

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE
REVISION OF RATES FILED BY
PINELANDS WATER COMPANY

PREFILED TESTIMONY

OF

ROBERT J. CAPKO
CONTROLLER

SEPTEMBER 2022

**PINELANDS WATER COMPANY
PETITION FOR APPROVAL OF AN INCREASE IN RATES FOR WATER SERVICE
AND OTHER TARIFF CHANGES
SEPTEMBER 2022
DIRECT TESTIMONY OF ROBERT J. CAPKO**

1 Q. **Please state your name and business address.**

2 A. Robert J. Capko, 485C Route 1 South, Suite 400, Iselin, New Jersey 08830.

3 Q. **Please state your professional qualifications and experience.**

4 A. I am a Certified Public Accountant and Controller of Pinelands Water Company (“Pinelands”
5 or the “Company”). I am also Corporate Controller of Middlesex Water Company
6 (“Middlesex”), the sole shareholder of Pinelands. I have been employed with Middlesex since
7 2009. Prior to 2009, I was an Audit Senior Manager at Deloitte & Touche LLP in their Energy
8 and Public Utilities Group, with a focus on publicly traded regulated utilities, which included
9 several regulated public utilities clients subject to the jurisdiction of the New Jersey Board of
10 Public Utilities (the “Board” or “NJBPU”). My overall responsibilities at Pinelands and
11 Middlesex are accounting, taxes, payroll, internal and external financial reporting, external
12 audit coordination, and financial enterprise resource planning system management,
13 implementation and upgrade. My responsibilities also include assisting with Pinelands and
14 Middlesex’s cash management, budget and forecasting, financing program, and regulatory and
15 rate case filings.

16 Q. **Have you ever testified before or submitted testimony to NJBPU or Board?**

17 A. I have previously submitted testimony in Pinelands Water Company’s 2019 base rate proceeding
18 before the Board in NJBPU Docket Number WR19030417, in Pinelands Wastewater Company’s 2019
19 base rate proceeding before the Board in NJBPU Docket Number WR19030418 and in Middlesex’s
20 2021 base rate proceeding before the Board in NJBPU Docket Number WR21050813. I have also
21 previously participated in Distribution System Improvement Charge filings, Purchased Water

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1 Adjustment Clause filings and equity and long-term debt securities filings made by Middlesex to the
2 NJBPU.

3 **Q. Have you prepared exhibits to the Petition containing balance sheets and statements of income**
4 **for the Company?**

5 A. Yes. Exhibits to the Petition entitled “Balance Sheets as of December 31, 2021, 2020 and
6 2019” (Exhibit C), “Statements of Income for the Years Ended December 31, 2021, 2020 and
7 2019” (Exhibit D) and “Balance Sheet as of June 30, 2022” (Exhibit E) were prepared under
8 my supervision, direction and control. The Balance Sheets as of December 31, 2021, 2020 and
9 2019 have also been identified as Exhibit P-3 to my testimony and the Statements of Income
10 for the Years Ended December 31, 2021, 2020 and 2019 as Exhibit P-4.

11 **Q. Were these exhibits prepared in accordance with Generally Accepted Accounting**
12 **Principles and the Uniform System of Accounts prescribed by the NJBPU for a water**
13 **utility?**

14 A. Yes.

15 **Q. Is the financial information contained in these exhibits true and correct to the best of**
16 **your knowledge and belief?**

17 A. Yes.

18 **Q. Have you prepared a pro forma income statement for the twelve months ended**
19 **December 31, 2022?**

20 A. An Exhibit entitled “Statement of Income for the Twelve Months Ended December 31, 2022,”
21 which includes adjustments at present and proposed rates, designated as Exhibit F to the

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1 Petition and as Exhibit P-5 to the pre-filed direct testimony of Michele L. Tilley, was prepared
2 under my direct supervision, direction and control. A proof of revenue for the proposed rates
3 has been included as part of Exhibit A to the Petition.

4 **Q. Please describe Exhibit P-5.**

5 A. Exhibit P-5 is a pro forma income statement reflecting operating income at present
6 and proposed rates, including adjustments the Company deems appropriate. It also
7 includes a calculation showing the Company’s proposed rate of return on rate base. We have
8 used the twelve-month period ending December 31, 2022 as the Test Year, with adjustments
9 for known and anticipated changes. These adjustments appropriately reflect the Board’s policy
10 of setting rates based on an historical test year plus adjustment for known and anticipated
11 changes to approximate the business environment within which the Company expects to be
12 operating during the period rates are expected to be in effect. It is anticipated that the time
13 frame for the first full year of rates from this proceeding will be approximately July 1, 2023
14 through June 30, 2024 if this case takes the statutory nine months to complete. An earlier or
15 later conclusion for this rate case would adjust the dates of that first year of rates. Although it
16 is my opinion that the Board’s current test year policies, originally set in the Elizabethtown
17 Water case decades ago, does not reflect in actuality what costs and investment Pinelands and
18 its customers will face during the life of the rates set in this case, no adjustments have been
19 made beyond the 3-6-9 approach designated in that Elizabethtown Water case.

20 The first column, entitled “Test Year December 31, 2022”, contains actual results of operations
21 for the five months ended May 31, 2022, plus forecasted results of operations for the seven

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1 months ended December 31, 2022. The second column, entitled “Adjustments”, contains
2 known and anticipated changes to occur by December 31, 2022, as well as events that are
3 expected to be known by the time this proceeding is anticipated to be concluded. The third
4 column, entitled “Adjusted Test Year”, represents the arithmetic results of combining the first
5 and second columns. The fourth column entitled “Proposed Adjustment”, shows the requested
6 increase in operating revenues, in addition to the Gross Receipts and Franchise Tax and
7 Federal Income Tax effects required to (1) recover those prudently incurred operating costs,
8 and (2) earn a fair and reasonable return, as shown on Exhibit P-5, page 11. The fifth column,
9 entitled “At Proposed Rates”, contains the Statement of Income with adjustments at proposed
10 rates. It is the Company’s intention to update Exhibit P-5 with actual results of operations
11 through December 31, 2022, as well as any further known and anticipated changes beyond
12 December 31, 2022, as appropriate, during the course of this proceeding.

13 **Q. Please describe the proforma adjustments for changes in the retirement benefits,**
14 **other than pensions plan valuation and pension plan valuation included in the**
15 **administrative & general adjustment on Exhibit P-5.**

16 A. These adjustments represent the cost of retirement benefits, other than pensions, and
17 pensions using the January 1, 2022 valuations, as prepared by the Company’s independent
18 actuaries and updated for current financial market conditions. The 2023 actuarial
19 valuations are expected to be completed prior to the conclusion of this matter.

20 **Q. Please explain the adjustment to Federal income taxes on Exhibit P-5.**

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1 A. This adjustment sets forth the income tax calculation adjusted at present and proposed
2 rates. The beginning point of the calculation is operating income before income taxes.
3 Interest expense for income tax purposes was calculated by applying the weighted cost of
4 debt, as calculated at Exhibit P-5, page 11, to the rate base amount shown on Exhibit P-6
5 to arrive at the interest expense deduction. Income taxes are then calculated at the current
6 effective Federal income tax rate of 21.0%. The first adjustment to income taxes is the
7 flow back of previously collected income taxes at higher tax rates than are now in effect as
8 a result of the Tax Cuts and Jobs Act of 2017. These over collected taxes are considered a
9 protected regulatory liability and are being amortized in accordance with guidelines to
10 ensure compliance with the Internal Revenue Service normalization requirements. The
11 amortization rate is 2.5%.

12 **Q. Will you discuss the proposed changes to the base rate schedules in the tariff sheets**
13 **designated as Exhibit A to the Petition?**

14 A. The Company is proposing that each customer class receive the same percentage increase
15 in rates and that the change in rates should be applied equally to the Service Charge and
16 Volumetric Charge within the respective customer classes. Therefore, the tariff rates are
17 based on average percentage increases applied to existing tariffs of the Company.

18 **Q. Are there any other tariff changes that the company is proposing?**

19 A. There are specific non-water service related rate changes and non-revenue tariff changes as
20 well as clarifying tariff changes proposed and included in a marked-up copy of the Tariff

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1 in Exhibit A. These changes are described in the pre-filed direct testimony of Mr. G.

2 Christian Andreasen.

3 **Q. Does this conclude your testimony?**

4 **A. Yes.**

PINELANDS WATER COMPANY
BALANCE SHEET
DECEMBER 2019, 2020 AND 2021

	<i>DECEMBER</i> <i>2019</i>	<i>DECEMBER</i> <i>2020</i>	<i>DECEMBER</i> <i>2021</i>
Utility Plant			
Utility Plant In Service	5,858,232	6,123,173	6,947,409
Acquisition Adjustment	78,329	70,455	62,582
Construction Work In Progress	7,519	181,510	84,219
TOTAL	<u>5,944,079</u>	<u>6,375,139</u>	<u>7,094,210</u>
Less: Accumulated Depreciation	<u>1,212,705</u>	<u>1,309,158</u>	<u>1,430,460</u>
Utility Plant - Net	<u>4,731,374</u>	<u>5,065,981</u>	<u>5,663,750</u>
Current Assets			
Cash and Cash Equivalents	102,292	58,417	118,051
Accounts Receivable	103,634	228,436	147,633
Accumulated Provision for Uncollectible Accounts	(26,000)	(33,029)	(32,589)
Prepayments	16,554	18,603	17,907
Accrued Unbilled Revenues	7,897	7,897	0
Total Current Assets	<u>204,377</u>	<u>280,325</u>	<u>251,002</u>
Deferred Charges And Other Assets			
Regulatory Asset - Deferred Debits	29,711	19,225	8,739
Total Deferred Debits	<u>29,711</u>	<u>19,225</u>	<u>8,739</u>
Total Assets	<u>4,965,463</u>	<u>5,365,530</u>	<u>5,923,491</u>
Capitalization			
Common Equity			
Common Stock, No Par Value	1,000	1,000	1,000
Paid In Capital	674,000	674,000	1,024,000
Retained Earnings	349,274	518,947	630,314
Total Capitalization	<u>1,024,274</u>	<u>1,193,947</u>	<u>1,655,314</u>
Current Liabilities			
Notes Payable to Middlesex Water	568,773	568,773	1,568,773
Accounts Payable Trade	75,777	206,761	152,569
Accounts Payable to MWC	1,385,757	1,484,635	606,792
Accrued Taxes	113,223	133,958	136,593
Other Current Liabilities	64,083	39,969	63,349
Total Current Liabilities	<u>2,207,614</u>	<u>2,434,095</u>	<u>2,528,077</u>
Deferred Credits & Other Liabilities			
Customer Advances for Construction	28,979	28,979	28,979
Other Deferred Credits	247,626	251,540	254,151
Total Deferred Credits	<u>276,605</u>	<u>280,518</u>	<u>283,130</u>
Contributions In Aid of Construction	1,456,969	1,456,969	1,456,969
Total Capitalization & Liabilities	<u>4,965,463</u>	<u>5,365,530</u>	<u>5,923,491</u>

PINELANDS WATER COMPANY
INCOME STATEMENT
FOR TWELVE MONTHS ENDED DECEMBER 31, 2019, 2020 AND 2021

	<i>DECEMBER</i> <i>2019</i>	<i>DECEMBER</i> <i>2020</i>	<i>DECEMBER</i> <i>2021</i>
Operating Revenues	874,989	1,023,516	1,018,098
Operating Expenses			
Operations & Maintenance	523,581	486,321	504,709
Depreciation and Amortization	113,067	124,653	139,521
Taxes, Other than Income Taxes	133,420	155,681	156,997
Federal & State Income Taxes	24,351	37,741	20,833
Total Operating Expense	<u>794,420</u>	<u>804,395</u>	<u>822,061</u>
Operating Income	<u>80,569</u>	<u>219,121</u>	<u>196,037</u>
Other Income (Expense)			
AFUDC - Equity	0	0	4,370
Other Income	0	(3,040)	0
Income Before Interest Charges	<u>80,569</u>	<u>216,081</u>	<u>200,407</u>
Interest Charges			
AFUDC - Debt	0	0	(3,418)
Other Interest Charges	47,291	46,408	92,458
Total Interest Charges	<u>47,291</u>	<u>46,408</u>	<u>89,041</u>
Net Income	<u><u>33,278</u></u>	<u><u>169,673</u></u>	<u><u>111,367</u></u>