



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.nj.gov/bpu

WATER

IN THE MATTER OF THE PETITION OF THE)	
ATLANTIC CITY SEWERAGE COMPANY FOR)	ORDER ADOPTING
AUTHORIZATION TO CHANGE THE LEVEL OF)	INITIAL DECISION/STIPULATION
ITS PURCHASED SEWERAGE TREATMENT)	
ADJUSTMENT CLAUSE AND TO OTHERWISE)	
INCREASE TARIFF RATES AND CHARGES FOR)	BPU DOCKET NO. WR07110866
SEWERAGE SERVICE)	OAL DOCKET NO. PUC10300-2007S

(SERVICE LIST ATTACHED)

BY THE BOARD:

On November 13, 2007, the Atlantic City Sewerage Company, (ACSC or Company), a public utility of the State of New Jersey, subject to the jurisdiction of the Board of Public Utilities (Board) filed a petition pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:1-5.12, proposing to change the level of its Purchased Sewerage Treatment Adjustment Clause ("PSTAC") and for approval of an increase in its base tariff rates (the Volumetric Treatment Charge and Fixed Charges).

ACSC operates a sewage collection and transmission system within its defined service territory, consisting of the City of Atlantic City, (Atlantic City) New Jersey serving approximately 7,500 customers. ACSC does not treat any of the sewage it collects. Instead, all of the sewerage collected by the ACSC is transmitted to and then treated by the Atlantic County Utilities Authority (ACUA).

ACSC does not meter sewerage flows. ACSC bills its customers on the basis of water entering a customer's premise. ACSC is furnished data regarding water entering a customer's premise by the Atlantic City Municipal Utilities Authority (ACMUA), the entity providing water within Atlantic City. Each year, ACSC bills its customers (other than certain large volume customers) based on water consumption during the prior year.

Petitioner's PSTAC rate is implemented through the use of its Volumetric Treatment Charge. In this petition, the Company sought to decrease its Volumetric Treatment Charge from its current level of \$19.912 per thousand cubic feet (Mcf) of metered water, to a rate of \$19.732 per Mcf of metered water, prior to compression. By the petition filed in this proceeding, ACSC also sought authorization to increase its rate to produce total pro forma operating revenues in the amount of \$20,267,908. Based upon Petitioner's books and prospective operating revenues for the twelve month period ending December 31, 2007, the rates proposed in this petition was designed to yield additional proforma operating revenues in the amount of \$2,737,038 or 15.6%.

After extensive settlement discussions among the Company, Rate Counsel (RPA) and Board Staff (Staff), (the Parties) an overall increase of base rate revenues in the amount of \$1,200,000 over current base rate revenues, was agreed upon (the Stipulation or Settlement). After giving the effect to the annualized rate reduction through the PSTAC in the amount of \$165,905 and a volumetric treatment charge rate, prior to compression of \$19.546 per mcf¹, and the base rate increase of \$1,200,000, the result is a net increase in overall revenues in the amount of \$1,034,095, which represents a 5.86% increase above total current revenues of \$17,660,377. Therefore, the \$1,034,095 is a net increase.

PROCEDURAL HISTORY

On November 19, 2007, this matter was transferred to the Office of Administrative Law (OAL) where it was assigned to Administrative Law Judge (ALJ) W. Todd Miller. Petitioner proposed that the rate schedules and tariff revisions would be effective as of December 14, 2007. On November 28, 2007, the Board suspended these rates until April 14, 2008. On March 19, 2008, the Board further suspended these rates until August 14, 2008, unless the Board prior to that date makes a determination disposing of said petition. A public hearing was held on March 5, 2008, presided over by ALJ Miller, within the Petitioner's service territory of Atlantic City, New Jersey. No members of the public appeared at the hearing.

Subsequent to the public hearing and prior to evidentiary hearings, the Parties engaged in settlement negotiations. As a result of the settlement negotiations, the Parties reached a settlement on all issues pertaining to the PSTAC and base rate case and entered into a Stipulation. There were no interveners in this case. (Stipulation or Settlement).

ALJ Miller issued his Initial Decision on May 1, 2008, recommending adoption of the Stipulation executed by the Parties, finding that the Parties had voluntarily agreed to the Settlement and that the Settlement fully disposes of all issues and is consistent with the law.

¹ The volumetric treatment charge rate of \$19.546 per Mcf assumes an implementation date of May 8, 2008. If a Board Order is effective as of May 8, 2008, it means that the 2008 PSTAC will only be recovered over 238 days rather than 366 days. As a result, the PSTAC charge for 2008 will be compressed to a charge of \$19.349 per Mcf from the current PSTAC charge of \$19.912 per Mcf as portrayed in Exhibit A attached to the Stipulation.

STIPULATION

The Settlement discussions, herein, address the Base Rate proceeding and the PSTAC. As more fully set forth in the attached Stipulation², the Parties agree to the following:

BASE RATES

1. The test year utilized for the purposes of this Stipulation is the twelve-month period ended December 31, 2007, adjusted for known and measurable changes. The Parties stipulate to a base rate increase of \$1,200,000. The stipulated capital structure of the Company, as demonstrated in Exhibit B, is comprised of 2.05% debt with a cost rate of 5.09% and a ratio of 40.27%, and 5.97% equity with a cost rate of 10.00% and a ratio of 59.73%. The Parties hereto further stipulate to a rate base of \$22,950,650 and that rates in this proceeding have been designed to yield an annual return to ACSC of 10.00% on common equity and an overall return of 8.0225% on rate base. (Settlement Paragraph 14 and Exhibit C).
2. Attached hereto as Exhibit C is a Schedule of Stipulated Rate Relief, demonstrating that the stipulated rates will produce a total revenue increase of \$1,034,095, (including the base rate and PSTAC revenues). Also attached as Exhibit D are the Tariff sheets necessary to produce the stipulated pro forma annual operating revenues. The Tariff will reflect revisions to the customer rights portion of the Tariff consistent with Board policy. The Parties to this Stipulation agree that the Tariff sheets constituting Exhibit D, should be replaced and substituted for the existing Tariff sheets. The Parties to this Stipulation agree further that the Tariff sheets constituting Exhibit D should be accepted by the Board, and made effective as of May 8, 2008, or as soon thereafter as the Board may act. (Settlement Paragraph 15).
3. After giving effect to the annualized rate increase through the PSTAC and the base rate increase, the result is a net increase in overall revenues in the amount of \$1,034,095, which represents a 5.86% increase above total current revenues of \$17,660,377. This is the level sufficient to allow the Company to continue to provide safe, adequate and proper service to its customers. (Settlement Paragraph 16).
4. Under the terms of this Stipulation, the actual impact on customers will depend upon the meter size utilized by the customers. Attached hereto as Exhibit E is a schedule demonstrating the net effect of this Stipulation on each of ACSC's customer classes. (Settlement Paragraph 17).

² Cited paragraphs referenced are in the settlement documents. This is only a summary, the full settlement document controls, subject to the Board's findings and conclusions contained herein.

PSTAC

5. After adjusting the ACUA 2008 budget amount of \$8,831,423 by a decrease of \$264,944 to reflect the credit from the ACUA for the year 2007, the amount to be recovered through the PSTAC is \$8,566,479. This amount has been further adjusted by the projected costs (after true-up for the costs of last year's proceeding) of \$603,889; as well as a \$125,106 over-collection adjustment in 2007, and a \$183,905 over-collection adjustment, including interest, in 2006, to reflect a total amount to be recovered through the PSTAC of \$8,861,357. This is the amount to be recovered in 2008 through the Volumetric Treatment Charge, which is the rate through which the PSTAC is affected. When this amount is divided by the projected 2008 flows of 453,458 Mcf, the resulting PSTAC rate, prior to compression is \$19.546 per Mcf.

Therefore, based upon the foregoing, the Parties stipulate to a PSTAC revenue decrease of \$165,906. (Settlement Paragraph 10).

6. The Volumetric Treatment Charge of \$19.546 assumes an implementation date of May 8, 2008. If a Board Order is effective as of May 8, 2008, it means that the 2008 PSTAC will only be recovered over 238 days, rather than 366 days. As a result, the PSTAC charge for 2008 will be compressed to a charge of \$19.349 per Mcf from the current PSTAC charge of \$19.912 per Mcf as portrayed in Exhibit A. This represents a decrease of \$0.563 per Mcf. If the Board should act on this matter after May 8, 2008, the charge may, if deemed necessary by the Parties, be further compressed in order to recover the appropriate amount. (Settlement Paragraph 11).
7. ACSC shall account for net cumulative over-recoveries and under-recoveries resulting from the PSTAC. These over-recoveries or under-recoveries will be charged or credited to the PSTAC in subsequent PSTAC proceedings. The net monthly cumulative over-recoveries and under-recoveries shall be calculated for each month, utilizing an average balance for each month. Interest on net cumulative monthly over-recoveries shall be credited to the PSTAC at an interest rate equal to the return on rate base of 7.57%, established in ACSC's last base rate proceeding, BPU Docket No. WR04091064, pursuant to N.J.A.C. 14:9-8.3(c) and N.J.A.C. 14:3-13.3 and will remain applicable until the Board approves this Stipulation and new return on rate base of 8.0225%. Similarly, interest on net monthly under-recoveries shall be charged against the PSTAC.

As a result of the Stipulation, the return on rate base utilized in these proceedings shall become the interest rate on net monthly cumulative over-recoveries or under-recoveries, on a prospective basis. If, as of December 31, 2008, interest shall be due the PSTAC, such interest shall be credited to the PSTAC. If as of December 31, 2008, interest shall be chargeable against the PSTAC, said interest shall be eliminated through appropriate accounting entries. (Settlement Paragraph 12).

REAL ESTATE TAX DEFERRAL

8. The Parties have stipulated to a level of real estate tax expense of \$428,771 for the test year. This level of real estate tax expense is in recognition of the recent reassessment conducted by Atlantic City. On March 3, 2008, Atlantic City, notified the Company that it had reassessed the values for certain of the Company's real property used in the provision of utility service to its customers. The new reassessed values of such properties total \$177,417,700 which is an increase of \$168,427,000 or 1873.35% above the Company's current assessed value of \$8,990,700. The precise level of ACSC's real estate tax expense for the fiscal year beginning in 2009³ has not yet been determined. However, the Parties acknowledge if the full reassessed tax valuation is applied, the resulting tax expense may impair or significantly affect the Company's ability to provide safe, adequate and proper utility service. At this time, the Parties are unsure of the effect that will result, if any, from Atlantic City's tax reassessment. In light of the potential for a detrimental effect on the Company's ability to provide safe, adequate and proper utility service, the Parties agree that:
- a. The Company will notify the Parties of the actual tax liability and date of payments due to the City of Atlantic City as a result of the tax reassessment.
 - b. The Company will take all prudent and reasonable measures to mitigate the affect of any tax reassessment.
 - c. After the Company has exhausted all reasonable and prudent mitigation measures, the Company will advise the Parties of the results and affect on its tax reassessment.
 - d. Once the Company is aware of its tax rate for fiscal year 2009, the Parties will meet to determine if filing a petition by the Company for authority to defer any increase to its tax expense is appropriate.
 - e. If no agreement is reached by the Parties, regarding the filing of a petition seeking authority to defer any tax expense, then the Parties agree that the Company may file a petition for whatever treatment the Company deems appropriate for increases to its tax expense, including but not limited to, deferral thereof on its books and the creation of a regulatory asset, for later recognition in a rate case. However, that filing would be made without any prejudice to the rights of any party to advocate any position that party deems appropriate.
9. Notwithstanding the above, the Parties agree that they will not contest such position on the grounds that the deferral should commence for a period of time beginning after the first day of the 2009 fiscal year. (Settlement Paragraph 18).

³ The fiscal year 2009 begins on July 1, 2008.

DISCUSSIONS AND FINDINGS

As a result of the stipulation, a residential customers with a 5/8" meter using 77,000 gallons of water per year, will see a wastewater bill increase from \$426.26 per year to \$451.26 per year, an increase of \$25.00 per year (\$12.50 semi-annually), which is a net 5.86% overall increase as a result of the base rate proceeding and PSTAC. The actual impact on customers will depend on upon the meter size utilized by the customers.

The Board, having reviewed ALJ Miller's Initial Decision and the Stipulation among the Parties to this proceeding, HEREBY FINDS that the Initial Decision and Stipulation are reasonable, in the public interest and in accordance with the law. The Parties have voluntarily agreed to the Stipulation and that the Stipulation fully disposes of all issues in this proceeding and is consistent with the law.

The Board HEREBY ADOPTS the ALJ's Initial Decision which adopts the Stipulation of Settlement, attached hereto, as its own, incorporating by reference the terms and conditions as if fully set forth at length herein, subject to the following:

BASE RATES

- a. The test year utilized for the purposes of this Stipulation shall be the twelve-month period ended December 31, 2007, adjusted for known and measurable changes. The base rate increase shall be \$1,200,000.

The capital structure of the Company shall be comprised of 2.05% debt with a cost rate of 5.09% and a ratio of 40.27%, and 5.97% equity with a cost rate of 10.00% and ratio of 59.73%. The rate base shall be set at \$22,950,650 and that rates in this proceeding shall be designed to yield an annual return to the Company of 10.00% on common equity and an overall return of 8.0225%.

- b. The stipulated rates shall produce a total net revenue increase in the amount of \$1,034,095. The tariff sheets shall produce the stipulated pro-forma annual operating revenues. The tariff shall reflect revisions to the customer rights portion of the tariff consistent with Board policy. The tariff sheets constituting Exhibit D shall be replaced and substituted for the existing tariff sheets.
- c. After giving effect to the annualized rate increase through the PSTAC and the base rate increase, the result shall be a net overall revenue requirement increase of \$1,034,095, which represents a 5.86% increase above total current revenues of \$17,660,377. This level is sufficient to allow the Company to continue to provide safe, adequate and proper service to its customers.
- d. The actual impact on customers shall depend upon the meter size utilized by the customer.

PSTAC

- e. After adjusting the ACUA 2008 budget amount of \$8,831,423 by a decrease of \$264,944 to reflect the credit from the ACUA for the year 2007, the amount to be recovered through the PSTAC shall be \$8,566,479. This amount shall be further adjusted by the projected costs (after true-up for the costs of last year's proceeding) of \$603,889; as well as a \$125,106 over-collection adjustment in 2007, and a \$183,905 over-collection adjustment in 2006, to reflect a total amount to be recovered through the PSTAC of \$8,861,357. This amount shall be recovered in 2008 through the Volumetric Treatment Charge, which is the rate through which the PSTAC shall be affected. When this amount is divided by the projected 2008 flows of 453,458 Mcf, the resulting PSTAC rate, prior to compression, shall be \$19.546 per Mcf. Based upon the foregoing, the PSTAC revenue shall decrease by \$165,906.
- f. The Volumetric Treatment Charge of \$19.546 shall be as of the effective date of this Order. As a result, the PSTAC charge for 2008 shall be compressed to a charge of \$19.349 per Mcf from the current PSTAC charge of \$19.912 per Mcf. This represents a decrease of \$0.563 per Mcf.
- g. ACSC shall account for net cumulative over-recoveries and under-recoveries resulting from the PSTAC. These over-recoveries or under-recoveries shall be charged or credited to the PSTAC in subsequent PSTAC proceedings. The net monthly cumulative over-recoveries and under-recoveries shall be calculated for each month, utilizing an average balance for each month. Interest on net cumulative monthly over-recoveries shall be credited to the PSTAC at an interest rate equal to the return on rate base of 7.57%, established in ACSC's last base rate proceeding, BPU Docket No. WR04091064, pursuant to N.J.A.C. 14:9-8.3(c) and N.J.A.C. 14:3-13.3 and will remain applicable until the Board approves this Stipulation and new return on rate base of 8.0225%.

Similarly, interest on net monthly under-recoveries shall be charged against the PSTAC. As a result of this Stipulation, the return on rate base utilized in these proceedings shall become the interest rate on net monthly cumulative over-recoveries or under-recoveries, on a prospective basis. If, as of December 31, 2008, interest is due on the PSTAC, such interest in fact shall be credited to the PSTAC. If as of December 31, 2008, interest is chargeable against the PSTAC, said interest is to be eliminated through appropriate accounting entries.

REAL ESTATE TAX DEFERRAL

- h. A level of real estate tax expense of \$428,771 shall be recoverable in rates in this proceeding. This is the level of real estate tax expense that shall be recognized in rates. Due to the recent reassessment that is expected to be conducted by the City of Atlantic City, the Company shall notify this Board when and if the Company is to be reassessed for the values of certain of the Company's utility property used in the provision of utility service to its customers. If the full reassessed tax valuation is applied, and if the resulting tax expense is likely to impair or significantly affect the Company's ability to provide safe, adequate and proper utility service, the Company shall:

- 1 Notify the Parties of the actual tax liability and date of payment due to the City of Atlantic City as a result of the tax reassessment.


2. Take all prudent and reasonable measures to mitigate the affect of any tax reassessment.
3. Exhaust all reasonable and prudent mitigation measures and advise the Parties of the results and affect on its tax reassessment.
4. Meet with the Parties, once the Company is aware of its tax rate for fiscal year 2009, to determine if filing a petition by the Company for authority to defer any increase to its tax expense is appropriate.
5. If unable to reach agreement with the Parties regarding deferral of any tax expenses the Company may file a petition for treatment the Company deems appropriate for increases to its tax expense.

Notwithstanding the above, the deferral should commence for a period of time beginning after the first day of the 2009 fiscal year.

The effective date of this Order is as dated below.

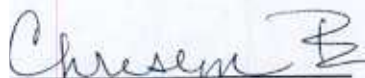
DATED: 5/9/08


BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER


JOSEPH L. FIORDALISO
COMMISSIONER

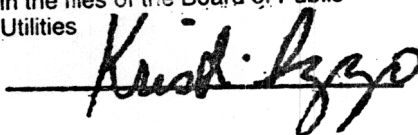

CHRISTINE V. BATOR
COMMISSIONER


NICHOLAS ASSELTA
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



**IN THE MATTER OF THE PETITION OF THE ATLANTIC CITY SEWERAGE COMPANY
FOR AUTHORIZATION TO CHANGE THE LEVEL OF ITS SEWERAGE TREATMENT
ADJUSTMENT CLAUSE AND TO OTHERWISE INCREASE TARIFF RATES AND
CHARGES FOR SEWERAGE SERVICE
BPU DOCKET NO. WR07110866
OAL DOCKET NO. PUC10300-2007S**

SERVICE LIST

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State of New Jersey
OFFICE OF ADMINISTRATIVE LAW

INITIAL DECISION

SETTLEMENT

OAL DKT. NO. PUC 10300-07

AGENCY DKT. NO. WR07110866

**I/M/O THE PETITION OF THE ATLANTIC
CITY SEWERAGE COMPANY FOR
AUTHORIZATION TO CHANGE THE
LEVEL OF ITS PURCHASED SEWERAGE
TREATMENT ADJUSTMENT CLAUSE
AND TO OTHERWISE INCREASE
TARIFF RATES AND CHARGES FOR
SEWERAGE SERVICE**

Ira G. Megdal, Esquire, and Stacy A. Mitchell, Esquire (Cozen O'Connor,
attorneys) for The Atlantic City Sewerage Company, Petitioner

Paul Flanagan, Deputy Ratepayer Advocate, Stephanie A. Brand, Director,
Department of the Public Advocate, Division of Rate Counsel

Arlene E. Pasko and Cynthia L. Miller, Deputy Attorneys General, on behalf of
the Staff of the Board of Public Utilities

Record Closed May 1, 2008

Decided: May 1, 2008

BEFORE W. TODD MILLER, ALJ

This matter was transmitted to the Office of Administrative Law on December 11, 2007, for determination as a contested case, pursuant to N.J.S.A. 52:14B-1 to -15 and N.J.S.A. 52:14F-1 to -13.

The parties have agreed to a settlement and have prepared a Settlement Agreement indicating the terms thereof, which is attached and fully incorporated herein.

I have reviewed the record and the terms of settlement and I **FIND**:

1. The parties have voluntarily agreed to the settlement as evidenced by their signatures or their representatives' signatures.
- 2 The settlement fully disposes of all issues in controversy and is consistent with the law.

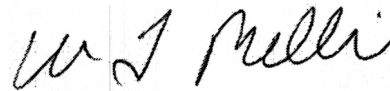
I **CONCLUDE** that this agreement meets the requirements of N.J.A.C. 1:1-19.1 and that the settlement should be approved. I approve the settlement and therefore **ORDER** that the parties comply with the settlement terms and that these proceedings be concluded.

hereby **FILE** my initial decision with the **BOARD OF PUBLIC UTILITIES** for consideration.

This recommended decision may be adopted, modified or rejected by the **BOARD OF PUBLIC UTILITIES**, which by law is authorized to make a final decision in this matter. If the Board of Public Utilities does not adopt, modify or reject this decision within forty-five days and unless such time limit is otherwise extended, this recommended decision shall become a final decision in accordance with N.J.S.A. 52:14B-10.

May 1, 2008

DATE



W. TODD MILLER, ALJ

Date Received at Agency:

Mailed to Parties:

DATE

OFFICE OF ADMINISTRATIVE LAW

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

IN THE MATTER OF THE PETITION OF
THE ATLANTIC CITY SEWERAGE
COMPANY FOR AUTHORIZATION TO
CHANGE THE LEVEL OF ITS
PURCHASED SEWERAGE
TREATMENT ADJUSTMENT CLAUSE
AND TO OTHERWISE INCREASE
TARIFF RATES AND CHARGES FOR
SEWERAGE SERVICE

BPU DOCKET NO. WR07110866

OAL DOCKET NO. 10300-2007S

STIPULATION

APPEARANCES:

Ira G. Megdal, Esquire, and Stacy A. Mitchell, Esquire (Cozen O'Connor, attorneys) for
The Atlantic City Sewerage Company, Petitioner

Paul Flanagan, Deputy Ratepayer Advocate, Stephanie A. Brand, Director Department
of the Public Advocate, Division of Rate Counsel

Arlene Pasko, Esquire and Cynthia L. Miller, Esquire, Deputies Attorney General, on
behalf of the Staff of the Board of Public Utilities

TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

I. INTRODUCTION

1 The Atlantic City Sewerage Company ("ACSC", the "Company", or "Petitioner")
a public utility company of the State of New Jersey, operates a sewage collection and
transmission system within its defined service territory, consisting of the City of Atlantic City,
New Jersey. Within its service territory, Petitioner serves approximately 7,500 customers.
Petitioner purchases its sewage treatment from the Atlantic County Utilities Authority
("ACUA").

2. On November 13, 2007, the Company filed its Petition with the Board of Public

Utilities (“BPU” or the “Board”) proposing to change the level of its Purchased Sewerage Treatment Adjustment Clause (“PSTAC”) and for approval of an increase in its base tariff rates (the Volumetric Treatment Charge and Fixed Charges) (hereinafter, the “Proceeding”). The matter was transmitted by the Board to the Office of Administrative Law (“OAL”) for hearing as a contested case on November 19, 2007 and was assigned to the Honorable William Todd Miller, Administrative Law Judge. The Proceeding was assigned Docket No. WR07110866 by the Board and Docket No. 10300-2007S by the OAL.

3. Petitioner proposed that the rate schedules and tariff revisions would be effective as of December 14, 2007.

4. After appropriate public notice, a public hearing in the Proceeding was held in Atlantic City, New Jersey on March 5, 2008, presided over by Judge Miller. No one from the public was in attendance.

5. The parties to the Proceeding include the Staff of the Board, the Company, and the Division of Rate Payer Advocate (hereafter, the “Parties”). There were no Intervenors in this matter. Discovery was propounded by the Staff and Rate Counsel in the Proceeding and answered in full by the Company.

6. In addition to discovery, the Parties have also engaged in settlement discussions. As a result of these discussions, the Parties to this Stipulation agree to a resolution of all issues which arose in the Proceeding and hereto stipulate as follows:

II. PSTAC

7. ACSC does not treat any sewage. Rather, ACSC is solely engaged in the collection and transmission of sewage within the City of Atlantic City. All of the sewage collected and transmitted by ACSC is treated by the ACUA.

8. In addition, ACSC does not meter sewage flows. Rather, ACSC bills its customers on the basis of water entering its customers' premises. ACSC is furnished data regarding water entering its customers' premises by the Atlantic City Municipal Utilities Authority ("ACMUA"), the entity purveying water within the City of Atlantic City. Each year, ACSC bills its customers (other than certain large volume customers) based on water consumption during the prior year.

9. Petitioner's PSTAC rate is implemented through the use of its Volumetric Treatment Charge. In the Petition, as updated, Petitioner sought to decrease its Volumetric Treatment Charge from its current level of \$19.912 per Mcf of metered water, to a rate of \$19.732 per Mcf of metered water, prior to compression. The initial filing was based on estimates, preliminary in nature, and was updated as the case progressed.

10. After adjusting the ACUA 2008 budget amount of \$8,831,423 by a decrease of \$264,944 to reflect the credit from the ACUA for the year 2007, the amount to be recovered through the PSTAC is \$8,566,479. This amount has been further adjusted by the projected costs (after true-up for the costs of last year's proceeding) of \$603,889; as well as a \$125,106 over-collection adjustment in 2007 and an \$183,905 over-collection adjustment in 2006, to reflect a total amount to be recovered through the PSTAC of \$8,861,357. This is the amount to be recovered in 2008 through the Volumetric Treatment Charge, which is the rate through which the PSTAC is affected. When this amount is divided by the projected 2008 flows of 453,358 Mcf, the resulting PSTAC rate, prior to compression is \$19.546 per Mcf. Therefore, based upon the foregoing, the Parties hereto stipulate in the Proceeding to a PSTAC revenue decrease of \$165,906.

11. The Volumetric Treatment Charge of \$19.546 per Mcf assumes an

implementation date of May 8, 2008. If a Board Order is effective as of May 8, 2008, it means that the 2008 PSTAC will only be recovered over 238, rather than 366 days. As a result, the PSTAC charge for 2008 will be compressed to a charge of \$19.349 per Mcf from the current PSTAC charge of \$19.912 per Mcf as portrayed in Exhibit "A". This represents a decrease of \$0.563 per Mcf. If the Board should act on this matter after May 8, 2008, the charge may, if deemed necessary by the parties, be further compressed in order to recover the appropriate amount.

12. ACSC shall account for net cumulative over-recoveries and under-recoveries resulting from the PSTAC. These over-recoveries or under-recoveries will be charged or credited to the PSTAC in subsequent PSTAC proceedings. The net monthly cumulative over-recoveries and under-recoveries shall be calculated for each month, utilizing an average balance for each month. Interest on net cumulative monthly over-recoveries shall be credited to the PSTAC at an interest rate equal to the return on rate base of 7.57%, established in ACSC's last base rate proceeding, BPU Docket No. WR04091064, pursuant to N.J.A.C. 14:9-8.3(c) and N.J.A.C. 14:3-13.3 and will remain applicable until the Board approves this Stipulation and new return on rate base of 8.0225%. Similarly, interest on net monthly under-recoveries shall be charged against the PSTAC. As a result of this Stipulation, the return on rate base utilized in these proceedings shall become the interest rate on net monthly cumulative over-recoveries or under-recoveries, on a prospective basis. If, as of December 31, 2008, interest shall be due the PSTAC, such interest shall in fact be credited to the PSTAC. If, as of December 31, 2008, interest shall be chargeable against the PSTAC, said interest shall be eliminated through appropriate accounting entries.

III. BASE RATES

13. By the Petition filed in this Proceeding, ACSC also sought authorization to increase its rates to produce total proforma operating revenues of \$20,267,908. Based upon Petitioner's books and prospective operating revenues for the twelve month period ending December 31, 2007, the rates proposed in the Petition were designed to yield additional proforma operating revenues of \$2,737,038 or 15.6%.

14. The Parties agree that the twelve (12) months ending December 31, 2007, adjusted for known and measurable changes, constitutes the appropriate Test Year for use in this proceeding. The Parties hereto stipulate to a base rate increase of \$1,200,000. The stipulated capital structure of the Company, as demonstrated in Exhibit "B", is comprised of 40.27% debt and 59.73% equity. The Parties hereto further stipulate to a rate base of \$22,950,650 and that rates in this Proceeding have been designed to yield an annual return to ACSC of 10% on common equity and an overall return of 8.02% on rate base.

15. Attached hereto as Exhibit "C" is a Schedule of Stipulated Rate Relief, demonstrating that the stipulated rates will produce a total revenue increase of \$1,034,094 (including the Base Rate and PSTAC revenues). Also attached to this Stipulation, as Exhibit "D", are the Tariff sheets necessary to produce the stipulated proforma annual operating revenues. The Tariff will reflect revisions to the customer rights portion of the Tariff consistent with Board policy. The Parties to this Stipulation agree that the Tariff sheets constituting Exhibit "D" should replace and substituted for the existing Tariff sheets. The Parties to this Stipulation agree further that the Tariff sheets constituting Exhibit "D" should be accepted by the Board, and made effective as of May 8, 2008, or as soon thereafter as the Board may act.

16. After giving effect to the annualized rate increase through the PSTAC and the

base rate increase, the result is a net increase in overall revenues in the amount of \$1,034,095, which represents a 5.86% increase above total current revenues of \$17,660,377. This is the level sufficient to allow the Company to continue to provide safe, adequate and proper service to its customers.

17. Under the terms of this Stipulation, the actual impact on customers will depend upon the meter size utilized by the customers. Attached hereto as Exhibit "E" is a schedule demonstrating the net effect of this Stipulation on each of ACSC's customer classes.

IV. REAL ESTATE TAX DEFERRAL

18. Parties have stipulated to a level of real estate tax expense of \$428,771 for the test year. This level of real estate tax expense is in recognition of the recent reassessment conducted by the City of Atlantic City. On March 3, 2008, the City of Atlantic City notified the Company that it had reassessed the values for certain of the Company's real property used in the provision of utility service to its customers. The new reassessed values of such properties total \$177,417,700, which is an increase of \$168,427,000 or 1873.35% above the current assessed values of \$8,990,700. The precise level of ACSC's real estate tax expense for the fiscal year beginning in 2008 has not yet been determined, however, the Parties acknowledge that if the full reassessed tax valuation is applied, the resulting tax expense may impair or significantly affect the Company's ability to provide safe, adequate and proper utility service. At this time, the Parties are unsure of the effect that will result, if any, from the City of Atlantic City's tax reassessment, however, in light of the potential for a detrimental effect on the Company's ability to provide safe, adequate and proper utility service, the Parties agree that:

a. The Company will notify the Parties of the actual tax liability and date of payments due to the City of Atlantic City as a result of the tax reassessment.

b. The Company will take all prudent and reasonable measures to mitigate the effect of any tax reassessment

c. After the Company has exhausted all reasonable and prudent mitigation measures, the Company will advise the Parties of the results and effect on its tax reassessment.

d. Once the Company is aware of its tax rate for 2008, the Parties will meet to determine if filing a petition by the Company for authority to defer any increase to its tax expense is appropriate.

e. If no agreement is reached by the Parties, then the Parties agree that the Company may file a petition for whatever treatment the Company deems appropriate for increase to its tax expense including, but not limited to, deferral thereof on its books and the creation of a regulatory asset, for later recognition in a rate case. However, that filing would be made without any prejudice to the rights of any party to advocate any position that party deems appropriate.

Notwithstanding the above, the Parties agree that they will not contest such petition on the grounds that the deferral should commence for a period of time beginning after the first day of the 2009 fiscal year.

19. Nothing contained in this stipulation shall prevent any party from contending that ACSC has not acted prudently in contesting any real estate tax assessments.

V. MISCELLANEOUS

20. This Stipulation shall be binding on the parties on approval of the Board. This Stipulation shall bind the Parties in this matter only and shall have no precedential value.

21. This Stipulation contains terms, each of which is interdependent with the others and essential in its own right to the signing of this Stipulation. Each term is vital to the agreement as a whole, since the Parties expressly and jointly state that they would not have

signed the agreement has any term been modified in any way. Since the Parties have compromised in numerous areas, each is entitled to certain procedures in the event that any modifications whatsoever are made to this Stipulation.

22. If any modification is made to the terms of this Stipulation, the signatory Parties each must be given the right to be placed in the position it was in before the Stipulation was entered into. It is essential that each Party be given the option, before the implementation of any new rate resulting from any modification of this Stipulation, either to modify its own position to accept the proposed changes, or to resume the proceeding as if no agreement had been reached. This proceeding would resume at the point where it was terminated which was after evidentiary hearings were completed.

23. The Parties believe that these procedures are fair to all concerned, and therefore, they are made an integral and essential element of this Stipulation.

[SIGNATURES APPEAR ON NEXT PAGE]

ATLANTIC CITY SEWERAGE COMPANY

By: _____
Ira G. Megdal, Esquire
Stacy A. Mitchell, Esquire

ANNE MILGRAM
ATTORNEY GENERAL OF NEW JERSEY
Attorney for Staff of the NEW JERSEY
BOARD OF PUBLIC UTILITIES

By: _____
Arlene Pasko, Esquire
Cynthia L. Miller, Esquire
Deputies Attorney General

RONALD K. CHEN
PUBLIC ADVOCATE

Stefanie A. Brand
Director, Division of Rate Counsel

By: _____
Paul Flanagan
Deputy Public Advocate

Dated: April __, 2008

ATLANTIC CITY SEWERAGE COMPANY

By: _____

Ira G. Megdal, Esquire

Stacy A. Mitchell, Esquire

ANNE MILGRAM

ATTORNEY GENERAL OF NEW JERSEY

Attorney for Staff of the NEW JERSEY

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Stefanie A. Brand

Director, Division of Rate Counsel

By: _____

Paul Flanagan

Deputy Public Advocate

Dated: April 25 2008

ATLANTIC CITY SEWERAGE COMPANY

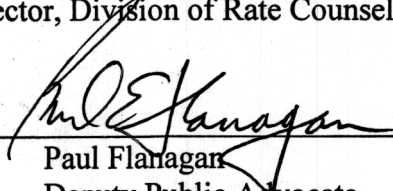
By: _____
Ira G. Megdal, Esquire
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ANNE MILGRAM
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By: _____
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RONALD K. CHEN
PUBLIC ADVOCATE

Stefanie A. Brand
Director, Division of Rate Counsel

By:  _____
Paul Flanagan
Deputy Public Advocate

Dated: April 30, 2008

EXHIBIT “A

EXHIBIT "A"

THE ATLANTIC CITY SEWERAGE COMPANY 2008 PSTAC RATE CALCULATIONS (Rate per Mcf)

	<u>Amount</u>
2008 Annual PSTAC Rate	\$ 19.546
Current PSTAC Rate	<u>19.912</u>
Annual Rate Decrease	<u>\$ (0.366)</u>

COMPRESSED RATE CALCULATION

	<u>Amount</u>
Annual Rate Decrease	\$ (0.366)
Times Number of Days	<u>366</u>
Weighted Rate Decrease	<u>\$(133.956)</u>
Weighted Rate Decrease	\$(133.956)
Divided by Number of Days <i>(assume May 8, 2008 Approval)</i>	238
Compressed Rate Decrease	<u>\$ (0.563)</u>
Current PSTAC Rate	\$ 19.912
Compressed Rate Decrease	<u>(0.563)</u>
NEW 2008 PSTAC RATE <i>(assume May 8, 2008 Approval)</i>	<u>\$ 19.349</u>

EXHIBIT “B”

EXHIBIT "B"

THE ATLANTIC CITY SEWERAGE COMPANY Capital Structure - Rate of Return

	Adjusted Balances at 12/31/07	Ratios	Cost Rates	Weighted Cost Rates
Long Term Debt	\$ 8,960,000	40.27%	5.09%	
Common Equity	<u>\$ 13,287,350</u>	<u>59.73%</u>	10.00%	
Total Capital	<u>\$ 22,247,350</u>	<u>100.00%</u>		<u>8.02%</u>

EXHIBIT “C”

EXHIBIT "C"

THE ATLANTIC CITY SEWERAGE COMPANY
SCHEDULE OF STIPULATED RATE RELIEF

Summary of Revenue Requirement
Adjusted Test Year ended 12/31/07

	<u>Amount</u>
Total Rate Base after Ratemaking Adjustments	\$ 22,950,650
<u>COMPANY ROE 10.00%</u>	<u>8.0225%</u>
Required Operating Income	<u>\$ 1,841,221</u>
Less: Test Year Sewerage Operating Income	<u>(1,162,470)</u>
Operating Income Deficiency	678,751
Revenue Factor	<u>1.767953</u>
Revenue Increase Requirement	<u>\$ 1,200,000</u>
PSTAC Revenue Decrease Requirement	(165,906)
Total Net Revenue Increase Requirement	<u>1,034,094</u>

EXHIBIT “D”

TARIFF
FOR
SEWERAGE SERVICE

Applicable In
THE CITY OF ATLANTIC CITY
NEW JERSEY

Date of Issue: November 13, 2007

Issued by: LOUIS M. WALTERS, President & General Manager
1200 Atlantic Avenue
Atlantic City, New Jersey

Effective for Service
rendered on and after
May 8, 2008

Filed Pursuant to Decision and Order of the Board of Public Utilities in Docket No.
WR07110866, OAL Docket No. 1030-2007S, dated May 8, 2008.

CHERRY_HILL\438113\ 208111.000

For non-payment of a valid bill due for service based on the rates approved by the Board and contained in the utility's tariff Customers unable to pay the full annual bill shall be afforded the opportunity to enter into a reasonable deferred payment agreement. If service is discontinued, a reconnection fee of \$25.00 shall apply.

For the refusal to admit the proper representative of the Company who requires admission to the premises for the purpose set forth in the General Provisions, Original Sheet No. 7.

For the violation of one or more of the standard terms and conditions of service contained in this or subsequent tariffs of the Company. Service may be discontinued by the Company for violation of standard terms and conditions upon 30 days notice of the existence of such violation.

All notices herein of discontinuance shall be delivered to the owner personally or by registered mail, addressed to the last address of the owner listed in the records of the Company. On all notices of discontinuance to residential customers, there shall be included:

(1) A statement that the utility is subject to the jurisdiction of the New Jersey Board of Public Utilities and the address and phone number of the Board. The telephone numbers of the Board to be indicated on such statement are (201) 648-2350 and 1-800-624-0241 (toll free).

(2) A statement that in the event the customer is either unable to make payment of a bill or wishes to contest a bill the customer should contact the utility. The notice shall contain information sufficient for the customer to make appropriate inquiry.

(3) A statement that if the customer is presently unable to pay an outstanding bill, the customer may contact the utility to discuss the possibility of entering into a reasonable deferred payment agreement. In the case of a residential customer receiving more than one different service from the same utility, the statement shall state that deferred payment agreements are available separately for each utility service.

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CHERRY HILL\438113\ 208111.000

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SCHEDULE OF RATES

Annual Rates

Fixed Charge

All customers shall pay the following annual fixed charge, based on the size of the water meter used in the rendering of water service:

<u>Size Of Meter</u>	<u>Total Annual Fixed Charge</u>
5/8"	\$187
3/4	325
1	903
1-1/2	2,170
2	4,290
3	10,570
4	21,130
6	52,560
8	105,220
10 or larger ..	167,990

Volumetric Collection Charge

In addition to the annual fixed charge, all customers shall pay \$6.322 for each 1,000 cubic feet of metered water, measured to the nearest one-tenth.

Volumetric Treatment Charge

In addition to the annual fixed charge and the volumetric collection charge, all customers shall pay \$19.546 for each 1,000 cubic feet of metered water, measured to the nearest one-tenth, for sewerage treatment costs assessed the Company by the Atlantic County Utilities Authority.

Date of Issue: November 13, 2007

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1200 Atlantic Avenue
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CHERRY_HILL\438113\1 208111.000

EXHIBIT E”

THE ATLANTIC CITY SEWERAGE COMPANY

APPLICATION OF SETTLEMENT RATES TO PRO FORMA METER BILLING UNITS AND WATER VOLUME AS OF DECEMBER 31, 2007

Meter Size	Meter Billing Units	Annual Fixed Charge	Fixed Charge Revenues	Water Volume, (MCF)	Volumetric Charge @ \$25.868 Per MCF*	Total Settlement Annual Revenues	Total Present Annual Revenues	Settlement Increase	
(1)	(2)	(3)	(4)=(2)x(3)	(5)	(6)	(7)=(4)+(6)	(8)	Amount (9)	Percent (10)
5/8	5,170.0	\$187	\$966,790	53,618.4	\$1,387,001	\$2,353,791	\$2,213,112	\$140,679	6.4%
3/4	1,399.0	\$325	454,675	24,643.4	637,475	1,092,150	1,027,584	64,566	6.3%
1	475.0	\$903	428,925	25,323.9	655,079	,084,004	1,021,472	62,532	6.1%
-1/2	127.0	\$2,170	275,590	14,006.8	362,328	637,918	598,576	39,342	6.6%
2	192.0	\$4,290	823,680	31,980.2	827,264	1,650,944	1,537,352	113,592	7.4%
3	50.0	\$10,570	528,500	19,977.5	516,778	1,045,278	971,367	73,911	7.6%
4	43.0	\$21,130	908,590	70,695.6	1,828,754	2,737,344	2,595,852	141,492	5.5%
6	37.0	\$52,560	1,944,720	168,633.8	4,362,219	6,306,939	6,001,674	305,265	5.1%
8	1.0	\$105,220	105,220	17,831.0	461,252	566,472	546,334	20,138	3.7%
10	<u>3.0</u>	\$167,990	<u>503,970</u>	<u>26,647.1</u>	<u>689,307</u>	<u>1,193,277</u>	<u>1,120,724</u>	<u>72,553</u>	6.5%
Total	<u>7,497.0</u>		<u>\$6,940,660</u>	<u>453,357.7</u>	<u>\$11,727,457</u>	<u>\$18,668,117</u>	<u>\$17,634,047</u>	<u>\$1,034,070</u>	5.9%

* Includes Collection Charge of
and Treatment Charge of

\$	6.322
	<u>19.546</u>
\$	25.868