensure that utilities under its jurisdiction provide “safe, adequate and proper” service.<sup>10</sup> As such, the BPU can adopt regulations, issue orders, and hold public hearings regarding any aspect of service carried out by New Jersey investor-owned utilities. For example, the IOU water companies are subject to new cyber security rules administered by BPU. Operations are also regulated, including meter testing, valve and hydrant inspections, and customer service.

The investor-owned water utilities in New Jersey have been rising to the challenge of New Jersey’s aging infrastructure. Combined, they spend hundreds of millions of dollars a year, and have spent roughly \$2 billion dollars on improvements to infrastructure over a five year period. Below are examples of a few of those infrastructure improvement, to give the reader a sense of the cost of such projects, and also the wide variety of capital investments<sup>11</sup> that go into ensuring that your constituents have access to safe, clean water. Our companies are able to make these investments while keeping the cost of their service is about one penny per gallon of water.

- New Jersey American Water (NJAW) is spending \$45 million on its Howell Transmission Main. This includes more than five miles of new main to connect its Oak Glen plant to its Lakewood system
- NJAW is spending \$28 million to expand its Oak Glen water treatment plant.
- NJAW is spending \$3.9 million for the cleaning and lining of its pipes in Westfield.
- Suez recently spent \$25 million on the Woodcliff Lake Dam, and \$14 million on the Oradell Dam.

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<sup>8</sup> BPU Docket No. AO13030252 – In the Matter of Additional Methods to Inform the Public Concerning Utility Filings." from the Oct 16, 2013 BPU Meeting

<sup>9</sup> N.J.S.A.48:2-13

<sup>10</sup> N.J.S.A.48:2-23

<sup>11</sup> By way of illustration, Suez, the second largest water utility in New Jersey, has 5 dams, 10 treatment plants and 65 wells in addition to its 2800 miles of mains. NJAW maintains 165 tanks, water towers and standpipes, the largest of which holds 10 million gallons of water.

- Suez is spending \$10 million to update an electrical substation serving its Haworth water treatment plant, which had its 50<sup>th</sup> anniversary in 2016.
- Suez is spending \$150 million on improvements to its distribution system, including sectorization and main and valve replacement, over the next five years.
- Suez is rolling out a system of Enhanced Meter Reading over five years, beginning in 2015, and costing \$50 million. Smart meters record water usage in real time, and wirelessly transmit data back to the water company—instantly.<sup>12</sup>
- Aqua NJ has spent more than \$70 million over the past five years on distribution system improvements.
- New Jersey American Water is constructing a 750,000 gallon water tower in Harrison Township, at a cost of \$5 million
- A six month project recently begun by Middlesex Water Company will replace eight miles of water mains, service lines, valves, fire hydrants and meters in Edison and South Amboy. The project will cost about \$12 million.
- Several of our companies take advantage of lower cost capital through the New Jersey Environmental Infrastructure Trust, which ultimately saves our customers money. For example, NJAW received approximately \$130 million from the EIT over the last five years from many projects including its Canoe Brook Water Treatment Plant, and raising of its floodwall at its Raritan-Millstone Water Treatment Plant in Bridgewater. Our smallest member company, Shorelands Water Company, which serves Hazlet and a portion of Holmdel, used the NJEIT to construct a water treatment plant.

One reason that our companies have been able to make these major capital improvements in recent years is that New Jersey is one of only eleven states with a “Distribution System Improvement Charge” (DSIC), adopted in 2012 by the NJBPU. The DSIC allows water companies to utilize a modest surcharge, separately itemized on a customer’s bill, providing for contemporaneous recovery of expenditures on rehabilitation and replacement of aging infrastructure. This is a departure from the typical process for recovering capital costs, which requires the utility to first complete a capital project, then go to the BPU for a litigated “base rate case,” wherein the utility does not know what portion of the capital project it will ultimately be able to recover. The DSIC creates more certainty for the utilities and more of an incentive to invest in non-revenue producing infrastructure. The regulations governing the DSIC are set to expire in June of 2017.<sup>13</sup> Our companies are currently working with BPU staff to encourage re-adoption of the regulations and are suggesting improvements, such as an increase in the amount that can be raised through the DSIC “cap”, and expansion of the DSIC to sewer utilities, as is allowed under Pennsylvania law.

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<sup>12</sup> These meters enable customers to save water and money by clearly showing how personal choices impact water usage; for example, how much water it takes to wash dishes by hand versus with a machine, or how much water lawn sprinklers use compared to other smaller uses. Consumers can receive email or text message alerts for sudden spikes in water usage, which could indicate an emergency such as a pipe leak or toilet that constantly flows. SUEZ has installed 34,700 smart meters in the New York Metropolitan area, including 10,500 new smart meters in Bayonne, NJ, covering 90% of the city’s residents and businesses. In only the first months of operation, over 1,000 homeowners had been notified by SUEZ of potential leaks on their property.

<sup>13</sup> NJAC 14:9-10.1

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In conclusion, New Jersey's investor owned utilities are leading the way to a reliable and resilient water infrastructure. We hope to serve as a resource to you in finding ways to further spur investment throughout the entire state.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "A. D. Hendry", with a large, stylized flourish at the end.

Andrew D. Hendry  
President  
New Jersey Utilities Association