Agenda Date: 08/23/17
Agenda Item: 5B

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

WATER

IN THE MATTER OF THE PETITION OF SUEZ WATER ARLINGTON HILLS INC. FOR APPROVAL OF AN INCREASE IN RATES FOR WASTEWATER SERVICE AND OTHER TARIFF CHANGES	)	ORDER OF EXTENSION BPU DOCKET NO. WR16060510 OAL DOCKET NO. PUC 09261-16

(SERVICE LIST ATTACHED)

The Initial Decision of the Administrative Law Judge was received by the Board of Public Utilities ("Board") on August 16, 2017; therefore, the 45-day statutory period for review and the issuing of a final decision will expire on September 30, 2017. Prior to that date, and because of the nature and scope of the record and disputed issues, the Board requests, pursuant to N.J.A.C. 1:1-18.8(e), a 45-day extension of time for filing a final decision so that it might fully review the entire record, Initial Decision, and exceptions in this matter.

Good cause having been shown, pursuant to N.J.S.A. 52:14B-10(c) and N.J.A.C. 1:1-18.8(e), **IT IS ORDERED** that the time limit for the Board to render a Final Decision is extended until November 14, 2017.

DATED: 8/23/17

BOARD OF PUBLIC UTILITIES
BY:[1]

RICHARD S. MROZ
PRESIDENT

ATTEST:

IRENE KIM ASBURY
SECRETARY

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

Irene Kim Asbury

[1] Authorized by the Board to execute this Order of Extension on its behalf.

Date Board mailed Order to OAL: 8/24/17

cc: Service List Attached

DATED: 8/28/17

Laura Sanders

LAURA SANDERS, ACTING
DIRECTOR & CHIEF
ADMINISTRATIVE LAW JUDGE

Date OAL mailed executed Order to Board: 8/28/17

Date Board mailed executed Order to Parties: 8/29/17

I/M/O THE PETITION OF SUEZ WATER ARLINGTON HILLS INC.
FOR APPROVAL OF AN INCREASE IN RATES FOR WASTEWATER
SERVICE AND OTHER TARIFF CHANGES
BPU DOCKET NO. WR16060510
OAL Docket No. PUC 09261-16

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State of New Jersey
OFFICE OF ADMINISTRATIVE LAW

INITIAL DECISION

OAL DKT. NO. PUC 09261-16

AGENCY DKT. NO. WR16060510

IN THE MATTER OF THE PETITION OF SUEZ WATER ARLINGTON HILLS, INC., FOR APPROVAL OF AN INCREASE IN RATES FOR WASTEWATER SERVICE AND OTHER TARIFF CHARGES.

Stephen Genzer, Esq., and **Courtney L. Schultz**, Esq., for petitioner Suez Water Arlington Hills, Inc. (Saul Ewing, LLP, attorneys

Brian Lipman, Esq., and **Christine M. Juarez**, Assistant Deputy Rate Counsels, for respondent Division of Rate Counsel (Stephanie Brand, Esq., Director, Division of Rate Counsel, attorney)

Andrew Kuntz and **Veronica Beke**, Deputy Attorneys General, for respondent New Jersey Board of Public Utilities (Christopher S. Porrino, Attorney General of New Jersey, attorney)

Record Closed: August 8, 2017 Decided: August 16, 2017

BEFORE **IRENE JONES**, ALJ:

STATEMENT OF THE CASE AND PROCEDURAL HISTORY

On June 15, 2016, petitioner, Suez Water Arlington Hills, Inc. ("SWAH" "Petitioner" or "Company") filed a petition with the New Jersey Board of Public Utilities "BPU" or "Board") seeking an 118 percent increase in its sewer rates. The request, if granted, would result in an annual increase in the Company's sewer rates of $1,404,396. The increase was driven by the construction and operation of a new $12.5 million state-of-the-art wastewater treatment plant to service 600 customers. Due to the magnitude of the requested increase and the size of its customer base, the Company proposed to phase-in the increase over four years.

The Board transmitted the case to the Office of Administrative Law for hearing on June 21, 2016. A public hearing was held on November 14, 2016, before the Honorable Danielle Pasquale, ALJ. The notice of public hearing was published in the Daily Record; however, no members of the public appeared.

On October 21, 2016, the matter was reassigned to the undersigned. A status conference was held on December 7, 2016, wherein new hearing dates were established and a procedural schedule for discovery and the filing of testimony was set. The parties to this matter are the Company, the Board Staff, and Rate Counsel.

The Company presented the prefiled testimony of five witnesses: Gary Prettyman, Antonio Vicente, Pauline Ahern, Elda Gil, and Peiling Lin. Rate Counsel prefiled the testimony of its witnesses: Dante Mugrace, Howard Wood, Brian Kalcic, and Marion Griffing. At the hearing, witnesses Prettyman, Vicente, and Ahern testified in support of their prefiled testimony. All Rate Counsel witnesses testified in support of their prefiled testimony. Post-hearing briefs were filed by the parties and the record closed on May 5, 2016. At the request of the undersigned, the time for the issuance of this decision was extended to August 7, 2017. On August 8, 2017, the undersigned reopened the record to allow the parties to prepare schedules and compute the overall increase based upon my recommendations herein.

The parties have reached an agreement on some of the issues. The proposed test year ending April 30, 2016; prepayments; revenue requirement for the master metering in the apartments; property taxes; and general liability insurance. Also, the Company does not contest Rate Counsel's proposed adjustments on commercial revenues; power expense; chemical expense; waste-disposal expense; outside-services expenses; and other O&M expenses.

The parties were unable to agree on the appropriate rate of return; post-test-year additions; rate-case expenses; incentive compensation; the Company's proposed Apartment Rate; and the recovery of carrying costs associated with the four-year phase-in period.

RATE OF RETURN

The Company seeks a 9.75 percent return on equity ("ROE"). The Company's proposed capital structure consists of 53 percent of Equity and 47 percent of Long-Term Debt, resulting in an overall rate of return ("ROR") of 7.61 percent. The Company's initial ROR request was included in the direct testimony of Gary S. Prettyman ("Prettyman"), senior director regulatory business. Mr. Prettyman is not an expert ROR witness, but included the ROR adjustment in his prefiled testimony. (PT-1.) Prettyman opined that while a 10.25 percent ROE and a 7.89 percent ROR could be justified, the Company seeks a lower ROE/ROR to mitigate the impact of the instant rate increase. Further, the 9.75 percent request is consistent with the Board's most recent ROE awards and, thus, in his view, reflects the Board's policy on this issue.

Rate Counsel opposes the Company's requested ROE.. It contends that the appropriate ROE is 8.57 percent, (now updated to 8.65 percent) and a 6.98 percent ROR (updated to 7.02 percent). This recommendation was presented by its ROR witness, Dr. Marlon F. Griffing, Ph.D. ("Griffing"), senior consultant with PCM&G Associates ("PCMG"), an economic consulting firm. Dr. Griffing holds bachelor's, master's and doctoral degrees in economics from the University of Nebraska—Lincoln. He has sixteen years' experience as an expert witness and consultant on cost of capital,

capital structure, and rate design for natural gas and electric utilities in rate cases and other public-utility matters.

Griffing notes that SWAH is a subsidiary of Suez Water Resources, Inc. ("SWR"). SWR is the parent company for a large group of companies operating under the Suez umbrella that provides water services and wastewater treatment. In arriving at his recommendation, he analyzed a comparison group of water companies and conducted Discounted Cash Flow ("DCF") and Capital Asset Pricing Model ("CAPM") analyses. SWR's profile is consistent with the profiles in his comparison group. The profile group consists of American States, America Water Works, Aqua America, Artesian Resources Corporation, California Water, Connecticut Water Services, Consolidated Water, Global Water Resource, Middlesex Water, SJW Groups, and York Water Corporation. (RC-5, Ex. 2.) The comparison group, like SWR, operates water and wastewater systems.

In Griffing's DCF analysis, the comparison group had a growth rate of 6.48 percent and an expected dividend yield of 2.09 percent ROE. The group's lowest ROE was 7.03 percent and the highest ROE was 10.12 percent. His initial recommendation of an 8.57 percent ROE and a 6.98 percent ROR reflects the differing views of the experts of future economic conditions. It is important to note that Griffing accepts the Company's proposed capital structure of 53 percent equity and 47 percent debt with a cost of debt of 5.19 percent.

Significantly, Griffing has not reflected a flotation adjustment in his 8.57 percent ROR. He concedes that the adjustment is normally imputed on the ROE to recognize the costs and fees associated with new debt, even in the absence of a projected debt issuance. Despite this generally accepted rule, he concluded that a flotation adjustment was not required because no new debt issuance was projected. Moreover, he further concluded that the cost of a new debt issuance is already reflected in the Company's weighted cost of debt.

Dr. Griffing's CAPM analysis was performed as a check on the reasonableness of his DCF results. This analysis yielded an ROE value of 7.24 percent. (RC-5 at 31.)

He looked at the midpoint of his DCF results to arrive at an appropriate ROE recommendation of 8.57 percent on equity and an overall rate of return of 6.98 percent.

In his surrebuttal, Dr. Griffing updated his ROE and ROR recommendation using updated DCF and CAPM analyses. His update revises upward his ROE to 8.65 percent and ROR to 7.02 percent. His DCF analysis was expanded to include a low, median and high growth rate for each company in the comparison group. The mean ROE for the comparison group is 8.64 percent and the low mean ROE is 7.14 percent. The high mean ROE is 10.17 percent. (RC-6 at 7.) A third DCF analysis with updated data for the comparison group resulted in a low ROE mean of 7.08 percent and a high ROE mean of 10.11 percent. (RC-6 at 8).

Griffing's updated CAPM analysis consisted of three analyses, using three thirty-year Treasury bond yields from different dates. His first updated CAPM analysis resulted in an ROE of 7.16 percent. This update used a January 23, 2017–February 24, 2017, timeframe. His second CAPM ROE analysis used January 30, 2017–March 3, 2017, and resulted in 7.16 percent. His third and final CAPM analysis used the thirty-year Treasury bond yield for one day, March 3, 2017, and predicted an ROE of 7.20 percent. (RC-6 at 11.)

Because Rate Counsel did not support a 9.75 percent ROE, the Company presented an expert rebuttal ROR witness, Pauline M. Ahern ("Ahern"), an executive director of Scott Madden, Inc. Ahern has testified on behalf of investor-owned utilities before thirty-one state regulatory commissions in the United States and Canada on rate-of-return issues including, but not limited to, common equity cost rate, fair rate of return, capital-structure issues, relative investment risk, and credit quality issues. She is a graduate of Clark University, Worcester, MA, and holds a bachelor of arts degree with honors in economics. She also obtained a master of business administration degree with high honors in finance from Rutgers University.

The purpose of Ahern's testimony was to rebut Dr. Griffing's recommendation. Ahern does not accept Dr. Griffing's recommended ROE/ROR because she deems it unreasonable for three reasons. First, it is not consistent with expected capital market conditions; second, it is based exclusively upon a DCF analysis that mathematically tends to "mis-specify" the investor required market return when market-to-book ratios diverge from unity; and third, it is not consistent with the Board's public policy relative to the return on common equity cost rate for water utilities or for electric and natural gas utilities. (PRT2 at 3, 4.)

Ahern also concludes that Dr. Griffing's recommendation does not meet the mandate of Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 64 S. Ct. 281, 88 L. Ed. 333 (1944), and Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679, 43 S. Ct. 675, 67 L. Ed. 1176 (1923) that requires that a public utility be given an opportunity to earn a fair rate of return.

Ahern maintains that Griffing's recommended ROE is substantially lower than most adopted returns of 9.75 percent and below the lowest return on common equity of 9.60 percent authorized by the New Jersey Board of Public Utilities ("NJBPU") since 2012. Moreover, his recommendation is below the currently authorized returns on common equity of 9.75 percent for all of the regulated water utilities operating in New Jersey. The Company's proposed 9.75 percent return on common equity was based on BPU policy rather current investor expectations. (PRT-2 at 4, 6.)

Ahern recommends an ROR of 10.85 percent, adjusted to accept the Company's proposed rate of 9.75 percent. She used several methodologies to support her recommendation. (PRT-2 at 15-17.) Like Griffing, she performed a DCF analysis, which she also checked using the CAPM. She also performed a Risk Premium model ("RPM") using a proxy group of water utilities. Her water proxy group was identical to the comparison group that Dr. Griffing used in his analysis. Because SWAH's stock is not publicly traded, Ahern deemed it necessary to determine whether an adjustment was appropriate, since the comparison group's stock is publicly traded. The analysis revealed the following result:

Summary of Common Equity Cost Rate

Water Proxy Group

Discounted Cash Flow Model ("DCF")	8.47 percent
Risk Premium model ("RPM")	11.34 percent
Capital Asset Pricing Model ("CAPM")	9.52 percent
Cost of Equity Models Applied to Comparable Risk, Non-Price Regulated Cost	10.48 percent
Common Equity Cost Rate Before Adjustment	10:00 percent
Credit Risk Adjustment	0.09 percent
Business Risk Adjustment	0.75 percent
Common Equity Cost Rate After Adjustment	10.84 percent
Recommended Common Equity Cost Rate	10.85 percent

Ahern concludes that a common equity cost rate of 10.00 percent is indicated before any adjustment for credit and business risks arising from SWAH's forecasted Moody's bond rating of A3, and its greater business risks due to its smaller size relative to the Water Proxy Group. The 10.00 percent common equity cost rate is based upon all four models applied to the market data of the proxy group without any qualitative or quantitative adjustment to the DCF result. The 10.00 percent common equity cost rate, based solely upon the Water Proxy Group, must be adjusted upward by 0.09 percent for credit risk and 0.75 percent to reflect SWAH's increased unique business risk. After adjustment, the indicated credit and business risk-adjusted common equity cost rate is 10.84 percent, which Ahern rounded to 10.85 percent, her recommended common equity cost rate. Thus, Ahern concludes that the Company's requested return on common equity of 9.75 percent is extremely conservative. (PRT-2 at 25.)

Staff, consistent with its internal regulatory policy, did not present a witness, but presented its recommendation in its initial brief. Staff adopts the Company's proposed recommended ROE of 9.75 percent and ROR of 7.62 percent. Staff also accepts the Company's proposed capital structure of 46.66 percent of long-term debt at a cost rate of 5.19 percent and a weighted cost of rate of 2.42 percent; and 53.34 percent of common equity with a cost rate of 9.75 percent and a weighted cost rate of 5.20 percent, for an overall return of 7.62 percent. (SIB at 8.)

Staff takes issue with Dr. Griffing's failure to consider the specific risks that the Company faces as a stand-alone company. Since petitioner is a non-diversified smaller company than its parent company, Staff concludes that its business risks are higher than SWR and the comparison group. Griffing's analyses only looked at the Company as an integrated entity with its parent company, SWR. (SIB at 12.)

Further, Staff contends that Dr. Griffing's use of the midpoint range of 8.65 percent in his DCF analysis is not supported by any proof that the midpoint range is the best estimate. Specifically, Staff noted that while 8.65 percent is based on Dr. Griffing using one-half of the expected growth rate to estimate the expected dividend yield and adjusted for expected growth in the next year, he failed to explain why he only used one-half of the estimated growth rate rather than the full growth rate as is generally required in the DCF model. (SIB at 13.)

Staff further asserts that an ROE of 8.65 percent and an ROR of 7.02 percent could undercut investor's required earnings. Dr. Griffing's methodology to achieve his recommendation is improper because petitioner's market-to-book ratio is much higher than one. (Ibid.) Since Griffing failed to convert the book value of the equity or the capital structure, debt cost rate and rate base must be converted and expressed in terms of market value. This omission will undercut investor required earnings. (SIB at 14.)

Staff concludes that an ROE of 8.65 percent could be unattractive to potential investors in violation of the capital attraction criterion of Hope , supra, 320 U.S. 597, 64 S. Ct. 281, 88 L. Ed. 333. Staff notes that Dr. Griffing's updated testimony that increased his recommended ROE implicitly acknowledges the recent interest-rate increase and that further potential increases are projected. While Griffing asserts that the market already knew of potential rate increases and his recommendation satisfied the Hope criteria, Staff disagrees and concludes that the current market expectation of a high-interest-rate environment could cause the Company to be unattractive to potential investors with an ROE of 8.65 percent. (SIB at 14.)

Finally, Staff argues that an 8.65 percent ROE could have a large negative impact on the Company's revenues. The difference between an ROE of 8.65 percent and an ROE of 9.75 percent is approximately $132,000–$139,333, or some 9 to 10 percent of the Company's requested rate increase of $1.404 million. (SIB at 15.) Thus, Staff asserts that based on testimonies of both experts and the Board's recent ROE awards in other recent base-rate cases, the Company should receive a 7.62 percent ROR, as illustrated:

	Capital Structure (percent)	Component Cost Rate (percent)	Weighted Cost Rate (percent)
Equity	53.34	9.75	5.20
LTD	46.66	5.73	2.42
ROR			7.62

(SIB at 16.)

Staff concludes that petitioner is a small entity and lacks diversification in terms of business mix, customer mix, and territorial mix. Thus, its business risk should be assessed as relatively higher. Moreover, its size alone would make the company unable to access public capital markets, if it were a stand-alone company. Bank loans and private equity are relatively more expensive. Under the current economic environment of a high expectation of rising interest rates, the 9.75 percent ROE is reasonable, and it is the mid-point of the 8.65 percent and 10.85 percent recommended, respectively, by Dr. Griffing and Ms. Ahern. (SIB at 15, 16.)

I am persuaded by the analyses presented by the Company and Staff, thus I **FIND** that the appropriate ROE is 9.75 percent with an overall ROR of 7.62 percent. This recommendation is consistent with the mandate of Hope, supra, 320 U.S. 597, 64 S. Ct. 281, 88 L. Ed. 333, where the United States Supreme Court set forth the standard for a reasonable return on equity of a regulated utility. It held that the return to the equity owner should be commensurate with the returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, to maintain its credit, and to attract capital. Hope, supra, 320 U.S. at 603, 64 S. Ct. at 289, 88 L. Ed. at 346.

Here, a 9.75 percent ROE allows the company a sufficient return to be attractive to potential investors. It also provides a sufficient return on invested capital to allow it to attract capital.

I do not **FIND** the testimony of Dr. Griffing to be persuasive, particularly because his adjustment to the growth rate and his failure to include a flotation adjustment are not sufficiently explained. As Staff argues, these two factors are customary in any DCF analysis. Therefore, such a deviation from the norm without compelling justification or even a solid rationale invites one to conclude that the omission was arbitrary and done simply to drive a lower ROE/ROR. (Exh. P-4, update for ALJ's recommendation).

CONSOLIDATED TAXES

In its direct testimony, the Company did not propose any adjustment to reflect any taxes saved because its parent company, SWAH Corporation, files a consolidated tax return with its unregulated and regulated (SWAH, et al.) subsidiaries. (RC-2.) Rate Counsel and Staff have proposed that the savings that flow from the filing of a Consolidated Tax Return be recognized. However, Staff and Rate Counsel disagree on the way to recognize these savings. In response to the two adjustments, the Company has agreed to Staff's proposed consolidated tax adjustment ("CTA").

Dante Mugrace ("Mugrace") presented Rate Counsel's proposed CTA. Mugrace is a senior consultant with the economic and management consulting firm of PCMG and Associates, LLC. Mugrace's experience consists of twenty-eight years of employment with the New Jersey Board of Public Utilities, with his last ten years as bureau chief for the Water Division. He also has two years of employment with Snavely King Majoros & Associates, Inc., a regulatory consulting firm. (RC-2 at 2.) Mugrace holds a bachelor's degree in accounting, and master's degrees in business administration and public administration. He was retained by Rate Counsel to recommend an appropriate revenue requirement for the petitioner.

Mugrace recommends basing the CTA on a twenty-year look-back period, as this time frame reflects an accurate picture of the Company's negative and positive net income and the amount of taxes paid. The effect of any outlier years is minimized by the twenty-year period. And it is consistent with federal tax laws, which allow losses to be carried forward for twenty years. 26 U.S.C.A. § 172 (2014). Based on twenty years of data provided by the Company, Mugrace calculates an adjustment to rate base of $107,440. (RC-2 at 13, 14; Schedule DM-28.)

Staff recommends adopting the Company's CTA proposal that was presented in Mr. Prettyman's rebuttal testimony. (PRT-1 at 42.) Prettyman based his adjustment on the Board's generic Order on consolidated taxes, wherein it set a new policy on the consolidated tax adjustment for all of the state's utilities, except those that were exempted in the Order. In that Order, the Board ordered that the "look back period" (or the review period) for the CTA calculation be modified to five calendar years, inclusive of a complete test year. Further, the Board ordered that the CTA adjustment be allocated so that the revenue requirement of the company is reduced to 25 percent of the adjustment. And it ordered that any transmission assets of an electric-distribution company be excluded from the calculation of the CTA. Under this methodology, Staff and the Company proposed a rate-base deduction of $79,381. See: I/M/O the Board's Review of the Applicability and Calculation of a Consolidated Tax Adjustment, BPU Docket Nol. E012121072, Board Order dated 12/17/14.

I **FIND** that the appropriate CTA adjustment is $79,981 as proposed by the Company and Staff. While it is true that the Generic Order is under appeal, it is still the Board policy, and until such time that it is overturned by the court, it has precedential value.

POST-TEST-YEAR ADDITIONS

The Company requests recognition of $13,568,324 of post-test-year additions. Company witness Antonio Vicente, P.E. ("Vicente") testified in support of the request. Vicente testified that the Company was replacing its existing sewer-treatment plant at a cost of $12.8 million. Additionally, to meet customer service standards and regulatory requirements, the Company's other capital projects included the replacement of sewer laterals; replacement of short mains and manholes; replacement pumps; replacement of treatment equipment; miscellaneous facilities improvements; and control-equipment improvements. The total estimated cost of these other projects, which will be placed in service between May 2016 and the end of October 2017, is approximately $205,858.

Additionally, petitioner will also place in service $505,296 of plant from the installation of new collection mains. The entire cost of the new collection mains is being contributed by the developer. The Company currently has approximately 590 residential customers and 25 commercial customers located in Mount Arlington Borough. The collection system is being expanded to provide service to a 300-unit apartment complex ("Fieldstone") and 60-unit townhouse development ("Shadow Woods").

Rate Counsel's witness, Howard J. Woods, Jr., ("Woods"), a professional engineer and an independent consultant, recommends recognition of only two post-test-year additions, the $12.857 million for the new wastewater treatment plant and $505,296 of costs for the main extension to service the new development, Atkins. Woods asserts that the remaining $205,558 represents routine and recurring projects that are not major in nature and consequence.

In its updates, the Company revised its construction expenditures and stated that the actual cost of the wastewater plant was $12,618,849, or $238,321 less than projected. Additionally, witness Vicente acknowledged that routine post-test-year additions did not occur as forecast, as the Company only spent $924 on a pump at the old wastewater treatment plant, which was retired when the plant was demolished.

Considering the updated testimony, Rate Counsel deems the issue of post-test-year additions as moot, as the new sewer plant and the main extension to service the Atkins development were both in service at the end of the post-test-year period cited in In re Elizabethtown Water Company Rate Case, BPU Docket No. WR8504330, Order (May 23, 1985). Thus, Rate Counsel recommends recognizing $13,362,466 of rate-base additions. It contends that the remaining projects are beyond the six-month post-test-year criteria, and are not major in nature and consequence. Thus, it recommends disallowance of $205,857 of plant additions, as they are routine and recurring. (RC-2 at 7, 8.)

Staff recommends recognition post-test-year additions of $12,857,170 for the construction of the new wastewater treatment plant ("WWTP") and $505,296 to connect the Fieldstone and Shadow Woods development to the new WWTP. Staff notes that these costs occurred within six months of the close of the test year, were major in nature and consequence, and are already in service.

However, Staff asserts that the Company has not provided support to substantiate the remaining level of post-test-year additions, and the $924 replacement pump is no longer used and useful.

The Company seeks to have the Board revisit the Elizabethtown Water Order as it relates to post-test-year additions. It contends that the Order is thirty-two years old, and a rigid application of the "3-6-9 rule" places an unreasonable burden on small wastewater companies. Further, it contends that Rate Counsel, while accepting the revenues for new customers outside of the 3-6-9 rule, refuses to accept plant additions and carrying costs related to the same project in violation of the matching principle, a fundamental ratemaking tenet. Here, the Company's proposal matches rates to its investments and costs required to serve its customers over the period that rates will be effective. (PIB at 45.)

I have carefully considered the parties positions on this issue. In light of the Company's updated position, the only remaining addition is the $924 pump, which is no longer used and useful. A fundamental tenet of ratemaking is that plant must be used and useful in the rendition of service. Here, the pump is not used and useful, thus it cannot be recognized in rates. As to remaining planned additions, Vicente acknowledged that they did not occur as forecasted and gave no dates as to when they would in fact be in service. Thus, I **FIND** that they are not known and measureable and therefore should not be recognized in rates.

RATE-CASE EXPENSES

In his prefiled testimony, witness Prettyman noted that it would be "wholly inappropriate to split the cost of this necessary rate case between customers receiving the benefit of this rate case and the cost of processing the case" (PT-1 at 6). Company witness Peiling Lin calculated the rate-case expenses at $85,000. Lin proposed a three-year amortization period, for a pro forma adjustment of $28,333.

Rate Counsel witness Mugrace accepted the Company's proposed level of rate-case expenses, but rejected both the proposed amortization period and the request to recover all of its rate-case expenses, absent the sharing concept. He recommends a continuation of the 50/50 sharing between ratepayers and SWAH's shareholders. Further, he recommends that the expenses be recovered over four years consistent with the Company's proposed rate-phase-in period. His proposed adjustment is $10,625 (RC-2, Sch. D-5).

On rebuttal, the Company updated its rate-case expenses to $340,000. Witness Prettyman noted that the original projection of $85,000 was based on an assumption that this case would not be litigated.

Staff recommends that the rate-case expenses be split 50/50 between the Company and the ratepayers. Staff further recommends recognizing the Company's updated amount of $340,000 and a four-year amortization to match the proposed rate-phase-in period.

In its reply brief, Rate Counsel states that it neglected to include $36,521 for witness Ahern. Thus, it points out that total rate-case expenses per the Company are $365,462. (RCRB at 13.)

The Company seeks to deviate from the 50/50 sharing concept on the basis that a rate case is the only mechanism available to allow utilities to change base rates to reflect changes in the cost of doing business. Consequently, rate-case expenses are a cost of doing business and are simply a part of providing safe and adequate service, as a rate case is only a vehicle that allows a company to recover new costs, such as costs of new plant investment. Thus, petitioner asserts that so long as rate-case expenses are prudently incurred they should be fully recoverable. (PIB 29, 31.)

Petitioner further contends that the rationale underpinning the 50/50 sharing of rate case expenses has never been explained. The "benefit" argument is inherently flawed because neither the shareholder or the ratepayer benefits from a justified rate increase or decrease.

Moreover, the sharing formula violates the matching concept of ratemaking that requires a matching of customer rates with the costs of serving the customers. In summary, petitioner requests that the Board revisit this policy, which is limited to this jurisdiction only. Finally, petitioner contends that the sharing policy has such a chilling effect on small companies that they either forego seeking rate relief or delay necessary plant improvements and new additions to plant in service. Here, removal of the sharing policy will not impact rates, as the Company's revenue requirement will remain at the requested level of $1,404.396.

Rate Counsel rebuts that to require ratepayers to bear total rate-case expenses is "patently unfair." The issue that impeded settlement in this case was the determination of the appropriate rate of return on equity. Ratepayers receive no benefit from a higher ROE except higher bills. A higher ROE benefits the Company's shareholders, exclusively. (RCRB at 14.)

It is without question that the Board's long-established policy is that rate-case expenses are to be shared 50/50 between the company and its ratepayers. The Board's rationale for its policy was set forth in 1982 in the South Jersey Gas Company base-rate case where the Board first allowed a 50/50 split, exclusive of Rate Counsel's fees, between the ratepayer and the company's shareholders. In so ordering, the Board concluded that such treatment was warranted because "some portion of that expense is a cost of maintaining the stockholders investment." In re South Jersey Gas Co., BPU Docket No. 818-754, Order (November 24, 1982). Since that case, the 50/50 sharing policy was pretty much the standard operating procedure until 1984, when the Board deviated from policy in In re the Application of West Keansburg Water Co., BPU Docket No. 838-737, Order (April 12, 1984). There, the Board refined the 50/50 sharing policy by noting the distinction between a major utility company and a much smaller utility, finding:

> In the recent past in proceedings involving the State's major utility companies, the Board has shared rate case expenses, excluding Rate Counsel fees, equally between the shareholders and the ratepayers. While we will continue to consider this issue on a case by case basis, we are of the opinion that the sharing of rate case expenses by a company the size of Petitioner is inappropriate. It is our belief that the sharing of rate case expenses would have a greater negative effect on companies such as Petitioner as opposed to major utilities. This is because rate case expenses make up a substantially higher percentage of operating expense for such companies and the resultant reduction in the earned rate of return would be greater.

Thus, West Keansburg Water recognizes the "greater negative effect" from the sharing policy on small utilities. As Staff notes, the impact is a direct burden on the earned rate of return, as it causes it to be reduced.

However, in a subsequent case, the Board rejected this approach when it denied total recovery of rate-case expenses to a much smaller utility that had less than eighty customers. See In re the Petition of Seaview Water Co., BPU Docket No. WR98040193, Order (October 1, 1999). In that matter, the parties contended that the rate case conferred a substantial benefit on the company by allowing it to recover a lost source of revenue when it lost its largest customer. Further, it noted that but for the rate case the shareholders would have to absorb lost revenue. Moreover, it was argued that the harm to the ratepayers would be extraordinary and disproportionately heavy if they had to absorb the total rate-case expense. The ALJ recommended the 50/50 sharing policy, noting that deviation from the standard policy should only apply in extraordinary circumstances, which were not demonstrated in that matter.

I **FIND** that petitioner is not a major utility, but a subsidiary of the larger multinational Suez Water Company. Thus, it lies outside of the type of small utility referred to in the Board's West Keansburg Order. However, there is no doubt that the rate case herein is prudent and appropriate. That said, I am not persuaded that a cogent, compelling argument has been made for a deviation from the 50/50 sharing policy. There are no extraordinary factors presented in this case that would warrant a departure from longstanding Board policy. Notably, the current regulatory scheme undermines an argument for a full recovery of rate-case expenses. In this regard, it is noted that the emergence of the Purchased Wastewater Treatment Adjustment Clause and the Purchased Water Adjustment Clause allows utilities to avoid base-rate cases for significant time frames.

Further, the size of the proposed rate increase herein mitigates against a departure from the sharing concept. The proposal to phase in this increase was done to mitigate the rate shock, thus, adding additional costs from rate-case expenses is contrary to that purpose. While there is no doubt that the Company took major steps to avoid this litigation by employing substantial mitigating measures, the harm resulting from a failure to settle this matter should not be heaped on the ratepayers for a decision that they did not make.

Moreover, here, as in the Seaview case, this base-rate case will allow the Company to recover new plant investment and a return thereon. Additionally, if approved, the Company will have a new rate classification—the apartment rate. It is clear that there are direct benefits that will inure to the Company from this rate case. Thus, I **CONCLUDE** that the 50/50 sharing policy should continue. I further **CONCLUDE** that a four-year amortization period is appropriate, as it matches the four-year phase-in period. (Exh. P-4, Sch 2 updated for ALJ's recommendations)

Rate Phase-In—Carrying Charges

In his rebuttal testimony, witness Prettyman proposed for the first time that the Company be awarded carrying charges on the revenues not collected during the phase-in period and be allowed to compute interest on the unrecovered amount of revenues as a result of the phase in. (PRT-1 at 44.) The request for the carrying cost was based on a delay of the instant rate case.

In his direct testimony, witness Prettyman included the revenues from 300 $^{5}/_{8}$" meters. This was done based on the developer's presentation that the apartments and townhouses would be individually metered. Subsequently, the developer notified the Company that the apartments would not be individually metered, but that each building would be master-metered. Thus, petitioner advised the parties that it would make an adjustment to deduct 300 $^{5}/_{8}$" meters and the associated revenues and add 9 3" meters plus 4 2" irrigation meters. The net adjustment was a decrease in present revenues of $51,684. Prettyman advised that the Company would continue to count the customers, notwithstanding that they are "speculative," as they do not actually exist. (PRT-1, 48.) The Company also included the townhouse residents in its projected revenues despite the fact that the townhouses are also not constructed. Prettyman asserts that while the Company was not required to show this revenue, it did so to be consistent with the matching principle—customers with costs. (PRT-1, 48.)

The new wastewater treatment plant became operable in October 2016. The Company now seeks to recover the carrying costs associated with the four-year phase-in of this rate increase. The four-year phase-in is meant to minimize rate shock. Prettyman concedes that initially the Company elected to forego the carrying costs because it believed that this matter would settle and rates would be effective by year-end 2016, thus allowing it to recover all of the costs with the proposed four-year phase-in. However, the combination of extra time associated with litigation of this matter and its associated costs requires the Company to seek interest on the unrecovered amount of revenues as a result of the phase-in. Interest is calculated at the "anticipated pre-tax rate of return" over four years. (PRT-1, 45.)

In calculating the interest on the requested rate increase of $1,404.396, Prettyman reduced the amount each year of the four-year phase-in by the amount shown on Exhibit P-4, Schedule 1C, of the initial filing. Those amounts are $300,000, $350,000, $424,000, and $329,396. This produces $287,654 of carrying charges. (Exhibit GSP-7, page 1 of 5.)

Alternatively, if the Board were to order that the first phase of the rate increase be increased to approximately 50 percent of the revenue requirement, and if years two, three, and four were equally divided by the remainder, it would mitigate the interest. If that were implemented, the Company would not have to seek recovery of all its real costs resulting from the phase-in. (GSP-7 at 2.) If interest were applied to the phase-in, the resulting percentage increase is shown in GSP-7 at page 3. This method would reduce the interest amount to $184,787. (GSP-7 at 4.) Prettyman also calculated Rate Counsel's recommended increase with a four-year phase-in, spread evenly over the four years. This results in interest of $224,132. (GSP 7 at 5.)

As I previously noted, this case is driven by the Company's expansion of its franchise area to provide sewer service to a 300-unit apartment complex and 60 townhouses. The proposed complex is expected to generate approximately 0.078 million gallons per day of wastewater. The addition of the new customers required the Company to build a new wastewater treatment plant, resulting in a $12,857 million increase to rate base. (PT-4 at 3.) The developer of the apartment building provided over $2.5 million in contributions for the plant and new collection mains. The Company projected an in-service date of October 2016, which it met. However, at the time of filing of this case, it was uncertain how many new tenants would be customers of SWAH. The developer projected a four- to five-year time frame for completion of the project. Because of this uncertainty, the Company proposed that the rate increase be phased in over a four-year period.

Petitioner request that the Board revisit the 3-6-9 rule of Elizabethtown Order in this matter as it places an unreasonable burden on a small waste water company and penalizes it for proposing a four year phase-in that mitigates the impact of 118% increase. While Rate Counsel argues that the carrying costs should be disallowed because it is outside of the period for post test year adjustments, it has accepted the revenues from the post test year period. It is clear that the company will not realize its return on investment until September 2021. Thus, petitioner asserts that this matter is the appropriate case for the Board to revisit the 3-6-9 rule. Recovery of carrying costs resulting from the four year phase in better matches customer rates to the costs incurred to serve them in keeping with the matching principle of ratemaking. SIB at 52.

Rate Counsel and Staff oppose the request for the recovery of carrying costs. Specifically, Rate Counsel objects to the timing of the instant proposal, which was not a part of the petitioner's direct testimony, but was only included in the Company's rebuttal testimony. It maintains that it was "denied an opportunity to conduct discovery" on the issue.

Staff notes that phase-ins are generally implemented as a countermeasure to rate shock from a large rate increase. See Seaview, supra, BPU Docket No. WR98040193, Order (October 1, 1999); In re the Petition of Envtl. Disposal Corp., BPU Docket No. WR94070319, Order (July 17, 1996). Thus, this request is inconsistent with a rate phase-in.

Staff and Rate Counsel are correct that the Board has generally disfavored awarding carrying costs. Moreover, there is no doubt that the Company's request to recover carrying costs is incongruous with a rate phase-in, the purpose of which is to mitigate rate shock. That being said, there is no doubt that there is a legitimate cost associated with deferring revenues, and a failure to recognize this cost constitutes a denial of the recovery of a prudently incurred expense. There is a time value associated with money, and the failure to recognize same may constitute a taking. See Hope, supra, 320 U.S. 597, 64 S. Ct. 281, 88 L. Ed. 333.

However, I am persuaded that the magnitude of this increase warrants caution. As Staff aptly notes, the recovery of carrying costs is inconsistent with a phase-in that seeks to mitigate rate shock.

Incentive Compensation

The Company's labor charges are based on Suez Water New Jersey employees who charge their work time to the Company for services performed. Witness Peiling Lin calculated a ratio using two historical years (2014 and 2015) of labor expense, divided by SWNJ's gross labor expense in each year to get the two-year average ratio. The average ratio was multiplied by SWNJ's gross labor cost of $36,722,873 for 2016 to arrive at the proforma labor expense. (PT-3 at 4.)

Rate Counsel's witness Mugrace adjusted the Company's labor expense to remove costs associated with the Company's incentive compensation ("IC"). Mugrace recommends an adjustment to remove $1,348,154 for incentive compensation and $185,000 for vacant positions that the Company has elected not to fill. If adopted, this adjustment would reduce gross labor expense.

Mugrace recommended disallowance of incentive compensation because the expense is not related to the provision of safe, adequate and proper service but is geared towards adding shareholder value to its investors. As such, it is a cost that should be borne by the shareholders and not the ratepayers. The IC program requires SWAH to meet certain financial targets before Suez will pay any incentive compensation. The Board has generally disallowed incentive compensation in water/sewer cases where it requires an earnings threshold. (RC-2 at 19.) Mugrace recommends $149,486 of labor expenses be recognized in rates.

On rebuttal, witness Prettyman objects to Mugrace's adjustment on two grounds. First, he asserts that Mugrace objects to the Short-Term Incentive Program ("STIP") portion of the incentive compensation program. He asserts that 60 percent of the STIP payment is based on employee performance only and it is paid irrespective of whether the Company achieves its financial target. He calculates Mugrace's adjustment as follows.

	Employee 60 percent	**Financial 40 percent**	**Total**
SWAH	$3,436	$2,291	$5,727
M&S	$6,404	$4,270	$10,674

Thus, in accordance with Mugrace's theory, 60 percent of STIP for SWAH and M&S should be recognized in rates.

His second adjustment to Mugrace's recommendation is to correct a "calculations oversight." Specifically, Mugrace reduced M&S costs by 50 percent on Schedule DM-13. As shown in exhibit GSP-5, if the Company requested the full M&S allocation of $115,969 then it might have been mathematically appropriate to make his adjustment. However, the Company did not request the full allocated M&S fees, yet Mugrace still deducted the full amount of STIP, thus resulting in a 50 percent reduction.

Moreover, Prettyman noted that the Board approved a new Affiliate Agreement in January 2017. As a result of the agreement, SWAH allocated cost would have increased to $115,969. However, the Company did not request recognition of that increase.

Consequently, the M&S fee portion shown on Exhibit P-4, Schedule 2-H, and Mugrace's Exhibit DM-13 is $24,638. The Short-Term Incentive Program compensation allocated within total M&S fees was $10,674, plus Long-Term Incentive Program ("LTIP") compensation of $1,787, for a total of $12,461. Mugrace disallowed the entire $12,461 out of the $24,638, or 50.5 percent. Prettyman argues that to be consistent, Mugrace should have taken a ratio of $12,461 to the total $115,969, or 10.7 percent, and applied that to the $12,461, or $1,333. (PRT-1 at 41.)

Rate Counsel denies that Mugrace's adjustment is mathematically flawed. It acknowledges that the Company's new methodology for allocating M&S fees increased M&S fees from $42,244 to $115,969. In response to a request from Mugrace, the Company stated that its embedded M&S fees were $12,461. Rate Counsel contends that the Company provided the incorrect amount for its embedded M&S fees. Thus, it stands by its $12,461 adjustment.

Rate Counsel further asserts that Mugrace's recommendation is consistent with the Board Policy that disallows incentive compensation. It further disputes that the IC plan is not selective, as it is only those employees who are in exempt, eligible positions who are eligible for IC. Moreover, the personal-performance portion of the plan does allow an employee to base their own performance solely on the Company's financial performance. If the employee elects this option, and the Company does not meet its target, then no incentive compensation is paid to that employee. Finally, Rate Counsel further contends that employee incentive compensation should be denied, as it is not known and measurable.

Staff also opposes recognition of the Company's IC plan in its rates. It relies on long-standing Board policy that has historically denied incentive compensation, citing: In re the Verified Petition of Rockland Electric Company for Approval of Charges in Electric Rates, its Tariff for Electric Services, its Depreciation Rates, and for Other Relief (Base Rate Filing), BPU Docket No. ER02100724, Order (April 20, 2004)\ (ruling that all of Rockland Electric Company's proposed incentive compensation should be disallowed from rates); In re the Petition of Jersey Central Power and Light Company for Approval of Increased Base Tariff Rates and Charges for Electric Service and Other Tariff Revisions, BPU Docket No. ER91121820J, Order (June 15, 1993) (ruling that ratepayers should not be paying additional costs to reward a select group of company employees for performing the job they were arguably hired to perform in the first place).

Petitioner strongly refutes the arguments of Rate Counsel and Staff. It notes that the Rate Counsel's assertion that economic conditions are the same as they were in 2003 is not supported by the record. Further, it notes that this incentive plan is not the same as the IC plans of twenty-five or fifteen years ago.

Petitioner further notes that contrary to Rate Counsel's argument, the IC plan is known and measurable and is not tied to the Company's financial performance. The bonuses are based on a targeted percentage of an employee's salary when they achieve their own personal performance goal. (PRB at 38.) Finally, the Company contends that IC plans are part of the economic fabric of our workforce and are not limited to just senior executives.

I have carefully evaluated the parties' positions. While it is true that the Board has historically denied incentive compensation, it is equally true that the same economic conditions that existed in 2003 and 2008 do not exist today. Moreover, IC plans are indeed a part of our economy. However, in light of the magnitude of the instant increase, I find that it is inappropriate, at this time, to recognize an IC plan in petitioner's rates. Nevertheless, I am persuaded that it is time to revisit this issue and consider whether a sharing concept like rate-case expense is appropriate.

The Apartment Rate

In its initial filing, the Company sought recognition of 360 new customers associated with the construction of a new apartment complex and townhouses, the Fieldstorm and Shadow Woods project (the "Project"). The Project, as originally conceived by the developer, would consist of a 300-unit apartment complex and 60 townhouses. It was projected to generate approximately 0.078 million gallons per day of wastewater. At that time, the developer envisioned that each apartment would be individually metered. Thus, the Company included in revenues 300 $^5/_8$" meters with a monthly meter chart.

Subsequently, the developer advised the Company that the plan was now revised to include master metering for each building in lieu of individual metering. Thus, the Company removed the 300 $^5/_8$" meters and added 9 3" meters and 4 2" irrigation meters. (PRT-1 at 47, 48.) This adjustment resulted in a decrease in present rate revenues of $51,684. The apartment revenue is included despite the fact that neither the apartment building nor the townhouses are in service and will not be for some time.

In light of a change to master metering, the Company now seeks to remove these customers from the residential rate classification to a new apartment rate classification. Prettyman concludes that using a commercial classification is inappropriate, as it would result in the complex being billed $365,044 under present rates rather than $41,207 under a residential classification. He has designed the apartment rate to produce approximately $200,000 in lieu of a commercial rate. (PRT-1, at 50, 51, GSP-8).

Rate Counsel opposes the Company's proposal. It contends that the apartment rate is not supported by a cost of service study ("COSS") to assess the proper revenue allocation for each class of customers. (RCIB at 31.). Further, Rate Counsel asserts that the rate itself is objectionable, because it is designed to give the Company greater revenues from fixed charges than the Company's original rate design notwithstanding that consumption will remain the same. The apartment rate will provide an additional $83,000 in annual revenues compared to the rate design in the Company's petition.

Further, Rate Counsel contends that the Company provides no support for the assumption that the apartment buildings would necessarily be billed as commercial customers. Absent existing tariff provisions that define apartment buildings as commercial customers, apartments should be billed as residential customers. Petitioner could bill the apartment buildings as residential customers simply by adding 2" and 3" fixed service charges to the residential tariff. (RCIB at 32.)

Rate Counsel further disputes the Company's contention that the apartment rate mitigates the rate impact of this case on the residential customers, since it simply charges one set of residential customer apartment dwellers higher rates than another set of non-apartment residential customers.

Staff supports the Company's proposed apartment rate. Petitioner currently has approximately twenty-four commercial customers that consist of at least one strip mall and several office buildings. Staff asserts that the usage pattern for an apartment complex will be different from that of an office building or a strip mall. Staff points out that the office buildings will only be occupied during normal business hours. 'The water usage for an office building normally consists of the usage that will be associated with a lunchroom or a break room. Water usage for an apartment will be comprised of bathroom (i.e., showering, laundry, dishwashing, etc.). Thus, an apartment complex would be expected to have much higher water usage than an office complex. This in turn will lead to an apartment building having a higher wastewater bill than an office building. These higher wastewater bills will likely be passed on to the tenants in the form of higher rents. Thus, Staff recommends that an apartment rate be established for the new apartment complex and that this rate be based on the methodology proposed by the company in PRT-1 (GSP-8).

The Company refutes that it is under no obligation to undertake an expensive COSS. The fact that it has not should not be dispositive of the issue. The facts support that the Company's current tariff provides that 2" and 3" master meters are used for serving commercial customers. The proposal is revenue neutral and does not harm the new residents of the apartment complex.

I am persuaded that under these facts the Company's proposal is the best solution. While it is true that the request is not supported by a COSS, it is also true that the Company's current tariff would have these new customers under the commercial tariff. As Staff notes, the usage patterns for the Company's current commercial tariff and a residential apartment dweller are vastly different. Given the change in the developer's plan, I **CONCLUDE** that petitioner's proposal is the most equitable solution under these circumstances.

The aforementioned recommendation and the uncontested and or agreed upon adjustments results in overall increase to operating revenues of $1,310.114 or 115.19% to be phase in over four years.

I 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. 52:14B10.

Within thirteen days from the date on which this recommended decision was mailed to the parties, any party may file written exceptions with the **SECRETARY OF THE BOARD OF PUBLIC UTILITIES, 44 South Clinton Avenue, P.O. Box 350, Trenton, NJ 08625-0350**, marked "Attention: Exceptions." A copy of any exceptions must be sent to the judge and to the other parties.

August 16, 2017

Irene Jones

DATE

IRENE JONES, ALJ

Date Received at Agency: August 16, 2017

Date Mailed to Parties:

sej

WITNESSES

For Petitioner

Gary S. Prettyman
Antonio Vicente
Pauline Ahern
Peiling Ling
Elda Gill

For Rate Counsel

Dante Mugrace
Howard J. Woods
Brian Kalcic
Marlon F. Griffing

EXHIBITS

For Petitioner:

P-1 to P-7	Documents
P-7A	Notices and Certifications
P-8	Compilation of Data Request Responses consisting of the following:
	RCR-A-38
	RCR-A-39
	RCR-A-40
	RCR-A-41
	RCR-RD-6
	RCR-RD-8
	RCR-RD-9
	RCR-RD-11
	RCR-RD-12
	RCR-RD-13

	RCR-RD-14
	RCR-RD-15
PT-1	Direct Testimony Mr. Prettyman
PT-2	Direct Testimony Ms. Gil
PT-3	Direct Testimony Ms. Lin
PT-4	Direct Testimony Mr. Vicente
PR-T-1	Rebuttal Testimony Mr. Prettyman
PR-T-2	Rebuttal Testimony of Mr. Ahern
P-9	Compilation of Data Request Responses consisting of the following:
	P-A-1
	P-A-2
	P-A-4
	P-A-6
	P-A-8
	P-A-10
	P-A-11
	P-A-14
	P-A-15
	P-A-17
	P-A-16
P-10	Compilation of Data Request Responses consisting of the following:
	P-ROR-3
	P-ROR-5
	P-ROR-6
	P-ROR-11
	P-ROR-12
	P-ROR-13
	P-ROR-15
	P-ROR-16
	P-ROR-17

RCR-ROE-16

P-11	Gordon's Corner Case Document
P-12	Middlesex Water Case Order
P-13	Board's Generic Order
P-14	Jersey Central Proceeding
P-15	PE and TD Responses

P-16 Compilation of Data Request Responses consisting of the following:

P-ROR-3

P-ROR-5

P-ROR-6

P-ROR-11

P-ROR-12

P-ROR-13

P-ROR-15

P-ROR-16

P-ROR-17

PCR-ROE-16

P-17 SNL Report

For Rate Counsel:

RC-2	Direct Testimony of D. Mugrace
RC-3	Update Schedule of D. Mugrace
RC-4	Direct Testimony Howard J Woods
RC-5	Direct Testimony Marion Griffing
RC-6	Surrebuttal Testimony Marion Griffing
RC-7	Direct Testimony Brian Kalcic
RC-8	Updated Testimony of B. Kalcic

Exhibit P-4
Schedule 2
Per ALJ Decision

SUEZ Water Arlington Hills Inc.
Summary Statement of Operating Expenses

Line No.	Description	Schedule Ref.	Test Year 12m 4/30/2016 (1)	Adjustments (2)	Proforma Present Rates (3)	Proforma Proposed Rates (4)
	Operating Expenses					
1	Labor Expense	P-4, Sch. 2A	130,867	$ 18,617	$ 149,484	$ 149,484
2	Power	P-4, Sch. 2B	44,790	(21,602)	23,187	23,187
3	Chemicals	P-4, Sch. 2C	72,560	(62,560)	10,000	10,000
4	Waste Disposal	P-4, Sch. 2D	30,331	5,555	35,886	35,886
5	Insurance	P-4, Sch. 2E	1,995	(1,995)	-	-
6	Fringe Allocation	P-4, Sch. 2F	44,195	13,761	57,956	57,956
7	Rate Case Expense	P-4, Sch. 2G	-	45,683	45,683	45,683
8	Management and Services Fees	P-4, Sch. 2H	95,355	(65,572)	29,783	29,783
9	Outside Services	P-4, Sch. 2I	46,497	(8,194)	38,303	38,303
10	Regulatory Commission Expense	P-4, Sch. 2J	-	2,793	2,793	5,965
11	Other O&M Expenses	P-4, Sch. 2K	5,598	30,506	36,104	36,104
12	Total Operation and maintenance expense		$ 472,187	$ (43,008)	$ 429,179	$ 432,351
13	Depreciation & Amortization Expense					
14	Depreciation	P-4, Sch. 3	179,550	193,314	372,864	372,864
15	Total Depreciation and Amortization Expense		$ 179,550	$ 193,314	$ 372,864	$ 372,864
16	Taxes Other Than Income					
17	Property Taxes	P-4, Sch. 4	10,805	18	10,823	10,823
18	Gross Receipts, Excise and Franchise Taxes	P-4, Sch. 5	102,352	25,357	127,709	274,820
19	Total Taxes Other Than Income		$ 113,157	$ 25,375	$ 138,532	$ 285,643
20	Total Operating Expenses		$ 764,895	$ 175,681	$ 940,575	$ 1,090,858

Exhibit P - 4
Per ALJ Decision

SUEZ Water Arlington Hills Inc.
Statement of Operating Income Including Revenue Deficiency Under Present and Proposed Rates
and for the Twelve Months Ending October 31, 2016

Line No.	Description	Reference	Test Year April 30, 2016 (1)	Adjustment (2)	Pro Forma at Present Rates (3)	Adjustment (4)	Pro Forma at Proposed Rates (5)
1	Operating Revenue	P-4, Sch. 1	924,623	$ 212,702	$ 1,137,325	$ 1,310,114	$ 2,447,439
						115.19%	
	Operating Expenses						
2	Operating & Maintenance Expense	P-4, Sch. 2	472,187	(43,008)	429,179	3,172	432,351
3	Depreciation & Amortization Expense	P-4, Sch. 3	179,550	193,314	372,864	-	372,864
4	Taxes Other than Income	P-4, Sch. 4-5	113,157	25,375	138,532	147,111	285,643
5	Total Operating Expenses Before Income Taxes		764,895	175,681	940,575	150,283	1,090,858
6	Operating Income Before Income Taxes		159,728	37,021	196,750	1,159,831	1,356,581
7	Federal Income Taxes	P-4, Sch. 6	91,518	(225,002)	(133,484)	405,941	272,457
8	Deferred Federal Income Taxes	P-4, Sch. 6	22,007	68,878	90,884	-	90,884
9	Operating Income		$ 46,204	$ 193,145	$ 239,349	$ 753,890	$ 993,239
10	Rate Base	P-4, Sch. 7			$ 13,051,761		13,051,761
11	Rate of Return				1.83%		7.61%
12	Required Rate of Return				7.61%		
13	Required Net Operating Income				$ 993,239		
14	Operating Income Deficiency				$ 753,890		
15	Gross Revenue Conversion Factor				1.7378		
16	Revenue Deficiency				$ 1,310,114		

Exhibit P-4
Schedule 7
Per ALJ Decision

SUEZ Water Arlington Hills Inc.
Rate Base Summary
Historic Test Year and Pro Forma

Line No.	Description	Reference	Test Year Ended April 30, 2016	Proforma Ending October 31, 2016
1	Utility Plant in Service	Sch. 7-A	$ 7,430,822	$ 16,677,168
2	Accumulated Depreciation	Sch. 7-B	(3,156,644)	
3	Net Plant		4,274,179	16,677,168
4	Contributions in Aid of Construction	Sch. 7-C	(1,756,202)	(2,774,770)
5	Accumulated Deferred Income Taxes	Sch. 7-D	(738,616)	(830,820)
6	Prepaid Expenses	Sch. 7-E	-	5,258
7	Working Capital (1/8 O&M)	Sch. 7-F	-	54,306
8	CTA			(79,381)
9	Total Rate Base		$ 1,779,361	$ 13,051,761