Agenda Date: 03/22/07
Agenda Item: 5C

STATE OF NEW JERSEY

Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

WATER

IN THE MATTER OF THE JOINT PETITION OF NEW JERSEY AMERICAN WATER COMPANY, INC., ELIZABETHTOWN WATER COMPANY, AND THE MOUNT HOLLY WATER COMPANY FOR APPROVAL OF INCREASED TARIFF RATES AND CHARGES FOR WATER AND SEWER SERVICE AND OTHER TARIFF REVISIONS	DECISION AND ORDER ADOPTING IN PART AND MODIFYING IN PART INITIAL DECISION ADOPTING STIPULATION OF SETTLEMENT BPU DOCKET NO. WR06030257 OAL DOCKET NO. PUCRL02635-2006S

(SERVICE LIST ATTACHED)

BY THE BOARD:

On March 31, 2006, pursuant to N.J.S.A. 48:2-21, and N.J.A.C. 14:1-5.12, Petitioners, New Jersey American Water Company, Inc. (the Company), Elizabethtown Water Company, Mount Holly Water Company (collectively, the Companies or Petitioners), all public utilities of the State of New Jersey subject to the jurisdiction of the Board of Public Utilities (Board), jointly filed a petition seeking to increase their rates for water service and wastewater service amounting to $98,993,182 or 22.30%.[1] The increase in rates was proposed to become effective on April 30, 2006. The petition does not seek interim rate relief pending final determination on the petition.

New Jersey American Water Company serves approximately 366,000 water customers and 27,000 wastewater customers in certain portions of Atlantic, Burlington, Camden, Cape May, Essex, Gloucester, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Union and Warren Counties, New Jersey.

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[1] On March 29, 2006, the Petitioners filed a separate petition seeking to merge all three companies. I/M/O the Joint Petition of New Jersey American Water Company, Inc., Elizabethtown Water Company, and the Mount Holly Water Company for Approval of the Merger of Elizabethtown Water Company and Mount Holly Water Company into New Jersey American Water Company and for Related Authorizations, Docket No. WM06030253. The merger was approved by Order of the Board of Public Utilities by Order dated November 15, 2006.

Elizabethtown Water Company serves approximately 208,000 water customers in certain portions of Hunterdon, Mercer, Middlesex, Morris and Union Counties, New Jersey. Mount Holly Water Company serves approximately 16,250 water customers in portions of Burlington and Ocean Counties, New Jersey.

BACKGROUND/PROCEDURAL HISTORY

The matter was transmitted to the Office of Administrative Law (OAL) as a contested case pursuant to N.J.S.A. 52:14B-1 et seq. and N.J.S.A. 52:14F-1 et seq. On April 26, 2006, the Board issued an Initial Suspension Order suspending the proposed rates to August 30, 2006. On August 16, 2006, the Board issued a second Suspension Order suspending the proposed rates to December 30, 2006.

The matter was assigned to Administrative Law Judge (ALJ) Douglas H. Hurd. On May 11, 2006, ALJ Hurd held a pre-hearing conference in which counsel for the Companies and the statutory parties to the case, the Department of the Public Advocate, Division of Rate Counsel (DPA or Rate Counsel) and Board Staff (Staff) participated. A pre-hearing Order was issued on May 25, 2006, setting forth, among other things, the issues to be litigated and the schedule going forward.

By letter dated July 12, 2006, ALJ Hurd granted motions to intervene filed by the Mount Holly Municipal Intervener Group (MIG) (consisting of the municipalities of Southampton, Mount Holly, Lumberton, Easthampton, Westhampton, Mansfield and Hainesport); the Bulk Purchasers Coalition (BPC) (consisting of the Mount Laurel Township Municipal Utilities Authority, Evesham Municipal Utilities Authority, the Borough of Haddonfield, West Deptford MUA, Moorestown, Maple Shade and Pennsauken Water); the Manasquan Customer Group (consisting of the Boroughs of Avon-By-The-Sea, Belmar, South Belmar, Keyport, Matawan, Red Bank and Shorelands Water Company,) (collectively, MCG); Locals 391 and 423 of the Utility Workers Union of America (the Locals); Middlesex Water Company; the City of Ocean City; the Township of Howell; and Aqua New Jersey, Inc. On September 1 and September 8, 2006, the Locals withdrew their motions to intervene. By letter Order dated October 18, 2006, ALJ Hurd granted motions to intervene filed by Merck & Co., Rutgers, the State University of New Jersey, and ConocoPhillips Company, Johanna Foods, Inc., Princeton University and Cogen Technologies Linden Venture, L.P. (collectively, OIW) . By letter Order dated November 27, 2006, ALJ Hurd granted motions to intervene filed on behalf of Merck and Co., Ocean City and Warren Township.

Public hearings for the receipt of public comment on the joint petition were conducted on July 19, 2006, in Westfield and Shrewsbury, New Jersey, and on July 25, 2006, in Westhampton and Ocean City, New Jersey. Twelve members of the public appeared, and their comments centered on the magnitude of the rate increase, as well as some comments regarding encouraging conservation in order to save water and reduce rates for those that conserve and/or do not utilize as much water as others might use.

Evidentiary hearings were held before ALJ Hurd on the following dates: October 16, October 17, October 23, November 1, November 2, November 8, November 14, November 16, November 20, and November 21, 2006, at the OAL in Newark and Mercerville, New Jersey. At the close of evidentiary hearings, ALJ Hurd established a briefing schedule.

Subsequent thereto, the parties to the proceeding engaged in settlement discussions. As a result of settlement negotiations, various parties (the Company, Rate Counsel, Board Staff, the OIW Group, the MCG, and Middlesex Water Company) (hereinafter collectively referred to as the Parties) reached a settlement on all issues and entered into a Stipulation of Settlement (Stipulation or Settlement)[2] that, among other things, provides for an overall increase of $56,150,000, representing approximately a 12.46% increase above current revenues. The Bulk Purchasers Coalition, the Municipal Intervernor Group, Warren Township, Aqua, New Jersey, Inc., the Township of Howell and the City of Ocean City submitted letters not opposing the Stipulation.

On March 8, 2007, ALJ Hurd issued his Initial Decision 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 was consistent with the law.

In a letter dated March 15, 2007, the Company indicated that the parties to this proceeding agreed to withdraw that portion of Paragraph 43 of the Stipulation that read as follows: "The parties further agree that there will be a 50 % reduction in the sewer connection fee for public housing authorities and non-profit organizations in the State of New Jersey that are building affordable housing projects." In a letter dated March 16, 2007, Aqua New Jersey, Inc. stated that it did not object to the aforementioned modification of Paragraph 43 of the Stipulation, but also requested that Board Staff convey its concerns regarding the adequacy of the record to support the inclusion of Paragraph 42 of the Stipulation, in which it was agreed that NJ American would produce a study of the statewide small water company issue and defer the costs of such study for recovery from customers to its next rate case, and which Aqua New Jersey, Inc. had earlier raised in a March 5, 2007 letter to ALJ Hurd, be conveyed to the Board during its deliberations. Aqua New Jersey, Inc., also indicated in correspondence dated March 22, 2007 that it would not object to the deletion of Paragraph 42 of the Stipulation.

STIPULATION

As more fully set forth in the attached Stipulation,[3] the Stipulation provides the following:

REVENUE REQUIREMENTS

1 The test year utilized for the purposes of this Stipulation is the twelve-month period ended September 30, 2006, adjusted for all known and measurable changes. (Settlement Paragraph 14).

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[2] The Board notes that Section VIII of the Stipulation, the word "interim" was included in error. The Stipulation constituted the final agreement of the Parties.

[3] 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.

2. The parties recognize that the Petitioners were merged to form a single entity bearing the name New Jersey American Water Company, effective December 31, 2006. (Settlement Paragraph 15).
3. The parties stipulate to a rate increase of $56,150,000 or 12.46% above pro forma present rate revenues totaling $450,717,985. (Settlement Paragraph 16).
4. The parties stipulate that the Company's total rate base for use in this proceeding is $1,535,820,581. (Settlement Paragraph 17).
5. The parties stipulate that rates resulting from this case be effective March 30, 2007, subject to Board approval. (Settlement Paragraph 18).
6. The parties stipulate to the following capital structure for use in this proceeding (Settlement Paragraph 19):

	Ratios	Cost Rates	Weighted Cost Rates
Long-Term Debt	49.93%	6.00%	3.00%
Preferred Stock	0.07%	4.80%	0.00%
Common Equity	50.00%	10.00%	5.00%
Total	100.00%		8.00%

7. The parties stipulate that the rate increase reflects an amortization of unamortized balance sheet accounts, in accordance with the following schedule (Settlement Paragraph 20):

Account	Balance at 12/31/06	Monthly Amortization	Amortization Start Date	Amortization Ending Date
Deferred Pension Expense	$8,114,368	$39,390	3/1/2004	2/28/2024
Deferred Purchased Sewer Expense	($43,438)	($1,207)	4/1/2007	3/31/2010
Gain on Land Sales	$921,990	$14,084	4/1/2007	3/31/2010
Acquisition Adjustments	$6,033,970	$28,106	Various	Various
FAS 106 (NJAWC)	$3,760,537	$51,514	2/1/1998	1/31/2013
FAS 106 (EWC/MHWC)	$1,495,499	$20,771	11/1/1998	12/31/2012
FAS 109	$19,613,765	Various	Various	Various
Deferred Purchased Water	$1,103,938	$30,665	4/1/2007	3/31/2010
Deferred Business Service Expense	$3,856,750	$124,073	3/1/2004	9/30/2009
Deferred Security Costs	$1,896,941	$72,959	3/1/2004	2/28/2009
Deferred Tank Painting	$1,645,840	$53,092	3/1/2004	9/30/2009

8. The parties agree that neither the discussions underlying the last three amortizations listed above, nor that portion of this Stipulation related to those three amortizations shall be precedential in any manner. In any future discussions involving the Company, or any other parties to this case, and in future testimony, the parties agree that any reference to the last three amortizations set forth in this Stipulation or any underlying discussions shall be absolutely prohibited. (Settlement Paragraph 21).

9. The parties stipulate that the Company incurred rate case expenses of $1.632 million for this proceeding. This amount will be shared 50/50 between the Company and ratepayers, and normalized over three years at $271,977 per year. To this will be added the deferred Purchased Water Adjustment Clause expense, which will be normalized at $9,312 per year. (Settlement Paragraph 22).

10. The parties stipulate that in connection with its next base rate case, the Company will file a full depreciation study, and supporting testimony. In addition, the Company will simultaneously provide to Rate Counsel the same "base data" that it provides to its depreciation consultant. It is Rate Counsel's intent to also file a full depreciation study and supporting testimony in the Company's next base rate case. The parties to this Stipulation agree that the costs of Rate Counsel's depreciation study and testimony, and related costs up to $110,000 (to be borne by the Company) shall be treated the same as are other rate case expenses in the next case. In addition, it is agreed that no party will challenge recovery by the Company of its costs related to the depreciation study and testimony and related costs on the basis that the same are redundant or unnecessary, because of Rate Counsel's depreciation study, testimony and related expenses. (Settlement Paragraph 23).

11. In this proceeding the Company sought authorization to implement a Distribution Service Improvement Clause (DSIC), a Purchased Power Adjustment Clause (PPAC) and a Decoupling Clause. The parties agree that the Company will withdraw its requests to implement a DSIC, PPAC and Decoupling Clause in this proceeding, without prejudice. The parties stipulate that the Company may not file for authorization to implement a DSIC, PPAC or Decoupling Clause prior to the filing of its next base rate case; provided, however, that the Company may file to implement a DSIC, PPAC or Decoupling Clause with the filing of its next base rate case, or thereafter. (Settlement Paragraph 24).

12. The revenues reflect the recovery of $26,023,647 of purchased water costs and $11,130,013 for the recovery of purchased sewerage treatment costs. In the final tariffs which are accepted in this matter, these costs will be removed from base rates and recovered through the purchased water adjustment clause (PWAC) and purchased sewerage treatment adjustment clause (PSTAC), as is appropriate. These clauses will be subject to deferred accounting, pursuant to <u>N.J.A.C.</u> 14:9-7.1 <u>et seq.</u>, and all purchased water adjustment costs and all purchased sewerage treatment adjustment costs will be recovered through these clauses, as is appropriate. The Company may make annual filings for the recovery of these costs in accordance with the Board's rules and regulations pursuant to <u>N.J.A.C.</u> 14:9-7.1. (Settlement Paragraph 25).

13. The Company has received notices of increases to its purchased water costs and its purchased sewerage treatment costs. The notices and amounts are as follows: Passaic Valley Water Commission - $438,870; OCUA $35,180; CMCMUA - $324,297 and Adelphia Sewer – ($28,216). These costs total approximately $770,000. The Company has agreed to take a one time charge of $770,000, which will not be recovered through the PWAC or PSTAC. However, once this charge is taken, the Company may continue to defer, and recover through the PWAC and PSTAC all appropriate deferred purchased water costs and deferred purchased sewerage treatment costs. The Company has agreed to delay any PWAC and or PSTAC filing until March 1, 2008, subject to deferred accounting. (Settlement Paragraph 26).

14. The Company performed a Synergy Validation Study for the period ending June 30, 2005. The same was acceptable to the signatory parties, and demonstrated no net, incremental synergy savings. The Company will perform a Synergy Validation Study for the period July 1, 2005 through the rate effective date in this matter. Such study will be filed by the Company prior to its next base rate proceeding, for consideration by the parties to that proceeding. The cost of the Synergy Validation Study will be borne by the Company. The parties agree that if the Synergy Validation Study demonstrates additional net synergy savings over and above those already demonstrated, and if the Board determines that it is appropriate to share such additional net synergy savings with ratepayers, such synergy savings shall be shared 50% to the ratepayers and 50% to the shareholders, with any allocation of the savings to ratepayers to be made as the Board may find appropriate. Joint Petitioners relinquish any claim that such sharing may constitute retroactive ratemaking. No further Synergy Validation Savings studies need be performed subsequent to the Synergy Validation Study referenced in Paragraph 27 of the Stipulation. (Settlement Paragraph 27).

TARIFF AND RATE DESIGN ISSUES

15. The parties stipulate that, following the merger (which occurred December 31, 2006) of the Joint Petitioners, it is appropriate for the Company to move to unified, state-wide rates. Such movement shall take place over the next three base rate cases of the Company, if appropriate. As a result, the parties agree that the Company will perform a single, state-wide cost of service study in its next base rate proceeding. (Settlement Paragraph 28).

16. Mount Holly Equalization. In this proceeding, GMS rates within the former Mount Holly Water Company service territory, Mount Holly and Plumsted Districts (the Districts) are being set equal to the GMS rates within the former Elizabethtown Water Company (EWC) service territory (other than Manville). Therefore, equalization of GMS rates within the Districts and EWC has been achieved in this case. The Company agrees that when it proposes to further move to state-wide equalization in future proceedings, it will not propose GMS rates for the Districts that are higher than those proposed for the former EWC service territory. This agreement will terminate once unified, state-wide rates have been achieved. (Settlement Paragraph 29).

17. Notwithstanding Paragraph 28 of the Stipulation, the Company will still continue to record the following data, applicable to the geographical service territory of each of the Joint Petitioners, and make such data available if requested in discovery:

Utility Plant in Service

Accumulated Depreciation

CIAC/Customer Advances

Appropriate Operating Expenses and Income, and

Depreciation and Amortizations

(Settlement Paragraph 30).

18. The parties agree that in the next rate case no party will request that rates be set upon a "Monmouth-Only" or similar cost of service study. Rather, the parties recognize that the Company will perform a single, state-wide cost of service study. In addition, the MCG will not be allocated the following water source costs:

- Operation and Maintenance Expenses under the Source of Supply Category, (including purchased water costs)

  Depreciation Expense and rate base associated with the following accounts:

  - Structures and Improvements – SS

    Collecting and Impounding Reservoirs

  - Lakes, Rivers and Oth

    Wells & Springs

  - Infiltration Galleries and Tunnels
  - Other Water Source Plant
  - Rate Base for the following account:
    - Land & Land Rights – SS

The parties agree that for purposes of this case the MCG will receive no base rate increase. In addition, the MCG will not be subject to future PWAC charges. (Settlement Paragraph 31).

19. In future proceedings, the Company will propose a restricted use service tariff or r restricted use service tariffs separate and distinct from its GMS tariffs. The restricted use service tariff classes will be accorded separate and distinct treatment from GMS customers, based solely on factors such as meter size, volume, load factor and other, traditional and accepted cost of service considerations. (Settlement Paragraph 32).

20. The Company may develop and file for the Board's review and approval a conservation rate pilot program (the Pilot Program) within its next base rate case. The parties reserve all their rights to object to any filing by the Company regarding the Pilot Program. (Settlement Paragraph 33).

21. In, BPU Docket No. WR03070511, OAL Docket No. PUCRL0729, the Company was ordered to examine the impact on customers in the Lakewood Sewer Service area that would occur if sewer bills to these customers were to be based on year-round monthly water usage rather than the present system of basing sewer bills on annualized winter quarter water use only. Because of problems which would arise from billing Lakewood Sewer Service customers based upon annual use, including the fact that sewer customers would be charged for such consumptive uses as lawn watering and automobile cleaning all year round, the parties agree that such a change would be inappropriate. Rather, Lakewood Sewer Service customers will continue to be billed based upon winter quarter consumption. (Settlement Paragraph 34).

22. The parties stipulate that GMS rates for a typical residential customer using 7,000 gallons per month for the former New Jersey American Water Company service territory shall increase by $5.29 per month; for the former Elizabethtown Water Company service territory GMS rates shall increase by $5.27 per month; and for the former Mount Holly Water Company service territory, GMS rates shall increase by $5.03 per month. Rates of commodity-demand and off peak service customers shall increase 9.6% overall. Rates of the OIW customers will incre[illegible] 10.5% overall. Rates of the SOS customers will increase 14.3% overall. For fire protection for the former New Jersey American Water Company service territory, overall private fire service rates will result in no net increase and public fire protection rates will increase overall by 6.7%. For the former Elizabethtown Water Company service territory, the rates for private fire service will have an overall net 0% change and for public fire protection rates will decrease overall by 1.7%. For the former Mount Holly Water Company service territory, the rates for private fire service will increase overall by 25%, and the rates for public fire protection will increase overall by 1.5%. The rate methodology for public fire protection service for the former Elizabethtown Water Company service territory and the former Mount Holly Water Company service territory is changing from inch-foot and hydrant charges to a rate based on hydrants only. (Settlement Paragraph 35).

23. The monthly customer charge for the former New Jersey American Water Company service territory will be set at $8.50 per month and the service charge for the former Elizabethtown and Mount Holly Water Company service territories will be set at $7.50 per month. (Settlement Paragraph 36).

TARIFFS

24. Attached to the Stipulation as Exhibit A are tariffs pages including modifications agreed to by the parties to this proceeding. These tariff pages contain rates which reflect the revenue increase to which the parties have stipulated in this proceeding. The parties to this Stipulation agree that the proposed tariffs are just and reasonable, and should be accepted by the Board. (Settlement IV).

DOCKET NO. WR03070511

25. In BPU Docket No. WR03070511, OAL Docket No. PUCRL0729-2003N, the Board ordered the Company to prepare a Conservation Study. The parties to this Stipulation agree that the Company prepared and submitted such a Conservation Study in full compliance with the Board's Order. (Settlement Paragraph 37).

26. In BPU Docket No. WR03070511, OAL Docket No. PUCRL0729-2003N, the Company was ordered to undertake the formulation of a long-term master plan. A long-term planning study was prepared and submitted to the Staff and Rate Counsel. The parties stipulate that the long-term planning study complied with this requirement in all respects. (Settlement Paragraph 38).

27. The Joint Petitioners were ordered in BPU Docket No. WR03070511, OAL Docket No. PUCRL0729 to jointly submit a proposed service quality performance plan to the Board to take effect July 1, 2005. Such a Plan was submitted to the Board, and updated on December 12, 2006, and the parties recommend that the Board accept the Service Quality Performance Plan as being in full compliance with the Board's Order. (Settlement Paragraph 39).

ADDITIONAL PROVISIONS

28. The Joint Petitioners agree to a stay-out, the effect of which will be that they will not, before January 13, 2008, file a petition to implement new base rates. (Settlement Paragraph 40).

29. The Joint Petitioners will undertake a comprehensive study of the potential to implement state-wide conservation oriented rates within the Company's system. This study will include a research study, bill frequency analysis, and other related materials. The study shall be completed within 12 months of a Board Order accepting this Stipulation, and will be submitted to the parties to this proceeding. The Company will defer the costs of such study for recovery in the next base rate case, if such costs are determined to be reasonable and prudent. The costs of such study will not exceed $100,000. (Settlement Paragraph 41).

30. The Company will prepare a study designed to provide a blueprint for solving the small water company problem in the state of New Jersey. The study will focus on economics of such takeovers, appropriate rate treatment, and the methods for raising capital necessary for such acquisitions. The study will be completed within 12 months of an Order of the Board accepting this Stipulation, and submitted to the parties. The Company will defer the costs of such study for recovery in the next base rate case, if such costs are determined to be reasonable and prudent. The costs of such study will not exceed $100,000. (Settlement Paragraph 42).

31. The parties stipulate that the Company should be authorized to implement a sewer connection fee of $2,000 per equivalent dwelling unit. Each residential customer shall equal one equivalent dwelling unit. For commercial and industrial customers, the number of equivalent dwelling units shall be determined by dividing estimated gallonage per day by 240. [4] (Settlement Paragraph 43).

SJ SERVICES, INC.

32. The parties understand that the Company will be submitting a Petition for approval of the acquisition of control by the Company of SJ Services, Inc. (SJS), the parent of South Jersey Water Supply Company, Inc. (South Jersey) and Pennsgrove Water Supply Company, Inc. (Pennsgrove) pursuant to that certain Stock Purchase Agreement (SPA), dated as of November 13, 2006 (Agreement) (the Transaction) [5]. By virtue of this acquisition the Company shall acquire all of the issued and outstanding capital stock of SJS. As a result of such Transaction, the Company will acquire 100% control of SJS, and, indirectly 100% control of South Jersey and Pennsgrove. (Settlement Paragraph 44).

33. After the closing of the Transaction, subject to Board approval, the Company will merge SJS, South Jersey and Pennsgrove with and into the Company, in one or more steps, with the Company as the surviving entity. (Settlement Paragraph 45).

34. There will be no change in rates to the customers of South Jersey and Pennsgrove by virtue of the Transaction. Moreover, none of the rate increase agreed to in this Stipulation will be apportioned to South Jersey or Pennsgrove. (Settlement Paragraph 46).

DISCUSSIONS AND FINDINGS

Having reviewed the record in this matter, including ALJ Hurd's Initial Decision, the Stipulation of Settlement among the parties to this proceeding and letters from the non-signatory parties indicating that they do no oppose the Stipulation,[6] the Board FINDS that the parties have voluntarily agreed to the Stipulation. The Board HEREBY ADOPTS IN PART AND MODIFIES IN PART the ALJ's Initial Decision adopting the Stipulation of the parties attached hereto, with

[4] As noted above, by letter dated march 15, 2007, a provision of the Stipulation providing for a 50 % reduction in the sewer connection fee for public housing authorities and non-profit organizations in the State of New Jersey that are building affordable housing projects was withdrawn.

[5] The Company has filed said petition on February 2, 2007, under BPU Docket No. WM07020076.

[6] By letter dated March 16, 2007, the New Jersey Builders Association (NJBA) set forth its opposition to Paragraph 43 of the Stipulation, asserting that there was no true adversary process regarding this issue and that the issue of the fee should be resolved via rulemaking. On March 22, 2007, the Company responded to the NJBA's letter as follows: (1) because it did not intervene in the proceedings, NJBA contravenes administrative efficiency and finality of decision making; (2) the evidence for this connection fee was developed during an adversary proceeding and is supported by evidence in the record; (3) a settled case need not be supported by substantial evidence; and (4) no rulemaking process is required to consider the creation of this connection fee. Given the Board's ruling herein with regard to the connection fee proposed in Paragraph 43 of the Stipulation, the Board will not determine whether the comments in NJBA's letter should be considered at this time. A copy of this Decision and Order shall be sent to the NJBA to inform it of the Board's ruling herein with regard to the Stipulation's sewer connection fee provision and the decision to undertake a further review of this issue.

modification, and as its own, incorporating the terms and conditions as if fully set forth at length herein, subject to the following:

a. The test year shall be the twelve-month period ended September 30, 2006, adjusted for known and measurable changes.

b. The rate increase shall be $56,150,000 or 12.46% above pro forma present rate revenues, totaling $450,717,985.

c. The total rate base for use in this proceeding shall be $1,535,820,581.

d. The capital structure for use in this proceeding shall be the following:

	Ratios	Cost Rates	Weighted Cost Rates
Long-Term Debt	49.93%	6.00%	3.00%
Preferred Stock	0.07%	4.80%	0.00%
Common Equity	50.00%	10.00%	5.00%
Total	100.00%		8.00%

e. The rate increase shall reflect an amortization of unamortized balance sheet accounts, in accordance with the following schedule:

Account	Balance at 12/31/06	Monthly Amortization	Amortization Start Date	Amortization Ending Date
Deferred Pension Expense	$8,114,368	$39,390	3/1/2004	2/28/2024
Deferred Purchased Sewer Expense	($43,438)	($1,207)	4/1/2007	3/31/2010
Gain on Land Sales	$921,990	$14,084	4/1/2007	3/31/2010
Acquisition Adjustments	$6,033,970	$28,106	Various	Various
FAS 106 (NJAWC)	$3,760,537	$51,514	2/1/1998	1/31/2013
FAS 106 (EWC/MHWC)	$1,495,499	$20,771	11/1/1998	12/31/2012
FAS 109	$19,613,765	Various	Various	Various
Deferred Purchased Water	$1,103,938	$30,665	4/1/2007	3/31/2010
Deferred Business Service Expense	$3,856,750	$124,073	3/1/2004	9/30/2009
Deferred Security Costs	$1,896,941	$72,959	3/1/2004	2/28/2009
Deferred Tank Painting	$1,645,840	$53,092	3/1/2004	9/30/2009

f. The rate case expenses for this proceeding shall be $1.632 million. This amount shall be shared 50/50 between the Company and ratepayers, and normalized over three years at $271,977 per year. To this will be added the deferred Purchased Water Adjustment Clause expense, which shall be normalized at $9,312 per year.

g. The Company shall file a full depreciation study, and supporting testimony in its next rate case. In addition, the Company shall simultaneously provide to Rate Counsel the same "base data" that it provides to its depreciation consultant. The costs of Rate Counsel's depreciation study and testimony, and related costs up to $110,000 (to be borne by the Company) shall be treated the same as are other rate case expenses in the next case. In addition, no party to this proceeding shall challenge recovery by the Company of its costs related to the depreciation study and testimony and related costs on the basis that the same are redundant or unnecessary, because of Rate Counsel's depreciation study, testimony and related expenses.

h. The Company sought authorization to implement a Distribution Service Improvement Clause (DSIC), a Purchased Power Adjustment Clause (PPAC) and a Decoupling Clause. The Company withdrew its requests to implement a DSIC, PPAC and Decoupling Clause in this proceeding, without prejudice. The Company shall not file for authorization to implement a DSIC, PPAC or Decoupling Clause prior to the filing of its next base rate case; provided, however, that the Company may file to implement a DSIC, PPAC or Decoupling Clause with the filing of its next base rate case, or thereafter.

The revenues shall reflect the recovery of $26,023,647 of purchased water costs and $11,130,013 for the recovery of purchased sewerage treatment costs. In the final tariffs, these costs shall be removed from base rates, and recovered through the purchased water adjustment clause and purchased sewerage treatment adjustment clause, as is appropriate. These clauses shall be subject to deferred accounting, pursuant to N.J.A.C. 14:9-7.1 et seq., and all purchased water adjustment costs and all purchased sewerage treatment adjustment costs shall be recovered through these clauses, as is appropriate. The Company shall make annual filings for the recovery of these costs in accordance with the Board's rules and regulations pursuant to N.J.A.C. 14:9-7.1.

j. The Company shall take a one time charge of $770,000, which will not be recovered through the PWAC or PSTAC. The Company shall continue to defer, and recover through the PWAC and PSTAC all appropriate deferred purchased water costs and deferred purchased sewerage treatment costs. The Company shall delay any PWAC and or PSTAC filing until March 1, 2008, subject to deferred accounting.

k. The Company shall perform a Synergy Validation Study for the period July 1, 2005 through the rate effective date in this matter. Such study shall be filed by the Company prior to its next base rate proceeding, for consideration by the parties to that proceeding. The cost of the Synergy Validation Study shall be borne by the Company. If the Synergy Validation Study demonstrates additional net synergy savings over and above those already demonstrated, and if the Board determines that it is appropriate to share such additional net synergy savings with ratepayers, such synergy savings shall be shared 50% to the ratepayers and 50% to the shareholders, with any allocation of the savings to ratepayers to be made as the Board may find appropriate. In making this determination and adopting the related provisions of the Stipulation, the Board is not making a determination as to whether synergy validation studies will or will not be required in other proceedings.

l. The Board is not making a determination at this time regarding whether it is appropriate for the Company to move toward unified, state-wide rates, and if so, whether it is appropriate to do so over the next three base rate cases, The Board FINDS that further review needs to be conducted as to whether there should be movement toward unified, statewide rates for all of the Company's service areas. Accordingly, the Board MODIFIES the Initial Decision in part so as not to adopt Paragraph 28 of the Stipulation to the extent that it indicates that it is appropriate for the Company to move to unified, statewide rates, and to do so over the next three base rate cases of the Company, if appropriate.

In addition to performing a single, state-wide cost of service study and submitting it in its next base rate proceeding, the Company, in consultation with Staff and Rate Counsel, shall perform a study to determine whether it is appropriate to implement state-wide rates within its service territories, including but not limited to, the following: census data, cost of living, income, cost of housing, any updates on the Company's previously submitted long-term planning study, and how such infrastructure costs are managed. The information and data compiled within this study shall be organized according to the Company's service territories. This study shall be submitted by the Company by no later than the time of the filing of any request for movement toward unified, statewide rates in any future proceeding.

m. The GMS rates within the former Mount Holly Water Company service territory, Mount Holly and Plumsted Districts shall be set equal to the GMS rates within the former Elizabethtown Water Company service territory (other than Manville). Therefore, equalization of GMS rates within the Districts and EWC shall be achieved in this case. When it proposes to move to state-wide equalization in future proceedings, EWC shall not propose GMS rates for the Districts that are higher than those proposed for the former EWC service territory. This provision of the Stipulation and this provision of this Order shall be terminated if and when unified, state-wide rates are implemented.

n. The Company shall still continue to record the following data, applicable to the geographical service territory of each of the Joint Petitioners, and make such data available if requested in discovery:

Utility Plant in Service

Accumulated Depreciation

CIAC/Customer Advances

Appropriate Operating Expenses and Income

Depreciation and Amortizations

o. In the next rate case of Petitioners, no party to this proceeding shall request that rates be set upon a "Monmouth-Only" or similar cost of service study. The Company shall perform a single, state-wide cost of service study. In addition, the MCG shall not be allocated the following water source costs:

Operation and Maintenance Expenses under the Source of Supply Category, (including purchased water costs)

Depreciation Expense and rate base associated with the following accounts:

- Structures and Improvements – SS
- Collecting and Impounding Reservoirs
- Lakes, Rivers and Other Intakes

  Wells & Springs
- Infiltration Galleries and Tunnels

- Other Water Source Plant

- Rate Base for the following account:

  Land & Land Rights – SS

The MCG shall receive no base rate increase. In addition, the MCG shall not be subject to future PWAC charges. However, this shall not preclude the Board from determining to impose such charges with respect to MCG in a future proceeding, should circumstances so warrant.

p. The Company, subject to later review and approval by the Board, shall propose a restricted use service tariff or restricted use service tariffs separate and distinct from its GMS tariffs. The restricted use service tariff classes shall be accorded separate and distinct treatment from GMS customers, based solely on factors such as meter size, volume, load factor and other, traditional and accepted cost of service considerations.

q. The Company may develop and file for the Board's review and approval a conservation rate pilot program ("the Pilot Program") within its next base rate case. The Parties reserve all their rights to object to any filing by the Company regarding the Pilot Program.

The Lakewood Sewer Service customers shall continue to be billed based upon annualized winter quarter consumption.

s. The GMS rates for a typical residential customer using 7,000 gallons per month for the former New Jersey American Water Company service territory shall increase by $5.29 per month; for the former Elizabethtown Water Company service territory, GMS rates shall increase by $5.27 per month; and for the former Mount Holly Water Company service territory, GMS rates shall increase by $5.03 per month. Rates of commodity-demand and off peak service customers shall increase 9.6% overall. Rates of the OIW customers shall increase 10.5% overall. Rates of the SOS customers shall increase 14.3% overall. For fire protection for the former New Jersey American Water Company service territory, overall private fire service rates shall result in no net increase, and public fire protection rates will increase overall by 6.7%. For the former Elizabethtown Water Company service territory, the rates for private fire service shall have an overall net 0% change and for public fire protection rates shall decrease overall by 1.7%. For the former Mount Holly Water Company service territory the rates for private fire service shall increase overall by 25% and the rates for public fire protection shall increase overall by 1.5%. The rate methodology for public fire protection service for the former Elizabethtown Water Company service territory and the former Mount Holly Water Company service territory shall change from inch-foot and hydrant charges to a rate based on hydrants only.

t. The monthly customer charge for the former New Jersey American Water Company service territory shall be set at $8.50 per month and the service charge for the former Elizabethtown and Mount Holly Water Company service territories shall be set at $7.50 per month.

u. The Company's Conservation Study is in full compliance with the Board's Order in Docket No. WR030070511.

The Long-term planning study undertaken by the Company is in full compliance with the Board's Order in Docket No. WR030070511.

w. The Service Quality Performance Plan submitted to the Board pursuant to the Board's Order in Docket No. WR03070511 is in full compliance therewith. The Board hereby APPROVES the Service Quality Performance Plan and the Board ORDERS that Petitioners shall continue to be in full compliance therewith.

x. The Company shall not, before January 13, 2008, file a petition to implement new base rates.

y. The Company shall undertake a comprehensive study of the potential to implement state-wide, conservation-oriented rates within the Company's system. This study shall include a research study, bill frequency analysis, and other related materials. The study shall be completed within 12 months of the within Order and shall be submitted to the parties to this proceeding within 12 months of the within Order. The Company shall defer the costs of such study for recovery in the next base rate case, if such costs are determined to be reasonable and prudent. The costs of such study shall not exceed $100,000.

z. The Company shall prepare a study designed to provide a blueprint for solving the small water company problem in the State of New Jersey. The study shall include but not be limited to the focus on the economics of takeovers, appropriate rate treatment, and the methods for raising capital necessary for such acquisitions. The study shall be completed within 12 months of the within Order and submitted to the parties within 12 months of this Order. The Company shall defer the costs of such study for recovery in the next base rate case, if such costs are determined to be reasonable and prudent. The costs of such study shall not exceed $100,000.

aa. The Board is not making a determination at this time with respect to the proposed sewer connection fee of $2,000 per equivalent dwelling unit as set forth in Paragraph 43 of the Stipulation. The Board FINDS that further review needs to be conducted as to whether to authorize a sewer connection fee and, if so, at what level. Accordingly, the Board MODIFIES the Initial Decision in part so as not to adopt this provision of the Stipulation at this time, and this docket shall remain open as to this particular issue only.

bb. The Company has submitted a Petition for approval of the acquisition of control by the Company of SJ Services, Inc., the parent of South Jersey Water Supply Company, Inc. and Pennsgrove Water Supply Company, Inc. pursuant to that certain Stock Purchase Agreement, dated as of November 13, 2006. By virtue of this acquisition, and if approved by the Board, the Company would acquire all of the issued and outstanding capital stock of SJS. By approving the Stipulation herein, the Board shall not be precluded from requiring the Company to perform a synergy study to demonstrate any savings with respect to the acquisition of SJ Services, Inc.

cc. There shall be no change in rates to the customers of South Jersey and Pennsgrove by virtue of the Transaction. None of the rate increase agreed to in the Stipulation shall be apportioned to South Jersey or Pennsgrove. This shall not preclude the South Jersey or Pennsgrove service territories from being included and apportioned rate adjustments in any future rate proceedings of the Company, should the merger be approved by the Board.

Based upon the foregoing, the Board HEREBY APPROVES an overall increase in revenues in the amount of $56,150,000 representing a 12.46% increase over current revenues.

The Board HEREBY ORDERS the Company to submit complete revised tariffs conforming to the terms and conditions of the Stipulation and this Order within (10) days from the date of this Order.

DATED: 4/2/07

BOARD OF PUBLIC UTILITIES
BY:

Jeanne M. Fox
JEANNE M. FOX
PRESIDENT

Frederick F. Butler
FREDERICK F. BUTLER
COMMISSIONER

Connie O. Hughes
CONNIE O. HUGHES
COMMISSIONER

JOSEPH L. FIORDALISO
COMMISSIONER

Christine B
CHRISTINE V. BATOR
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.

Kristi Izzo

Service List
I/M/O New Jersey American Water Company, Inc.,
Elizabethtown Water Company,
and the Mount Holly Water Company
BPU Docket No. WR06030257
OAL Docket No. PUCRL02635-2006S

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