

New American Water Model for Investing in Infrastructure

Our country is currently facing \$2 trillion in infrastructure needs, and a group of leading CEOs and former elected officials have worked together on a report, *Bridging the Gap Together: A New Model to Modernize U.S. Infrastructure*, calling for a major culture change in how the United States funds infrastructure projects.

The report, authored by the Bipartisan Policy Center's Executive Council on Infrastructure, for which American Water CEO Susan Story serves as Co-Chair, lays out a vision for increasing private capital in projects including water and wastewater systems, energy grids, ports, roads and bridges, and provides a roadmap to overcoming the barriers that discourage private investment.

According to the American Society of Civil Engineers, failure to make necessary investments in infrastructure may lead to \$206 billion in increased costs for businesses and households between 2011 and 2020. And while state laws enabling public-private partnerships are an essential building block to expanding private investment

in infrastructure, few comprehensively allow a full range of partnerships.

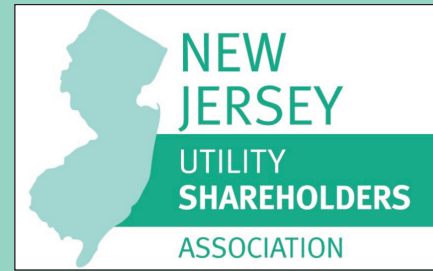
"By partnering, public and private stakeholders can reduce the fiscal burden on public sector balance sheets, transfer risks, and enable government agencies to focus on their top priority – ensuring their community's health and safety," said Susan Story, President and CEO of American Water and Co-Chair of the Executive Council on Infrastructure.

The Borough of Haddonfield, N.J. decided to meet its needs with a full transfer of its water and wastewater system, an aging system facing significant challenges, to the private sector. Over the next five years, New Jersey American Water will spend more than \$16 million on system modernization. If the sale did not go through, the Borough of Haddonfield Board of Commissioners, which recently had raised rates by 25 percent, was expected to raise rates again to pay for the much-needed capital improvements. As part of the sale agreement, New Jersey American Water committed to leaving the water rates unchanged for a minimum of three years.

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NJUSA Insight

Industry Challenges Present New Opportunities in Proving that Nuclear Matters

By Jim Namiotka, PSEG

Since 2013, 11 nuclear plants have shut down or announced they are at risk of closure. Each plant closing inflicts real harm on the local economies where they are located and, almost certainly, will result in a clean energy source being replaced by new sources that will emit pollutants and carbon. New York recently announced a plan to assist threatened nuclear plants in that state.

On August 1, New York approved a new Clean Energy Standard that calls for 50 percent of the state's energy to come from renewable sources by 2030 – including nuclear energy. That's an important milestone because it recognizes nuclear's

contributions to the state's carbon-reduction goals.

The recognition also means New York nuclear plants will share an estimated \$965 million in public subsidies – which the plants' owners say is needed to keep them operating in the face of economic pressures affecting nuclear plants around the United States.

New York's solution already has prevented one nuclear plant – the James A. FitzPatrick plant in Scriba, New York – from early retirement. Its owner, Entergy, had said the plant would close next year, putting 600 employees out of work. Once New York's subsidies were approved, Exelon agreed to take over FitzPatrick and keep it operating through 2034.

PSEG leaders have been educating regulators and legislators about the challenges facing the nuclear industry and the need to recognize the positive impact our nuclear plants have on clean air and South Jersey's economy.

"Our three plants at Salem and Hope Creek are in no immediate danger of closing, but it is important to get ahead of the issue here in New Jersey," said Bill Levis, president and chief operating officer, PSEG Power. "It makes sense that we work with policymakers to ensure that the benefits that nuclear power provides to New Jersey can be safeguarded for decades to come."

A MESSAGE FROM THE PRESIDENT

Dear Members,

To provide “safe and reliable service” is the mantra and mission of New Jersey’s investor-owned utilities that stands above all else. But this work faces big challenges: unpredictable weather, aging infrastructure and increasing customer expectations for “always on” performance. In this issue of “Insight,” NJUSA’s founders’ share ways they are working to address these challenges.

The New Jersey Board of Public Utilities has allowed each NJUSA founding company to begin replacing aging infrastructure on a more accelerated basis. Aging infrastructure replacement is key to utilities’ ability to ensure continued safe and reliable utility service delivery well into the future. These efforts will need to continue at an accelerated pace for many years if future needs are to be met. Utility shareholders play a critically important role as a source of capital for that work and have a vested interest in this work continuing.

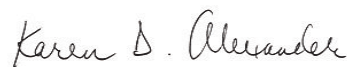
Utility shareholders can also play a part in letting New Jersey policymakers know that a green energy future needs to include nuclear energy. Efforts can and will continue to produce electricity via renewable sources, and utilities can choose to have a role in that arena as well. But even if new energy storage technology and “microgrids” become a reality, carbon-neutral central station power generation will be needed, especially as coal plants are retired.

NJUSA will continue its work in 2017 to address these and other issues affecting the value of utility shares. We are proud to be a vehicle for you to let policymakers know that shareholders are the stakeholders that make utility service possible.

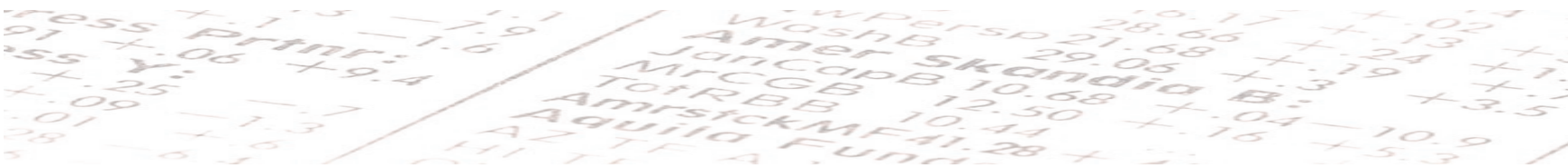
On behalf of the NJUSA Board, thank you for your membership and support in 2016. We look forward to communicating and working with you in 2017.

Until then, we wish you a safe and enjoyable holiday season!

With your interests in mind,



Karen D. Alexander
President



*NJUSA welcomes Exelon Corp.,
Atlantic City Electric’s new parent
company resulting
from the merger of Exelon with
Pepco Holdings Inc. in 2016!*

What companies founded NJUSA? Just as a reminder...

- American Water (NYSE:AWK) parent of New Jersey American Water
- Exelon Corporation (NYSE: EXC) parent of Atlantic City Electric
- New Jersey Resources (NYSE: NJR) parent of New Jersey Natural Gas
- Public Service Enterprise Group (parent of PSE&G)

Members can monitor the stock price and recent press releases for each of these companies on our website at: www.njusa.us.

Editor’s Note

It is nearing winter in New Jersey, yet temperatures hover around the low-to-mid sixties. A thunderstorm is predicted for parts of the State as this newsletter goes to press, likely followed by plunging temperatures. This weather variability makes it hard to predict electric and gas demand, and has the potential to affect electric and gas usage and E&G utility revenues. Excessive rain, or this year’s near-drought conditions, can cause wide swings in the demand on water supplies, and a concomitant swing in water utility revenues. Conservation, while a good practice, also creates volatility. This issue of *NJUSA Insight* features articles from our four founding companies showcasing their efforts to meet some of the many challenges utilities face.

Atlantic City Electric Upgrades Improve Reliability

By Vince Maione, Atlantic City Electric region president

When a severe storm is predicted to impact our service territory, we inform our customers on ways to prepare in case of an extended outage such as having an emergency storm kit prepared with essential items including a flashlight, a three day supply of bottled water, non-perishable food, medications and cash.

Atlantic City Electric must also prepare. We continually strive to provide our customers with the most reliable service possible through upgrades to our electric system to further improve service reliability.

We are committed to enhancing our energy infrastructure. Over the past five years, we have spent more than \$700 million on new technology, system upgrades and expansions to modernize the electric system and help protect it against weather events.

Since 2011, we have performed reliability upgrades and system improvements on approximately 210 electric circuits. These are higher voltage lines that distribute electricity to customers. We have also upgraded hundreds of miles of wire, replaced hundreds of poles, and installed automated switching technology on dozens of electric circuits designed to isolate outages and restore power to customers quicker.

Four substations have been upgraded with new equipment and three new substations were built in Avalon, Cape May County, Franklin Township, Gloucester County and the City of Port Republic, Atlantic County.

Our customers are seeing the benefits of this work. During 2015, we achieved our best reliability performance in more than a decade. Customers experienced 41 percent fewer outages and when outages did occur, service was restored about 25 percent faster compared to 2011.

We are extremely proud to achieve these improvements for the benefit of our customers. I thank our employees for working safely and diligently to make the needed improvements to our energy grid so that our customers can continue to receive the quality of service they have come to expect.



An Atlantic City Electric employee completes work at the company’s new Port Republic substation.

NJBPU Approves New Rates for New Jersey Natural Gas

New Jersey Natural Gas (NJNG) received approval from the New Jersey Board of Public Utilities (BPU) on its rate case settlement agreement, as well as Basic Gas Supply Service (BGSS), Conservation Incentive Program (CIP) and Universal Service Fund (USF) rates. When combined with a \$48 million bill credit, the net effect of these rate changes is an overall decrease of 0.2 percent on the typical residential heating customer’s annual bills.

The new rates were effective October 1, 2016, while the bill credit will be applied to residential and small commercial customers’ bills from November 2016 through February 2017. When combining the bill credits with the rate changes, a residential heating customer using 1,000 therms a year would see their annual bill go from \$970.90 to \$968.79, a decrease of \$2.11. Customers’ total savings will vary based on individual usage and weather patterns over the four-month period.

“We are pleased the Board of Public Utilities approved our new base rates,” said Laurence M. Downes, chairman and CEO of New Jersey Natural Gas. “We believe this resolution is fair and in the best interests of our customers and company.”

Under the approved base rate agreement, NJNG’s total annual revenue is expected to increase by \$45 million, effective October 1, 2016. It includes a return on equity of 9.75 percent with a 52.5 percent common equity ratio, and reflects a rate base of \$1.37 billion with an overall rate of return of 6.9 percent.