

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

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

PREFILED TESTIMONY

OF

MICHELE L. TILLEY
DIRECTOR of BUDGET & RATES

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 MICHELE L. TILLEY**

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

2 A. Michele L. Tilley, 485C Route One South, Suite 400, Iselin, New Jersey 08830.

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

4 A. I am the Director of Budget and Rates for Middlesex Water Company (“Middlesex”), the
5 sole shareholder of Pinelands Water Company (“Pinelands” or “the Company”). I have been
6 employed with Middlesex since July 2007. My present duties consist of preparing and
7 assisting in all regulatory and rate planning related activities for Middlesex and its regulated
8 water and wastewater utilities. My responsibilities include the preparation and review of
9 financial statements, work papers, exhibits, pre-filed testimony and other activities in
10 support of the regulatory and planning activities for Middlesex. I have prepared exhibits and
11 analysis for every rate matter for Middlesex and its regulated water and wastewater utility
12 companies since my employment began in 2007. My responsibilities also include managing
13 the budget process and income tax compliance filings for Middlesex and its affiliated
14 companies, including Pinelands. Prior to 2007, I held various financial positions in
15 publically traded companies, primarily within the retail industry. I earned a Bachelor of
16 Science Degree in Accounting from Rutgers University in 1989.

17 **Q. Have you ever testified before or submitted testimony to the New Jersey Board of
18 Public Utilities (“NJBPU” or “Board”)?**

19 A. Yes. I submitted testimony and supporting exhibits in the Middlesex 2013, 2015, 2017 and
20 2021 base rate proceedings before the Board in BPU Docket Numbers WR13111059,

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1 WR15030391, WR17101049 and WR21050813, the Pinelands Water Company 2019 base
2 rate proceeding before the Board in BPU Docket Number WR19030417, the Pinelands
3 Wastewater Company 2019 base rate proceeding before the Board in BPU Docket Number
4 WR19030418. I also submitted testimony and supporting exhibits in Middlesex’s Purchased
5 Water Adjustment Clause (“PWAC”) proceedings before the Board in BPU Docket
6 Numbers WR16040306, WR17050524, WR18080948, WR19111463, WR20110722 and
7 WR22030138.

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

10 A. Yes, I prepared, under the supervision, direction and control of Mr. Robert J. Capko,
11 Pinelands Controller, an Exhibit entitled “Statement of Income for the Twelve Months
12 Ended December 31, 2022,” which includes adjustments at present and proposed rates,
13 designated as Exhibit F to the Petition and as Exhibit P-5 to my testimony. Please refer to
14 the pre-filed testimony of Mr. Capko for further description of Exhibit P-5.

15 **Q. Please explain the change in customer accounts expenses as shown on Exhibit P-5.**

16 A. The Test Year adjustment for the cost of service provided by Middlesex represents a
17 projected wage increase of 5% anticipated to be effective March 25, 2023. The same 5%
18 wage increase is also reflected as an adjustment to labor charges under Administrative &
19 General costs.

20 **Q. How are you proposing to adjust the allowance for bad debts?**

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1 A. The allowance for bad debts, which has been included as a factor in the tax gross up
2 calculation, increases by the proposed rate increase percentage in this matter.

3 **Q. Please explain the rate case expenses in the adjustment to Administrative & General**
4 **expenses as shown on Exhibit P-5.**

5 A. These expenses are the estimated costs to prosecute this rate proceeding. Due to the
6 relatively large increase being requested, the Company anticipates significant concern by
7 intervening parties, which could inhibit the Company's ability to earn a fair return under a
8 settlement scenario for the investments and other costs the Company has or will incur in
9 order to provide safe and reliable utility service. The Company therefore assumes this rate
10 matter will be a fully litigated proceeding. Therefore, the full estimated cost of such
11 litigation is reflected in the Test Year adjustment calculation. A three year amortization
12 period has been selected as our best estimate at this time for the life of these rates.

13 **Q. Have you included an adjustment for employee health benefits?**

14 A. The Company's Health Plan insurance policies, which include medical, prescription and dental
15 coverage, renew annually on January 1st. This adjustment reflects the expected cost of the
16 various policy premiums net of employee contributions and capitalized benefits, that will be in
17 effect as of January 1, 2023. Employees who have access to an alternate source of medical
18 coverage may elect to opt-out of that component of the Company Health Plan. This option allows
19 for savings to the Company and therefore, to its customers. The Company's insurance broker
20 generally notifies the Company approximately six to eight weeks before the new insurance

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1 policy period begins. As more accurate information becomes available, the Company will
2 update its pro forma medical insurance expense.

3 **Q. Was an adjustment included for the defined benefit pension (DB) and nonpension**
4 **retirement plan (FAS 106) plans?**

5 A. I have included the proforma cost for defined benefit pension and nonpension retirement
6 plans which were provided to me by Mr. Robert Capko, and is more fully described in his
7 pre-filed direct testimony.

8 **Q. What is the business insurance adjustment?**

9 A. The Company is in various stages of migrating its business insurance policies to align with a
10 1/1-12/31 annual policy period. This adjustment reflects projected changes in the various
11 policies' annual premiums. The renewals for the Company's business insurances will likely
12 be known prior to the conclusion of this rate matter. As additional information becomes
13 available, the Company will update its pro forma business insurance expense.

14 **Q. What is the general (shared) overhead charged to affiliates adjustment?**

15 A. Middlesex provides various professional support services for the benefit of Pinelands
16 customers. This includes accounting, customer service, legal, regulatory, metering,
17 engineering, treatment and other operational disciplines. This adjustment represents the
18 proposed overhead costs associated with such services provided to Pinelands by Middlesex..

19 **Q. What is the MWC (Contract) labor charges to affiliates adjustment?**

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1 A. Middlesex provides various professional support services for the benefit of Pinelands
2 customers. Middlesex employees record and charge the time expended to provide these
3 direct services to Pinelands. The Test Year charges have been adjusted for the projected
4 5.0% wage increase effective March 25, 2023.

5 **Q. Please explain the adjustment for antenna revenue.**

6 A. Pinelands currently receives monthly rent payments under two separate lease contracts with
7 wireless telephone service providers Sprint and T-Mobile for installing and maintaining their cell
8 equipment on the Company's water storage tank. However as more fully described in the
9 testimony of Mr. G. Christian Andreasen, the Company has received notification from Sprint that
10 it intends to terminate its contract. The anticipated impact on the overall revenue requirement has
11 been reflected in this adjustment. The adjustment also reflects a full year of the annual 3%
12 contractual increase for T-Mobile effective September 1, 2022. Pinelands is proposing to include
13 the rent from the sole remaining contract as a reduction to operations expense. These revenues
14 are recorded as rents from water property revenue in account 472, in accordance with the
15 Uniform System of Accounts.

16 **Q. Please explain the depreciation and amortization expense adjustment on Exhibit P-5.**

17 A. The adjustment brings the Test Year depreciation expense to the pro forma depreciation
18 expense by applying depreciation rates approved in BPU Docket No. WR96020125 to the
19 expected pro forma Net Depreciable Utility Plant in Service ("UPIS") balance used to set
20 rates. This adjustment will be impacted by whatever is determined to be plant in service.

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1 **Q. Please explain the adjustment for salaries & wages payroll adjustment on Exhibit P-5.**

2 A. The first adjustment is for budgeted wage increases for employees who are on a wage
3 progression schedule. These increases are designed to bring an entry level employee to pay
4 parity with other employees performing similar jobs over a 36-month period, assuming
5 acceptable job performance. The second and third adjustments represent the annualized
6 effect of an anticipated March 25, 2023 average wage increase of 5.0% on base payroll and
7 overtime payroll. The fourth adjustment represents the effect of applying the expected
8 capitalized labor and subsidiary labor allocation percentages to the adjusted Test Year
9 payroll.

10 **Q. How does the payroll tax adjustment on Exhibit P-5 correlate to the payroll increase?**

11 A. The adjustment for payroll taxes shows the calculation of the social security tax increase on
12 the taxable portion of the pro forma increase in payroll. I have not made any allowance at
13 this time for unemployment or disability taxes because it is likely that the payroll increase is
14 above the taxable wage base for those taxes.

15 **Q. Please explain the gross receipts & franchise taxes adjustment on Exhibit P-5.**

16 A. The adjustment sets forth the calculation of gross receipts and franchise taxes at present and
17 proposed rates. Column one represents the effect of the revenue adjustments on test year
18 amounts. Column two represents the increase in revenue taxes based upon the proposed
19 revenue increase.

20 **Q. Please explain the real estate tax adjustment on Exhibit P-5.**

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1 A. The Township of Southampton (“Township”) has not yet issued its real estate tax bills for
2 their Fiscal Year of 2022. The Company received first and second quarter preliminary bills
3 and expects to receive the final full year bill before the end of the Township’s fiscal year.
4 The adjustment was based on the preliminary bills issued by the Township. Pinelands will
5 provide updates to the parties as they become available over the course of this proceeding.

6 **Q. Can you explain the NJBPU and Division of Rate Counsel regulatory assessments**
7 **adjustment on Exhibit P-5?**

8 A. The first adjustment is the result of the change in NJBPU and Division of Rate Counsel
9 assessment rates, as indicated on the 2022 assessment invoices applied to adjusted Test Year
10 revenue. The second adjustment reflects the proposed rate increase percentage affect on the
11 NJBPU and Division of Rate Counsel assessments.

12 **Q. Can you explain the adjustment to Federal income taxes on Exhibit P-5?**

13 A. Please refer to the pre-filed direct testimony of Mr. Capko.

14 **Q. What is the tax gross-up calculation shown on Exhibit P-5, page 12?**

15 A. The tax gross-up calculation is used to account for the impact of additional tax and other
16 expenses that will be incurred on the proposed revenue increase. The gross-up factor is applied to
17 the proposed operating income deficiency shown on Exhibit P-5, page 12 to determine the total
18 revenue requirement.

19 **Q. Have you prepared an Exhibit entitled rate base calculation?**

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1 A. Yes, an Exhibit entitled Rate Base Calculation, designated as Exhibit P-6, was prepared by me,
2 under the direct supervision of Mr. Capko.

3 **Q. Please describe how the rate base was calculated as shown on Exhibit P-6.**

4 A. The beginning point of the rate base calculation is the projected UPIS as of June 30, 2023.
5 The detail of the additions and retirements for the Test Year and post-Test Year UPIS is
6 shown in Exhibit P-2 and will be addressed in the pre-filed direct testimony of Mr. Brian
7 Carr. Next, the reserve for depreciation was calculated. Beginning with the Reserve for
8 Depreciation balance as of March 31, 2022, the remaining nine months of Test Year
9 Depreciation Expense was added. Annual depreciation expense can be found in Exhibit P-5,
10 page 5. Next, I subtracted Test Year retirements to arrive at a Test Year Reserve for
11 Depreciation.

12 **Q. Please explain the next component of rate base.**

13 A. As part of the asset purchase of the utility system in 1995, an acquisition adjustment was
14 recorded on the books. The acquisition adjustment and the amortization of said
15 adjustment was approved in BPU Docket No. WR96020125. The amount shown in the
16 schedule represents the net remaining balance in the account.

17 **Q. How did you calculate the working capital allowance?**

18 A. I developed this amount by utilizing the 1/8 of operation and maintenance expense
19 methodology. This is the methodology used by Pinelands in its last six base rate cases
20 before the NJBPU. I believe it is appropriate to continue to utilize this method.

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1 **Q. Please explain the adjustment for unamortized regulatory liabilities (property related)?**

2 A. This component of rate base represents the projected unamortized balance as of December 31,
3 2022 of the Regulatory Liability which was established following the enactment of the Tax Cuts
4 and Jobs Act of 2017 (“2017 TCJA”). The Regulatory Liability represents the portion of
5 accumulated deferred income taxes (“ADIT”) collected at the higher pre-2017 TCJA tax rate at
6 the time the customer rates were approved prior to the 2017 TCJA. The annual amortization of
7 the Regulatory Liability is reflected as a reduction in Federal Income Tax expense shown on
8 Exhibit P-5, page 10. This adjustment is further described in the pre-filed testimony of Mr.
9 Capko.

10 **Q. What are the remaining line items?**

11 A. I have adjusted rate base for Contributions in Aid of Construction, Customer Advances
12 for Construction and ADIT. ADIT represents taxes collected from customer current rates,
13 but not currently due to the Internal Revenue Service since the Company elects to depreciate
14 its property on an accelerated basis for income tax purposes. These amounts represent the
15 projected balances as of December 31, 2022, and will be updated as additional information
16 becomes available.

17 **Q. Is the company proposing any solutions to reduce the cost to prosecute this base rate**
18 **increase application?**

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1 A. One area within this rate matter for which rate case costs can be mitigated is the cost of
2 retaining a cost of capital expert witness to develop and support the appropriate capital
3 structure and fair return.

4 **Q. How can that cost be mitigated?**

5 A. For cost of capital, in particular the appropriate return on equity (ROE) for the Company, if
6 a relevant benchmark agreeable to all parties in this rate matter could be employed to set
7 ROE, the need for each party, be it Rate Counsel or the Company, to retain expert witnesses,
8 could be eliminated. The Company is proposing to utilize 9.60% as the appropriate and
9 reasonable ROE benchmark in this rate matter. This rate represents the ROE approved by
10 the NJBPU in the most recent base rate decision for Middlesex (See BPU Docket No.
11 WR21050813, Order, dated December 15, 2021) as well as the ROE approved in recently
12 settled base rate cases for other non-affiliated water utilities. If financial market conditions
13 were to affect the level of ROE authorized in other base rate matters before the Board during
14 the pendency of the Pinelands base rate case, I believe it is reasonable for the parties to
15 consider the new level of ROE as the appropriate ROE benchmark in this rate matter.

16 **Q. Please quantify the cost related to cost of capital testimony to be potentially mitigated.**

17 A. Based on the historical costs incurred from other rate matters, expert witness fees could
18 reach up to \$35,000, plus legal and other costs. I cannot project the amount of further
19 savings if the utilization of this type of expert witness could be avoided by Rate Counsel.

20 **Q. Please explain how the debt cost rate of 7% shown on Exhibit P-5 was developed.**

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1 A. The 7% debt cost rate was used in Pinelands’ four most recent base rate cases as a
2 component of the approved rate of return. Pinelands has been unable to establish a
3 reasonable credit arrangement with any financial institution. This is because of its inability
4 to demonstrate that it has the net income and cash flow to support debt repayment. As such,
5 Middlesex acts as Pinelands’ financing vehicle.

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

7 A. Yes.

PINELANDS WATER COMPANY
STATEMENT OF INCOME FOR THE TWELVE MONTHS ENDED
DECEMBER 31, 2022
(5 Months Actual + 7 Months Projection)
BPU DOCKET NO. WR2209XXXX

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR	64.22% PROPOSED ADJUSTMENT	AT PROPOSED RATES
OPERATING REVENUES	\$ 949,262	\$ -	\$ 949,262	609,576	\$ 1,558,838
TOTAL OPERATING REVENUES	\$ 949,262	\$ -	\$ 949,262	\$ 609,576	\$ 1,558,838
OPERATING EXPENSES:					
SOURCE OF SUPPLY	11,137	-	11,137		11,137
PUMPING EXPENSE	64,785	-	64,785		64,785
WATER TREATMENT EXPENSE	16,014	-	16,014		16,014
TRANSMISSION & DISTRIBUTION	45,535	-	45,535		45,535
CUSTOMER ACCOUNTS	40,578	1,111	41,689	2,312	44,001
ADMINISTRATION & GENERAL	181,458	46,489	227,947		227,947
DEPREC & AMORTIZATION	159,024	33,095	192,119		192,119
SALARIES & WAGES	142,789	33,370	176,159		176,159
SUB TOTAL	661,320	114,066	775,386	2,312	777,697
TAXES OTHER THAN INCOME TAXES:					
PAYROLL	11,908	2,553	14,461	-	14,461
GRAFT	132,528	-	132,528	85,544	218,073
OTHER	11,268	245	11,513	1,837	13,350
TOTAL TAXES OTHER	155,704	2,798	158,502	87,381	245,884
TOTAL OPERATING EXPENSES	817,024	116,864	933,888	89,693	1,023,581
OPERATING INCOME BEFORE FIT	132,238	(116,864)	15,374	519,883	535,257
INCOME TAXES	(10,439)	(26,882)	(37,321)	109,175	71,854
NET OPERATING INCOME	\$ 142,677	\$ (89,982)	\$ 52,695	\$ 410,707	\$ 463,402
RATE BASE	\$ 5,530,292		\$ 5,530,292		\$ 5,530,292
RATE OF RETURN	2.58%		0.95%		8.38%

PINELANDS WATER COMPANY

CUSTOMER ACCOUNTS

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 40,578	\$ 1,111	\$ 41,689

ADJUSTMENTS

MWC (CS CONTRACT) LABOR CHARGED TO AFFILIATES	\$ 22,210		
MARCH 25, 2023 WAGE INCREASE @ 5.0%	1,111		
		23,321	
LESS: TEST YEAR		(22,210)	
PRO FORMA ADJUSTMENT			\$ 1,111
TOTAL PRO FORMA ADJUSTMENTS - CUSTOMER ACCOUNTS			\$ 1,111

BAD DEBT

	TEST YEAR UNADJUSTED	ADJUSTED TEST YEAR ADJUSTMENT	PROPOSED RATES ADJUSTMENT
REVENUE	\$ 949,262	\$ -	\$ 609,576
TEST YEAR BAD DEBT	3,600		
TY ADJUSTMENT (RESERVE FOR 2 LARGE WO'S)	0		
PRO FORMA BAD DEBT	3,600		
PRO FORMA BAD DEPT % OF REVENUE	0.37924%	0.37924%	0.37924%
		\$ -	\$ 2,312

**PINELANDS WATER COMPANY
ADMINISTRATIVE & GENERAL EXPENSES**

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 181,458	\$ 46,489	\$ 227,947

ADJUSTMENTS

REGULATORY COMMISSION EXPENSES

2022 RATE CASE EXPENDITURES	\$ 55,000		
3 YEAR AMORTIZATION PERIOD	<u>3</u>		
	18,333		
50% SHARING	<u>50%</u>		
		9,167	
LESS TEST YEAR		<u>(8,739)</u>	
PROFORMA ADJUSTMENT - RATE CASE EXPENSES			\$ 428

EMPLOYEE BENEFITS

MEDICAL, PRESCRIPTION & DENTAL PLANS (Net of Contributions)	\$ 36,370		
LESS: CAPITALIZED	<u>(4,568) -12.56%</u>		
		31,801	
LESS: TEST YEAR		<u>(19,921)</u>	
PRO FORMA ADJUSTMENT MEDICAL AND PRESCRIPTION PLANS			\$ 11,880

NONPENSION RETIREMENT PLAN VALUATION	3,228		
LESS: CAPITALIZED	<u>(405) -12.56%</u>		
		2,823	
LESS TEST YEAR		<u>(5,636)</u>	
PRO FORMA ADJUSTMENT NONPENSION RETIREMENT PLANS			\$ (2,814)

PENSION PLAN VALUATION	\$ 5,778		
LESS: CAPITALIZED	<u>(726) -12.56%</u>		
		5,052	
LESS TEST YEAR		<u>(9,879)</u>	
PRO FORMA ADJUSTMENT PENSION PLAN			\$ (4,827)

**PINELANDS WATER COMPANY
ADMINISTRATIVE & GENERAL EXPENSES**

OTHER

BUSINESS INSURANCE		\$	18,238	
LESS: TEST YEAR			(14,667)	
PRO FORMA ADJUSTMENT				\$ 3,570
GENERAL (SHARED) OVERHEAD CHARGED TO AFFILIATES		\$	30,206	
LESS: TEST YEAR			(27,479)	
PRO FORMA ADJUSTMENT				\$ 2,727
MWC (CONTRACT) LABOR CHARGED TO AFFILIATES	\$	86,129		
MARCH 25, 2023 WAGE INCREASE @ 5.0%		4,306		
			90,435	
LESS: TEST YEAR			(86,129)	
PRO FORMA ADJUSTMENT				\$ 4,306
ANTENNA REVENUE-REMAINING CONTRACTS (a/c 472)				
SPRINT - MONTHLY RENT (Contract Projected to be Terminated as of 9/30/2022)	\$	-		
T-MOBILE - MONTHLY RENT (9/1/22-8/31/23)		(3,098)		
			\$ (3,098)	
12 MONTHS (ANNUALIZED)			12	
PRO FORMA ADJUSTMENT			(37,175)	
LESS: TEST YEAR			68,393	
				\$ 31,218
TOTAL PRO FORMA ADJUSTMENTS - ADMINISTRATIVE & GENERAL				\$ 46,489

**PINELANDS WATER COMPANY
DEPRECIATION AND AMORTIZATION EXPENSE**

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 159,024	\$ 33,095	\$ 192,119
PRO FORMA/ADJUSTED TEST YEAR DEPRECIATION EXPENSE		184,246	
TOTAL ACQUISITION ADJUSTMENT	251,539		
AMORTIZATION RATE	3.13%		
PRO FORMA AMORTIZATION EXPENSE		7,873	
TOTAL PRO FORMA DEPRECIATION & AMORTIZATION EXPENSE			192,119
LESS: TEST YEAR DEPRECIATION & AMORTIZATION EXPENSE			(159,024)
PRO FORMA ADJUSTMENT			\$ 33,095

DEPRECIATION EXPENSE

DEPRECIABLE PLANT (NET OF CIAC & CAC)

	DEPRECIABLE PLANT 3/31/22	NET PLANT ADDITIONS PER P-2	TOTAL DEPRECIABLE PLANT	DEPRECIATION RATE	Test Yr & Post Test Yr DEPRECIATION EXPENSE
301 ORGANIZATION	\$ 444	\$ -	\$ 444	0.00%	\$ -
303 MISC INTANGIBLE PLANT	4,750		4,750	0.00%	-
TOTAL INTANGIBLE PLANT	5,194	-	5,194		-
310 LAND & LAND RIGHTS	1,485		1,485	0.00%	-
311 STRUCTURES & IMPROVEMENTS	29,894		29,894	2.00%	598
312 C&I RESERVOIRS	875		875	2.08%	18
314 WELLS & SPRINGS	402,046	23,305	425,350	3.17%	13,484
TOTAL SOURCE OF SUPPLY	434,299	23,305	457,604		14,100
321 STRUCTURES & IMPROVEMENTS	295,222	420,220	715,442	2.00%	14,309
323 OTHER POWER PRODUCTION EQUIPMENT	37,062		37,062	2.68%	993
325 ELECTRIC PUMPING EQUIPMENT	651,449	7,159	658,608	3.26%	21,471
328 OTHER PUMPING EQUIPMENT	3,629	7,946	11,575	2.46%	285
TOTAL PUMPING	987,362	435,324	1,422,687		37,058
330 LAND & LAND RIGHTS	2,000		2,000	0.00%	-
332 WATER TREATMENT PLANT	372,567	890,816	1,263,383	1.65%	20,846
TOTAL WATER TREATMENT	374,567	890,816	1,265,383		20,846
340 LAND & LAND RIGHTS	-		-	0.00%	-
342 DISTR RESERVOIRS & STANDPIPES	258,817		258,817	0.00%	-
342 DISTR RESERVOIRS & STANDPIPES	14,995		14,995	2.43%	364
343 MAINS	625,062	138,350	763,412	1.69%	12,902
345 SERVICES	640,467	128,403	768,870	3.16%	24,296
346 METERS	842,831	(24,226)	818,606	3.93%	32,171
347 METER INSTALLATIONS	817,336	15,000	832,336	2.58%	21,474
348 HYDRANTS	123,259	61,284	184,543	2.26%	4,171
TOTAL TRANS. & DISTRIB.	3,322,767	318,811	3,641,578		95,378
389 LAND & LAND RIGHTS	15,759		15,759	0.00%	-
390 STRUCTURES & IMPROVEMENTS	20,685		20,685	2.08%	430
391 OFFICE FURNITURE & EQUIP	29,026		29,026	12.00%	3,483
392 TRANSPORTATION EQUIP.	28,975		28,975	0.00%	-
392 TRANSPORTATION EQUIP.	12,030		12,030	12.09%	1,454
394 TOOLS, SHOP & GARAGE EQUIP.	50,093	1,584	51,677	3.81%	1,969
396 POWER OPERATED EQUIP.	3,004		3,004	3.39%	102
397 COMMUNICATION EQUIPMENT	236,073	4,000	240,073	3.81%	9,147
398 MISCELLANEOUS EQUIP.	4,738		4,738	5.89%	279
TOTAL GENERAL PLANT	400,384	5,584	405,968		16,864
ROUNDING					
TOTAL UTILITY PLANT	\$ 5,524,573	\$ 1,673,840	\$ 7,198,413		\$ 184,246

PINELANDS WATER COMPANY
SALARIES AND WAGES
PAYROLL ADJUSTMENT

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 142,789	\$ 33,370	\$ 176,159

ADJUSTMENTS

PROJECTED ANNUAL SALARY AT 9/2023 - PROGRESSION SCHEDULE EMPLOYEES

\$ 69,195

ANNUAL SALARIES AS OF 6/2022 - OTHER EMPLOYEES

\$ 121,794

MARCH 25, 2023 WAGE INCREASE @ 5.0%

5.0%

PROJECTED ANNUAL SALARIES AT 9/2023 - OTHER EMPLOYEES

127,884

TOTAL PROJECTED ANNUAL SALARIES AT 9/2023

A \$ 197,079

LESS: TEST YEAR AMOUNT

(172,501)

PRO FORMA ADJUSTMENT

24,578

TEST YEAR OVERTIME

A \$ 5,745

MARCH 25, 2023 WAGE INCREASE

5.0%

PRO FORMA ADJUSTMENT

A

287

Total Labor = Sum of A \$

203,112

CAPITALIZED LABOR

Rate

-12.56% \$ (25,513)

SUBSIDIARY/TRANSPORTATION LABOR ALLOCATION

Rate

-0.71% (1,440)

LESS: TEST YEAR AMOUNT

35,458

PRO FORMA ADJUSTMENT

8,505

PRO FORMA ADJUSTMENT

\$ 33,370

**PINELANDS WATER COMPANY
TAXES OTHER THAN INCOME TAXES**

PAYROLL TAXES

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 11,908	\$ 2,553	\$ 14,461

ADJUSTMENTS

	SOCIAL SECURITY	OASDHI	TOTAL
NET PAYROLL INCREASE	\$ 33,370	\$ 33,370	\$ 33,370
LESS: AMTS. IN EXCESS OF SOCIAL SECURITY LIMIT OF \$142,800.	-	-	-
INCREASE SUBJECT TO TAX	\$ 33,370	\$ 33,370	\$ 33,370
TAX RATE	6.20%	1.45%	7.65%
PRO FORMA ADJUSTMENT	\$ 2,069	\$ 484	\$ 2,553

**PINELANDS WATER COMPANY
TAXES OTHER THAN INCOME TAXES**

GROSS RECEIPTS & FRANCHISE TAXES

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 132,528	\$ -	\$ 132,528

ADJUSTMENTS

	PRESENT RATES ADJUSTMENT TO REVENUES	PROPOSED RATES ADJUSTMENT TO REVENUES
OPERATING REVENUES ADJUSTMENT	\$ -	\$ 609,576
PORTION OF MAINS IN PUBLIC RIGHT OF WAYS	99.349946%	99.349946%
TAXABLE BASE	\$ -	\$ 605,613
FRANCHISE EXCISE TAX: TAXABLE BASE * TAX RATE (.625%)	\$ -	\$ 3,815
GROSS RECEIPTS EXCISE TAX: OPERATING REVENUES ADJUSTMENT * TAX RATE (.9375%)	\$ -	\$ 5,730
FRANCHISE TAX: TAXABLE BASE * TAX RATE (5.0%)	\$ -	\$ 30,281
GROSS RECEIPTS TAX: OPERATING REVENUES ADJUSTMENT * TAX RATE (7.5%)	\$ -	\$ 45,718
TOTAL GROSS RECEIPTS AND FRANCHISE TAXES	\$ -	\$ 85,544

**PINELANDS WATER COMPANY
TAXES OTHER THAN INCOME TAXES**

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ 11,268	\$ 245	\$ 11,513

ADJUSTMENTS

REAL ESTATE TAXES

REAL ESTATE TAXES		\$ 8,652	
LESS: TEST YEAR		(8,419)	
PRO FORMA ADJUSTMENT			\$ 233

NEW JERSEY BOARD OF PUBLIC UTILITIES AND DIVISION OF RATE COUNSEL REGULATORY ASSESSMENTS

			ASSESSMENT RATE	
NJBPU ASSESSMENT (Present Rates + Adjustment to Revenue)	\$	949,262	0.00248290737830	2,357
NJRC ASSESSMENT (Present Rates + Adjustment to Revenue)	\$	949,262	0.00053099689801	504 (\$500 Minimum)
				2,861
LESS: TEST YEAR				(2,849)
PRO FORMA ADJUSTMENT				\$ 12
TOTAL PRO FORMA ADJUSTMENTS - OTHER TAXES				\$ 245

			ASSESSMENT RATE	
NJBPU ASSESSMENT (Present Rates + Adjustment to Revenue)	\$	1,558,838	0.00248290737830	3,870
NJRC ASSESSMENT (Present Rates + Adjustment to Revenue)	\$	1,558,838	0.00053099689801	828
				4,698
LESS: PRO FORMA AMOUNT				(2,861)
TOTAL PROPOSED RATE ADJUSTMENT - OTHER TAXES				\$ 1,837

PINELANDS WATER COMPANY

FEDERAL INCOME TAXES

	TEST YEAR DECEMBER 31, 2022	ADJUSTMENTS	ADJUSTED TEST YEAR
	\$ (10,439)	\$ (26,882)	\$ (37,321)

	TEST YEAR DECEMBER 31, 2022	ADJUSTED TEST YEAR	ADJUSTED AT PROPOSED RATES
OPERATING INCOME BEFORE FEDERAL INCOME TAX	\$ 132,238	\$ 15,374	\$ 535,257
DEDUCTIONS:			
INTEREST EXPENSE	181,947	181,947	181,947
TOTAL DEDUCTIONS	\$ 181,947	\$ 181,947	\$ 181,947
TAXABLE INCOME	\$ (49,709)	\$ (166,573)	\$ 353,310
FEDERAL INCOME TAX (@ 21%)	\$ (10,439)	\$ (34,980)	\$ 74,195
ANNUAL NON-PROTECTED REG LIABILITY (DFIT) AMORTIZATION	(3,274)	0	0
ANNUAL PROTECTED REG LIABILITY (DFIT) AMORTIZATION	(2,341)	(2,341)	(2,341)
TOTAL INCOME TAXES	\$ (10,439)	\$ (37,321)	\$ 71,854

PINELANDS WATER COMPANY

RATE OF RETURN CALCULATION

	PRO FORMA CAPITAL RATIOS	COST RATE	WEIGHTED COST RATE
LONG TERM DEBT	<u>47.00%</u>	7.00%	<u>3.29%</u>
COMMON EQUITY	<u>53.00%</u>	9.60%	<u>5.09%</u>
	<u>100.00%</u>		<u>8.38%</u>

PINELANDS WATER COMPANY

TAX GROSS UP CALCULATION

	All Customers		
Public/Private	99.349946%		
	Tax Rates	Adjusted	
Franchise - Excise	0.6250%	0.6209%	
Franchise	5.0000%	4.9675%	
Gross Receipts	0.9375%	0.9375%	
Gross Receipts - Excise	7.5000%	7.5000%	
Total GRAFT Rate	14.0625%	14.0259%	
NJBPU/RC ASSESSMENT	0.3014%	0.3014%	
Bad Debt	0.3792%	0.3792%	
Total		14.7065%	
		100%	100%
		-14.7065%	-14.7065%
		85.2935%	85.2935%
Federal Income Tax Rate		21.000%	21.000%
Federal Income Tax (FIT)		17.9116%	17.9116%
Net Income		67.3819%	67.3819%
Gross Up Factor (1/FIT)		148.4079%	148.4079%

PINELANDS WATER COMPANY

PROPOSED REVENUE ADJUSTMENT CALCULATION

RATE BASE	5,530,292
RATE OF RETURN	8.3800%
REVENUE REQUIREMENT	<u>463,438</u>
PROFORMA OPERATING INCOME	52,695
DEFICIENCY	<u>410,744</u>
REVENUE FACTOR	1.484079
PROPOSED REVENUE ADJUSTMENT	<u><u>609,576</u></u>

PINELANDS WATER COMPANY
2022 RATE CASE
RATE BASE CALCULATION
DECEMBER 31, 2022
(5 Months Actual + 7 Months Projection)
BPU DOCKET NO. WR2209XXXX

	Test Year Utility Plant in Service per Exhibit P-2	\$ 8,684,361
(Less)/Add:		
	<u>Reserve for Depreciation</u>	
	Balance as of March 31, 2022	\$ (1,467,408)
	Test Year Depreciation Expense	(138,185)
	Test Year Retirements	94,752
	Post Test Year Retirements	<u>0</u>
	Adjusted Test Year Reserve for Depreciation	\$ (1,510,841)
	Net Utility Plant in Service	<u>\$ 7,173,520</u>
Add:		
	Unamortized Acquisition Adjustment as of March 31, 2022	\$ 60,614
	Test Year Amortization (Rate = 3.13%)	<u>(5,905)</u>
	Net Unamortized Acquisition Adjustment as of December 31, 2022	\$ 54,709
Add:		
	Working Capital Allowance (1/8)	\$ 72,908
(Less):		
	Unamortized Regulatory Liabilities (Property Related)	\$ (89,985)
	Test Year Amortization	<u>1,756</u>
	Net Unamortized Regulatory Liabilities	\$ (88,230)
(Less):		
	Contributions in Aid of Construction	\$ (1,456,969)
	Customer Advances	(28,979)
	Deferred Income Taxes (Property Related)	<u>(196,668)</u>
		\$ (1,682,616)
	Test Year Rate Base	<u><u>\$ 5,530,292</u></u>