

**STATE OF NEW JERSEY  
OFFICE OF ADMINISTRATIVE LAW  
BEFORE THE HONORABLE IRENE JONES**

**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**

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**BPU DOCKET No. WR16060510  
OAL DOCKET No. PUC-09261-2016**

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**DIRECT TESTIMONY AND EXHIBITS OF  
DANTE MUGRACE  
ON BEHALF OF THE DIVISION OF RATE COUNSEL**

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**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.**

**A.** My name is Dante Mugrace. I am a Senior Consultant with the Economic and Management Consulting Firm of PCMG and Associates, LLC. (“PCMG”). Our business address is 22 Brooks Avenue, Gaithersburg, MD 20877. In my capacity as a Senior Consultant, I am responsible for evaluating and analyzing rate case filings and regulatory proceedings before various governmental entities, preparing expert testimony and evaluating revenue requirement proposals, as well as, reviewing and offering opinions on economic and policy issues and methodologies used to set a value of a utility’s rate base and a utility’s rates for service.

**Q. PLEASE DESCRIBE THE NATURE OF WORK CONDUCTED BY THE CONSULTING FIRM PCMG?**

**A.** PCMG is an association of experts in utility regulation and policy, economics accounting, and finance. PCMG’s members have over 75 years’ collective experience providing assistance to counsel and expert testimony regarding the regulation of electric, gas, water and wastewater utilities operating under local, state and federal jurisdictions. PCMG brings to client engagements a consultative collaborative approach to the identification of issues and development of positions with strict adherence to client procedures and deadlines. PCMG focuses on areas of revenue requirement, cost of capital and rate of return, and cost of service and rate design.

1 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE IN THE**  
2 **UTILITY INDUSTRY?**

3  
4 **A.** Prior to my association with PCMG, I was employed as a Senior Consultant with  
5 the consulting firm of Snavely-King Majoros and Associates (SKM) from 2013 to  
6 2015. In my capacity as a Senior Consultant I was responsible for evaluating  
7 and making recommendations regarding revenue requirement analyses for  
8 electric, gas and water utilities in certain Public Service Commissions in the  
9 United States. Prior to SKM I was employed by the New Jersey Board of Public  
10 Utilities (“NJBPU”) from October 1983 to my retirement in June 2011. During my  
11 tenure at the NJBPU, I held various Accounting, Rate Analyst and Supervisory  
12 positions. My last position was Bureau Chief of Rates in the Agency’s Water  
13 Division (Bureau Chief of Rates). I held this position for nearly 10 years. In my  
14 capacity as Bureau Chief of Rates, I was responsible for overseeing and  
15 managing the day-to-day activities of the Rates Bureau. I was responsible for  
16 evaluating, reviewing and processing all water and wastewater utility rate filings  
17 and rate-related applications that were filed with the NJBPU. I oversaw a staff of  
18 12 professionals on a daily basis. I was responsible for assigning rate  
19 applications to Staff and oversaw the process of those rate applications with  
20 regard to administrative, financial, and the managerial functions that was the  
21 responsibility of the Rates Bureau. My primary duties were to ensure that utilities  
22 had sufficient revenues to cover their operating expenses, the ability to earn a  
23 reasonable return on their investments in plant assets, and to ensure that the  
24 provision of safe, adequate, and proper service at reasonable utility rates were  
25 met.

1 **Q. HAVE YOU PREPARED A SUMMARY OF YOUR QUALIFICATIONS AND**  
2 **EXPERIENCE?**

3  
4 **A.** Yes, please see Attachment DM-A for a summary of my qualifications and  
5 experience.

6  
7 **Q. FOR WHOM ARE YOU APPEARING IN THIS PROCEEDING?**

8 **A.** I am appearing on behalf of the New Jersey Division of Rate Counsel.

9  
10 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS?**

11 **A.** Yes. I have testified in rate and rate related proceedings before the  
12 Commissions in the Commonwealth of Massachusetts, and the States of Maine,  
13 New Jersey, New York, North Dakota and Ohio. A complete listing of my  
14 testimonies and appearances are in Attachment DM-A.

15  
16 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

17 **A.** I hold a Master of Business Administration (MBA) degree with a concentration in  
18 Strategic Management from Pace University-Lubin School of Business in New  
19 York City, New York. I hold a Master of Public Administration (MPA) degree from  
20 Kean University, in Union, New Jersey. I hold a Bachelor of Science (BS) degree  
21 in Accounting from Saint Peter's University in Jersey City, New Jersey.

22  
23 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

24 **A.** The purpose of my testimony is to recommend the appropriate revenue  
25 requirement for SUEZ Water Arlington Hills, Inc. Inc. (SWAH or Company) for

1 wastewater service. On June 14, 2016, SWAH filed a petition with the NJ Board  
2 of Public Utilities (Board or BPU) for approval to increase rates for wastewater  
3 service and other tariff changes in the amount of \$1,404,396 above current rates  
4 (118.34%). The Company proposed a test year period ending April 30, 2015,  
5 and a post-test year period ending October 31, 2016, adjusted for known and  
6 measurable changes. The Company also proposed a phase-in of the revenue  
7 requirement increase over a 4-year period to mitigate the rate impact on  
8 customers. In my review and evaluation of the Company's revenue requirement  
9 proposal, I am relying on the testimony of Howard Woods, Jr. P.E. for post- test  
10 year capital additions, and other various revenues, and operating and  
11 engineering expenses. For Revenue Allocation and Rate Design, I am relying on  
12 the testimony of Brian Kalcic. For Rate Counsel's recommended Cost of Capital  
13 and Return on Common Equity, I am relying on the testimony of Dr. Marlon  
14 Griffing.

15  
16 **Q. *WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION FOR YOUR***  
17 ***TESTIMONY?***

18  
19 **A.** I have reviewed the Company's instant application dated June 14, 2016, the  
20 SIRs filed with the Company's petition and the related testimonies and exhibits of  
21 the Company's witnesses. I reviewed the data responses submitted by the  
22 Company to the Division of Rate Counsel as well as various Board Orders  
23 related to this rate petition.

24

1 **II. SUMMARY OF CONCLUSIONS**

2

3 **Q. *WHAT ARE YOUR CONCLUSIONS REGARDING AN APPROPRIATE***  
4 ***REVENUE REQUIREMENT FOR THE COMPANY?***

5

6 **A.** I have reached the following revenue requirement conclusions in this rate filing:

7 1. The twelve months ending April 30, 2016, adjusted for known and

8 measurable changes is an appropriate test year to use in this case to

9 evaluate the reasonableness of the Company's proposed revenue

10 requirement increase.

11 2. The appropriate rate base level should be set at \$13,177,151 which is

12 \$407,127 lower than the Company's claim of \$13,584,277.

13 3. The appropriate pro-forma operating revenues at present rates should be set

14 at \$1,137,324 which is \$49,380 lower than the Company claim of \$1,186,704.

15 4. The appropriate pro-forma operating income at present rates should be set at

16 \$919,950, which is \$113,812 lower than the Company's claim of \$1,033,762.

17 5. The appropriate overall rate of return on rate base as recommended by Rate

18 Counsel Witness Dr. Marlon Griffing is 6.98%, incorporating a recommended

19 return on equity of 8.57%.

20 6. The recommended ratemaking components as indicated above, calculates to

21 an overall revenue requirement increase of \$1,138,852 or 100.13% which is

22 \$265,544 lower than the Company's proposed revenue requirement increase

23 of \$1,404,396 or 118.34%.

24

25

1 **III. RATE BASE ISSUES**

2 **A. Utility Plant In Service**

3 **Q. *HOW DID SWAH DETERMINE ITS UTILITY PLANT IN SERVICE (UPIS)***  
4 ***BALANCE IN THIS PROCEEDING?***

5  
6 **A.** Company witness Elda Gill calculated total UPIS as shown on Company Exhibit  
7 P-4, Schedule 7A. Ms. Gil began with the Company's test year UPIS balance as  
8 of April 30, 2016, in the amount of \$7,430,822, and provided the additions and  
9 retirements through the post-test year period of October 31, 2016, to arrive at the  
10 test year ending balance of \$17,121,345. The major plant addition was for the  
11 Company's new sewer plant in the amount of \$12,857,170. (Exhibit P-5). The  
12 Company also included plant additions totaling \$711,154 related to other projects  
13 and improvements, and retirements of \$3,877,801.

14  
15 **Q. *DO YOU AGREE WITH THE COMPANY'S UPIS BALANCE AS OF OCTOBER***  
16 ***31, 2016?***

17  
18 **A.** No, I do not.

19  
20 **Q. *PLEASE EXPLAIN YOUR APPROACH THAT YOU HAVE USED TO***  
21 ***DETERMINE THE COMPANY'S PROPOSED UPIS BALANCE AS OF***  
22 ***OCTOBER 31, 2016.***

23  
24 **A.** I began my approach by reviewing the Company's Exhibit P-4, Schedules 7-A  
25 Exhibit P-5, and reviewing the responses to RCR-A-24. I am also relying on the  
26 testimony of Howard Woods and his recommendations and Schedules HJW-5 in  
27 which he recommends a level of post-test year plant additions that are deemed  
28 to be major in nature and consequence.

1 **Q. WHAT POST-TEST YEAR ADDITIONS DID YOU INCLUDE, AS**  
2 **RECOMMENDED BY MR. WOODS?**

3  
4 **A.** I am relying on the testimony of Mr. Woods, as he recommended that the cost of  
5 \$12,857,170 associated with the construction of the new wastewater treatment  
6 plant, and an additional project that was associated with main extensions to  
7 service the new Atkins development of \$505,296 to be included as post-test-year  
8 plant additions. (Woods' testimony page 5-6).

9  
10 **Q. WHY DID YOU ONLY INCLUDE THE ABOVE PROJECTS TO COMPUTE THE**  
11 **COMPANY'S POST-TEST YEAR PLANT ADDITIONS?**

12  
13 **A.** I included only the above projects to compute the Company's post-test year  
14 plant additions in order to be in conformance with the Board's established  
15 procedures and policies regarding post-test plant additions as outlined in the  
16 Board's Order in the Elizabethtown Water Company Rate Case BPU Docket No.  
17 WR8504330, (Elizabethtown Rate Order) dated May 23, 1985. Pursuant to the  
18 Elizabethtown Rate Order, post-test year additions should be limited to those that  
19 are major in nature and consequence.

20  
21 **Q. DOES THE ELIZABETHTOWN WATER COMPANY BOARD ORDER STILL**  
22 **HOLD TRUE TODAY?**

23  
24 **A.** Yes, it does. The Board has reaffirmed this stance in various other rate case  
25 proceedings and I believe it still holds true in this proceeding.

1 **Q. WHAT OTHER POST-TEST YEAR PLANT ADDITIONS DID THE COMPANY**  
2 **PROPOSE TO INCLUDE IN ITS PLANT IN SERVICE?**

3  
4 **A.** The Company proposed additional Post-Test plant additions in the amount of  
5 \$205,858 as shown on Company Exhibit P-5 and are broken down as follows:

6

7	• Replacement of Sewer Laterals	\$3,074
8	• Replace Short Mains and Manholes	\$131,750
9	• Replace Pumps	\$13,175
10	• Replace Treatment Equipment	\$18,333
11	• Misc. Facilities Improvements	\$21,958
12	• Control Equipment Imps.	<u>\$17,567</u>
13	Total	\$205,857

14

15 The above items are deemed to be routine and recurring in nature and do not  
16 comply with the Board's policy on major in nature in consequence plant  
17 additions.

18

19 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE COMPANY'S**  
20 **INCLUSION OF THE ABOVE ROUTINE AND RECURRING POST-TEST**  
21 **YEAR PLANT ADDITIONS??**

22

23 **A.** I believe that these projects should be excluded from the Company's plant in  
24 service balance, as recovery of routine, common and recurring plant additions  
25 placed into service after the test year period is contrary to Board policy.

26

27 **Q. WHAT IS YOUR RECOMMENDED UPIS BALANCE AS OF OCTOBER 31,**  
28 **2016?**

29

30 **A.** I am recommending and adopting Mr. Woods', proposed post-test year plant  
31 additions of \$12,857,170 related to the new wastewater treatment plant and, the  
32 additional \$505,296 that is related to the main extensions to service the Atkins

1 development as these projects are considered to be major in nature and  
2 consequence. These post-test year plant additions are in conformance with the  
3 Board's criteria in the Elizabethtown Rate Order. Based upon the above, I am  
4 recommending a total UPIS balance as of October 31, 2016, in the amount of  
5 \$16,915,489. My recommendation is shown on Schedule DM- 22.

6  
7 **B. Accumulated Depreciation**

8 **Q. PLEASE EXPLAIN HOW THE COMPANY CALCULATED ITS ACCUMULATED**  
9 **DEPRECIATION BALANCE.**

10  
11 **A.** The Company computed an Accumulated Depreciation Balance as of October  
12 31, 2016 of \$0. (Exhibit P-4, Schedule 7-B). The Company computed this  
13 amount in order to remove the old treatment plant from Rate Base and demolish  
14 it, along with the associated Accumulated Depreciation of \$3,867,508. The  
15 Company approximated this level by taking the balance in the Accumulated  
16 Depreciation account as of April 30, 2016, of \$3,156,644 and adding in 6 months  
17 of Accumulated Depreciation of \$74,245 or \$3,230,889. To that balance the  
18 Company removed retirements of \$3,877,801 and Cost of Removal of \$420,586  
19 to arrive at a pro-forma balance of \$1,067,498. The Company off set this amount  
20 by \$1,067,498 in order to alleviate the impact to ratepayers. The Company  
21 computed this adjustment as a savings of \$119,000 in revenue requirement.

22

1 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S**  
2 **ACCUMULATED DEPRECIATION BALANCE OF \$0?**

3  
4 **A.** I accept the Company's proposed Accumulated Depreciation balance of \$0 as  
5 well as Company's level of Retirements of \$3,877,801 and Cost of Removal in  
6 the amounts of \$420,586. My Accumulated Depreciation Balance is computed  
7 as follows on my Schedule DM-23.

8

9 **C. Contributions in Aid of Construction and Customer Advances**

10 **Q. HOW DID THE COMPANY COMPUTE ITS CONTRIBUTIONS IN AID OF**  
11 **CONSTRUCTION (CIAC)?**

12  
13 **A.** The Company computed its CIAC by starting with balance as of April 30, 2016, in  
14 the amount of \$1,756,202 and adding the pro-forma addition of \$1,445,296 that  
15 is related to the Atkins developer contribution. To that balance the Company  
16 adjusted its CIAC to account for the removal of CIAC related to the current  
17 treatment plant that was built in 1988 in the amount of \$426,728. The  
18 Company's proposed CIAC balance is \$2,774,770.

19

20 **Q. DO YOU ACCEPT THE COMPANY'S COMPUTATION OF ITS PROPOSED**  
21 **CIAC BALANCE AS OF OCTOBER 31, 2016?**

22  
23 **A.** I updated the Company's CIAC balance to reflect the most recent information  
24 provided in response to RCR-A-37. This updated response shows a  
25 Contributions balance of \$1,525,035. This is \$79,739 greater than what the  
26 Company has proposed above. My recommendation is shown on my Schedule  
27 DM-24.

28

1           **D.     Accumulated Deferred Income Taxes**

2   **Q.    HOW DID THE COMPANY COMPUTE ITS ACCUMULATED DEFERRED**  
3   **INCOME TAXES (ADIT)?**

4  
5   **A.**    The Company began with its Year April 30, 2016, balance of \$738,616 as shown  
6           on Exhibit P-4 Schedule 7-D. To that balance the Company added incremental  
7           ADIT on the estimated plant additions through the end of the test year October  
8           31, 2016 of \$90,884 to compute a year-end balance of \$829,500.

9  
10 **Q.    DO YOU AGREE WITH THE METHODOLOGY OF THE COMPANY'S ADIT**  
11 **CALCULATION?**

12  
13 **A.**    I accept the Company's methodology of its ADIT balance. What I am adjusting is  
14           the level of the Company's proposed post-test year plant additions through  
15           October 31, 2016. Since I removed all routine, common and recurring post-test  
16           year plant additions from the Company UPIS balance, I am making a  
17           corresponding adjustment to the Company's ADIT balance as of the end of the  
18           post-test year period October 31, 2016. My additional ADIT balance is computed  
19           at \$1,320 for a total incremental ADIT balance of \$92,204 and a Pro-forma ADIT  
20           balance as of October 31, 2016, of \$830,820 as shown on my Schedule DM-25.

21  
22           **E.     Prepayments**

23 **Q.    WHAT HAS THE COMPANY PROPOSED REGARDING ITS PREPAYMENT**  
24 **BALANCE?**

25  
26 **A.**    The Company has proposed a balance in its Prepayment account in the amount  
27           of \$5,258 as shown on Exhibit P-4, Schedule 7-E. The Company has used a 13-

1 month average balance (April 2015 through April 2016) as the basis for its  
2 computation of this rate base item.

3  
4 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S**  
5 **PROPOSED BALANCE OF ITS PREPAYMENTS?**

6  
7 **A.** I accept the Company's use of its 13-month average balance in the amount of  
8 \$5,258. It is shown on my Schedule DM-26.

9  
10 **F. Cash Working Capital**

11 **Q. WHAT DID THE COMPANY PROPOSED REGARDING ITS LEVEL OF CASH**  
12 **WORKING CAPITAL (CWC) ALLOWANCE?**

13  
14 **A.** The Company proposed Cash Working Capital in the amount of \$61,944 which is  
15 shown on Company Exhibit P-4 Schedule 7-F. The Company used total O&M  
16 Expenses of \$495,548 with a 1/8 working capital allowance. The difference  
17 between the Company's level of O&M Expenses of \$495,548 and its total O&M  
18 Expenses of \$498,949 is \$3,400 that is related to the adjustment of its  
19 Regulatory Commission Expenses.

20  
21 **Q. DO YOU AGREE WITH THE COMPANY'S METHODOLOGY OF ITS CASH**  
22 **WORKING CAPITAL (CWC) CALCULATION?**

23  
24 **A.** While I agree with the Company's methodology, I am making adjustments related  
25 to my recommended O&M Expenses. Using my recommended O&M Expenses  
26 of \$393,382 with a 1/8 working capital allowance, my CWC balance is \$49,173  
27 as shown on my Schedule DM-27.

1           **G.     Consolidated Income Tax Adjustment**

2  
3       **Q.     WHAT HAS THE COMPANY PROPOSED REGARDING A CONSOLIDATED**  
4       **INCOME TAX ALLOCATION OR ADJUSTMENT?**

5  
6       **A.**     The Company has not proposed a Consolidated Income Tax Adjustment (CTA)  
7           in this proceeding.  Accordingly, the Company's filing does not conform to the  
8           filing requirement set forth in the Board's recent CTA order.<sup>1</sup>

9  
10      **Q.     WHAT IS THE PURPOSE OF A CONSOLIDATED TAX ADJUSTMENT (CTA)**  
11      **AND WHY SHOULD IT BE INCLUDING FOR RATEMAKING PURPOSES?**

12  
13      **A.**     A consolidated tax filing minimizes federal income tax liabilities for the members  
14           of a consolidated tax group.  The purpose of a CTA is to ensure that the  
15           ratepayers who pay a utility's federal income tax expense share in the tax  
16           benefits that members of a consolidated tax filing receive.  In this case, Suez  
17           Water Arlington Hills participates in a consolidated tax filing with the SUEZ  
18           umbrella of regulated and non-regulated subsidiaries.  The Board has long held  
19           that it is appropriate to reflect a CTA, where there has been tax savings as a  
20           result of the filing of a consolidated tax return.  For example, a 2003 Rockland  
21           Electric Company rate case stated that income from utility operations provide the  
22           ability to produce tax savings for the entire group of entities because utility  
23           income is offset by the annual losses of the other subsidiaries.<sup>2</sup>  The Board  
24           further stated that ratepayers who produce the income that provides the tax

---

<sup>1</sup> I/M/O the Board's Review of the Applicability & Calculation of a Consolidated Tax Adjustment, BPU Docket No. EO12121072, Board Order dated 10/22/14.

<sup>2</sup> I/M/O the Verified Petition of Rockland Electric Company for the Recovery of its Deferred Balances and the Establishment of Non-Delivery Rates Effective August 1, 2003, et al, BPU Docket No. ER02080614 and ER02100724.

1 benefits should share in those benefits.<sup>3</sup> The Board continues to believe that if a  
2 utility is part of a conglomerate that benefits from the consequential tax benefits  
3 from the utility's contributions, the utility customers are entitled to have a  
4 computation of their fair share of those benefits reflected in their utility rates. This  
5 ensures that while the Company may use the actual tax dollars saved,  
6 ratepayers are not put in the position of providing the utility with a return on these  
7 dollars.<sup>4</sup>

8  
9 **Q. WHAT IS YOUR UNDERSTANDING OF THE EFFECT OF THE BOARD'S CTA**  
10 **ORDER?**

11 Counsel has advised me that the Board's CTA Order is currently under appeal.  
12 That Order states that the CTA will be calculated for each utility on a case-by-  
13 case basis. Accordingly, I have calculated a proposed CTA that I believe fairly  
14 reflects a sharing of the tax benefits of SWAH's consolidated income tax filing  
15 between ratepayers and shareholders.

16  
17 **Q. WHAT IS YOUR CTA RECOMMENDATION?**

18  
19 **A.** My approach is to base the CTA on a twenty-year look-back period. I believe  
20 that a twenty-year look-back period reflects an accurate picture of the Company's  
21 negative and positive net income and the amount of taxes actually paid. The  
22 effect of outlier years are minimized by the twenty year period. This period is

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<sup>3</sup> Ibid., page 63.

<sup>4</sup> Ibid., page 64.

1 also consistent with federal tax laws which allow losses to be carried forward for  
2 20 years.<sup>5</sup>

3  
4 The Company provided my recommended CTA calculation in response to  
5 discovery. I requested a schedule showing for each United Water affiliate  
6 company its taxable income/loss by year and an indication whether the affiliate is  
7 a regulated utility company or not, the statutory federal income tax requirement  
8 for the year, and the alternative minimum tax requirement for the year, if any.  
9 The information requested required the Company to submit the above for the  
10 calendar or tax year 1995 through 2015 inclusive. (twenty year look back period).  
11 My recommended twenty-year look-back period produces an adjustment to rate  
12 base of (\$107,440). My recommendation is shown on Schedule DM-28.

13  
14 **IV. OPERATING REVENUES**

15 **A. Metered Sales Revenues**

16 **Q. *WHAT HAS THE COMPANY PROPOSED REGARDING ITS TEST YEAR AND***  
17 ***ITS POST TEST YEAR PROJECTED REVENUES AT PRESENT RATES?***

18  
19 **A.** The Company proposed total Present Rate Revenues as of April 30, 2016, in the  
20 amount of \$924,623 and Post Test Year Present Revenues in the amount of  
21 \$1,186,705 as of October 31, 2016, as shown on Company Exhibit P-4.

22  
23 **Q. *DID THE COMPANY PROVIDE UPDATES TO ITS PROFORMA AT PRESENT***  
24 ***RATE REVENUES?***  
25

---

<sup>5</sup> 26 U.S.C. § 172 (2014)

1 **A.** Yes. In response to data request RCR-RD-6, the Company updated its  
2 Residential Revenue by adjusting its 5/8” metered connections from 949 meters  
3 to 649 meters in order to adjust the proposed Fieldstone and Shadow Woods  
4 development customers being serviced by 2” and 3” master meters and not being  
5 serviced by individual meters. This adjustment reduces the Company’s as filed  
6 Pro Forma at Present Rate Revenue for the Residential Customer from \$368,857  
7 to \$317,173 or \$51,684. I accept the Company’s adjustment to its Residential  
8 Revenues – Fixed Charges. This adjustment is shown on my Schedule DM-4.

9

10 **Q. *WHAT OTHER CHANGES DID YOU MAKE TO THE COMPANY’S PROPOSED***  
11 ***OPERATING REVENUES?***

12  
13 **A.** I relied on the recommendation of Mr. Woods. In his Schedule HJW-1, Mr.  
14 Woods recommended changes to the Company’s Consumption Charges for the  
15 Commercial Customers. Mr. Woods increased the water registered MGL from  
16 16,844 tg to 17,048 tg for a total adjustment of \$2,304. This adjustment sets the  
17 Pro Forma Revenue – Commercial consumption charge from \$189,310 to  
18 \$191,614 and is shown on Schedule HJW-1.

19

20 **Q. *BASED UPON THE ABOVE, WHAT ARE YOU RECOMMENDING WITH***  
21 ***REGARD TO PROFORMA OPERATING REVENUES?***

22

23 **A.** I am recommending total Pro-Forma Operating Revenues of \$1,137,324. My  
24 recommendation is shown on my Schedule DM-4.

25

1           **B.     Carrying Charges**

2       **Q.    DID THE COMPANY PROPOSE ANY CARRYING CHARGES FOR PHASING –**  
3       **IN ITS PROPOSED REVENUE REQUIREMENT INCREASE OVER A FOUR-**  
4       **YEAR PERIOD?**

5  
6       **A.**    No. While witness Prettyman stated that carrying charges would be fair, the  
7       Company’s schedules filed with the Petition do not reflect any carrying charges.  
8       The Company’s filing is consistent with Board policy on this issue.

9

10       **V.     OPERATING EXPENSES**

11           **A.     Labor Expense**

12       **Q.    WHAT DID THE COMPANY PROPOSED REGARDING ITS LABOR EXPENSE**  
13       **IN THIS PROCEEDING?**

14  
15       **A.**    The Company proposed a total Labor Expense in the amount of \$155,992 as  
16       shown on Exhibit P-4, Schedule 2-A. The Company calculates its labor charges  
17       based upon SUEZ Water New Jersey (SWNJ) employees who charge their work  
18       time to the Company for services performed. Company Witness Peiling Lin used  
19       the 2014 and 2015 historic labor expense of SWNJ calculated by the two-year  
20       average ratio of labor transferred in. Ms. Lin adjustments are shown on  
21       Company Schedule SIR-20. Ms. Lin used the SWNJ 2016 project gross labor  
22       costs of \$36,722,873 that was reflected in SWNJ’s rate proceeding in Docket No.  
23       WR15101177.

24

25       **Q.    DO YOU HAVE ANY ADJUSTMENTS ON THE COMPANY’S PROPOSED**  
26       **LABOR EXPENSE?**

27

1 **A.** Yes. I have one adjustment to the Company's proposed Labor Expense. My  
2 adjustment is related to the Company's use of SWNJ's projected gross labor in  
3 the amount of \$36,722,873 that was reflected in SWNJ's prior rate proceeding. to  
4 account for labor expense in this proceeding. The amount of \$36,722,873  
5 includes incentive compensation of \$1,348,154, and of two new positions totaling  
6 \$185,000 that the Company has decided not to fill. I removed both expenses.  
7 By removing these expenses, this reduces SWNJ gross labor down to  
8 \$35,187,259.

9

10 **Q. *WHY DID YOU REMOVE THE COMPANY'S PROPOSED INCENTIVE***  
11 ***COMPENSATION EXPENSES?***

12

13 **A.** I believe that incentive compensation that was reflected in the prior SUEZ Water  
14 NJ proceeding and used in this proceeding to allocate labor expenses, is not  
15 geared toward providing safe, adequate and proper service to customers, but  
16 rather geared towards adding shareholder value to enhance SUEZ Water NJ's  
17 financial results. Suez requires the Company to achieve certain financial targets  
18 before any incentive compensation is paid. Therefore, Suez's incentive  
19 compensation objectives and goals are mainly focused on adding shareholder  
20 and improving Suez's overall financial performance. Because the Company's  
21 incentive compensation plan chiefly benefits shareholders, I have disallowed that  
22 expense. If the Company wants to provide its employees with incentive  
23 compensation, the Company's shareholders should cover the costs related to  
24 incentive compensation and not the ratepayers through higher utility rates.

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The incentive compensation should also be disallowed because it is not known and measurable. Expenses must be known and measurable in order to be eligible for inclusion in rates. Because incentive compensation is dependent on achieving certain financial targets, the actual amount of incentive compensation expense is not known and measurable. Expenses that are not known and measurable cannot and should not be recoverable in rates.

**Q. WHAT IS THE BOARD’S POLICY REGARDING INCENTIVE COMPENSATION EXPENSES?**

**A.** In the past, the Board has disallowed incentive compensation to be included in the calculation of water and sewer utilities’ revenue requirements. In past water/sewer regulatory proceedings (see, e.g., Middlesex Water Company BPU Docket No. WR00060362) the Board disallowed incentive compensation from rates in part because these programs are largely dependent on achieving certain financial goals. The Board does not allow incentive compensation to be included in the calculation of a water/sewer utility’s revenue requirement and passed onto ratepayers, particularly incentive compensation plans like SWAH’s that have an earnings threshold. In my experience, the Board has never allowed incentive compensation to be included in the rates of water or sewer companies. My position to exclude incentive compensation is consistent with long-standing Board policy.

1 **Q. *WHAT IS YOUR RECOMMENDATION WITH RESPECT TO TOTAL LABOR***  
2 ***EXPENSES?***

3  
4 **A.** My recommended level of Labor Expense is \$149,486, which is \$6,506 lower  
5 than the Company's proposed Labor Expense of \$155,992. I used SWNJ Gross  
6 Labor Expense of \$35,189,719 (without incentive compensation and two  
7 positions removed) and the Company's Transferred In percentage of .4248% to  
8 compute a Pro Forma level of Labor Expense of \$149,486. My recommendation  
9 is shown on my Schedule DM-6.

10

11 **B. Power Expense**

12 **Q. *WHAT IS THE COMPANY'S PROPOSED POWER EXPENSE?***

13

14 **A.** The Company proposed total Pro-Forma Power Expense of \$58,038 as shown  
15 on Company Exhibit P-4, Schedule 2-B.

16

17 **Q. *DID YOU MAKE ANY ADJUSTMENTS TO THE COMPANY'S PROFORMA***  
18 ***POWER EXPENSE?***

19

20 **A.** Yes I did. I relied on Mr. Woods recommended level of Power Expense as  
21 shown on his Schedule HJW-3. Mr. Woods recommended a reduction of the  
22 Company's Power Expense of \$34,851. This reduces the Company's Pro Forma  
23 level of Power Expenses to \$23,187. My recommendation is shown on my  
24 Schedule DM-7.

25

1           **C.     Chemical Expense**

2   **Q.     WHAT IS THE COMPANY'S PROPOSED CHEMICAL EXPENSE?**

3   **A.**    The Company proposed a total Chemical Expense cost of \$10,000 on Exhibit P-4  
4           Schedule 2-C and in SIR-22.

5

6   **Q.     WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S**  
7           **PROPOSED CHEMICAL EXPENSE?**

8

9   **A.**    I am relying on Mr. Woods' recommendation with respect to the level of  
10           Chemical Expenses. Mr. Woods recommended acceptance of the Company's  
11           proposed of its annual Chemical Expense of \$10,000. My recommendation is  
12           shown on Schedule DM-8.

13

14           **D.     Waste Disposal**

15   **Q.     WHAT DID THE COMPANY PROPOSE WITH RESPECT TO WASTE**  
16           **RESIDUALS (SLUDGE)?**

17

18   **A.**    The Company proposed total Waste Disposal Expense in the amount of \$44,403  
19           as shown on Company Exhibit P-4 Schedule 2-D and SIR-23.

20

21   **Q.     WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S**  
22           **PROPOSED WASTE DISPOSAL EXPENSE?**

23

24   **A.**    I am relying on Mr. Wood's recommendation with respect to the level of Waste  
25           Disposal in the amount of \$35,886 as shown on his Schedule HJW-4. Mr.  
26           Woods' recommended level reduces the Company's Pro Forma amount by  
27           \$8,517. My recommendation is shown on my Schedule DM-9.

28

1           **E.     Insurance Expense**

2   **Q.     WHAT DID THE COMPANY PROPOSE REGARDING ITS PROPERTY AND**  
3   **GENERAL CORPORATE INSURANCE?**

4  
5   **A.**    The Company proposed total Insurance Expense of \$0 as shown on Company  
6           Exhibit P-4 Schedule 2-E.   Company witness Lin stated that the insurance  
7           expense has been zeroed out and included in the Management and Services  
8           Fees.

9

10 **Q.     WHAT IS YOUR RECOMMENDATION?**

11  
12 **A.**    I accept the Company's proposal.   My recommendation is shown on my  
13           Schedule DM-10.

14

15           **F.     Fringe Allocation**

16 **Q.     WHAT DID THE COMPANY PROPOSE WITH RESPECT TO ITS FRINGE**  
17 **ALLOCATION EXPENSE?**

18  
19 **A.**    The Company proposed a Fringe Allocation expense of \$60,482 as shown on  
20           Company Exhibit P-4 Schedule 2-F and SIR-24.

21

22 **Q.     WHAT ARE YOU RECOMMENDING WITH RESPECT TO THE COMPANY'S**  
23 **FRINGE ALLOCATION EXPENSE?**

24  
25 **A.**    I accepted the Company's Fringe Benefit percentage of 38.77% as shown on  
26           SIR-24.   I then adjusted the level of Pro Forma Labor Expense that I  
27           recommended in the amount of \$149,486 to compute the level of Fringe  
28           Allocation Expense.   This calculates to a total Fringe Allocation Expense of

1 \$57,956, or a reduction of \$2,526. ( $\$149,486 \times 38.77\% = \$57,956$ ). My  
2 recommendation is shown on my Schedule DM-11.

3

4 **G. Rate Case Expenses**

5 **Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO ITS RATE CASE**  
6 **EXPENSES?**

7  
8 **A.** The Company proposed a total Rate Case Expense of \$28,333 as shown on  
9 Company Exhibit P-4 Schedule 2-G. The breakdown is as follows:

10	Legal Expense	\$75,000
11	Miscellaneous (Transcripts	
12	Notices, etc.)	<u>\$10,000</u>
13	Total	\$85,000
14	Amortized over three years	<u>\$28,333</u>

15

16 **Q. WHAT CHANGES DID YOU MAKE TO THE COMPANY'S PROPOSED RATE**  
17 **CASE EXPENSES?**

18

19 **A.** I am accepting the Company's level of rate case expenses. However, I am  
20 extending the amortization period to four years to match the Company's Phase-In  
21 period. Finally, consistent with long-standing Board Policy, I reflect a sharing of  
22 rate case expenses 50/50 between shareholders and ratepayers.

23 My recommended levels are as follows:

24	Legal Expense	\$75,000
25	Miscellaneous (Transcripts	
26	Notices, etc.)	<u>\$10,000</u>
27	Total	<u>\$85,000</u>
28		
29	4 Year Amortization	<u>\$21,250</u>
30	50/50 Sharing	<u>\$10,625</u>

31

1 **Q. WHAT IS THE BOARD'S POLICY ON RATE CASE SHARING?**

2 **A.** The Board has a long-standing policy of requiring sharing of rate case expenses  
3 50/50 between shareholders and ratepayers. The sharing policy is predicated  
4 upon the idea that that rate case proceedings provide benefits to both  
5 shareholders and ratepayers and an allocation of rate case expenses equally  
6 between both groups is reasonable. The Board has adopted and affirmed rate  
7 case sharing in many proceedings. My recommendation is shown on my  
8 Schedule DM-12.

9

10 **H. Management and Services Fees**

11 **Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO ITS**  
12 **MANAGEMENT AND SERVICES FEES (M&S)?**

13

14 **A.** As shown on Company Exhibit P-4 Schedule 2-H, the Company proposed a  
15 projected level of Management and Services Fees of \$42,244. This amount  
16 included the following:

17	Management and Services Fees	\$24,638
18	Liability Insurance	\$ 3,477
19	2016 Salary Increase	\$ 2,265
20	Shared Assets	<u>\$11,864</u>
21	Total	<u>\$42,244</u>

22

23 **Q. HOW DID THE COMPANY EXPLAIN ITS ADJUSTMENTS TO ITS M&S FEES?**

24 **A.** According to Witness, Mr. Prettyman, the Company is currently revising its  
25 allocation methodology to be more consistent, easier to understand and easier to  
26 provide supporting documents and explanations. (Prettyman testimony page 9).  
27 Mr. Prettyman computed a current projection of M&S Fees in this case of  
28 \$73,000 (Prettyman testimony page 9). Mr. Prettyman indicated that in an

1 attempt to mitigate the rate impact, the Company has not decided to include the  
2 new allocations for this rate case. Mr. Prettyman further goes on to state that  
3 another part of the new allocation methodology (revenue neutral) is the inclusion  
4 of Shared Assets (\$11,864). In the past assets that were acquired at the SUEZ  
5 Water M&S level, were allocated to each of the operating companies and were  
6 on the balance sheet of the operating company. Beginning in 2015, these  
7 Shared Assets will be kept on the balance sheet of SUEZ Water M&S and  
8 charged through the M&S bill. The Company included \$24,638 as the total Pro  
9 Forma M&S Fees in this proceeding.

10  
11 **Q. HOW DID THE COMPANY COMPUTE THE REMAINING COSTS UNDER ITS**  
12 **M&S FEES?**

13  
14 **A.** As shown in the response to RCR-A-4, the Liability Insurance of \$3,477  
15 represented the actual charges for twelve months ending December 31, 2015 to  
16 Arlington Hills to cover its facilities; the \$2,265 represents 2016 Salary increases  
17 at 3% that took effect on April 1, 2016 for M&S Employees; the \$11,864  
18 represents the Shared Assets portion as indicated above.

19  
20 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE M&S FEES?**

21 **A.** I've accepted the Company's proposal with the exception of \$24,638 related to  
22 incentive compensation expenses. A discovery response by the Company  
23 indicated that \$10,674 related to the Short-Term Incentive Program and \$1,787  
24 related to the Long-Term Incentive Program (a total of \$12,461) was embedded  
25 in the M&S Fees. Since I removed all related incentive compensation in the

1 Labor Expense portion, I am removing these two incentive related compensation  
2 in the M&S Fees. My arguments for removing these items are in the Labor  
3 Expense Section A. My recommendation is shown on my Schedule DM-13.

4  
5 **I. Outside Services Employed**

6 **Q. WHAT DID THE COMPANY PROPOSE FOR ITS OUTSIDE SERVICES?**

7  
8 **A.** The Company proposed an amount for Outside Services of \$49,446 as shown on  
9 Company Exhibit P-4, Schedule 2-I.

10  
11 **Q. WHAT ADJUSTMENTS DID YOU MAKE WITH RESPECT TO THE**  
12 **COMPANY'S OTHER OUTSIDE SERVICES?**

13  
14 **A.** I took a further look in response to RCR-A-21 Attachment 1 that details a  
15 breakdown of Outside Services for the years ending 2013-2015. I removed all  
16 one-time expenses that do not recur from year to year. I included all recurring  
17 expenses.

18 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE LEVEL OF**  
19 **OUTSIDE SERVICES EMPLOYED EXPENSES?**

20  
21 **A.** My adjustments reduces the Company's proposed level of Outside Services  
22 Employed Expenses by \$11,143. My recommendation is shown on my Schedule  
23 DM-14.

24

1           **J.     Regulatory Commission Expense**

2   **Q.     WHAT DID THE COMPANY PROPOSE REGARDING ITS REGULATORY**  
3   **COMMISSION EXPENSE?**

4  
5   **A.**    The Company proposed total Regulatory Commission Expenses of \$6,194. The  
6           Company stated that the increase reflected payments made to the Board of  
7           Public Utilities (“BPU”) and Rate Counsel for their assessment invoices on an  
8           annual basis and reflects the Company’s pro forma revenues at present rates  
9           multiplied by the assessment rate. The assessment rate for the Rate Counsel is  
10          set at \$500.

11  
12   **Q.     WHAT IS YOUR RECOMMENDATION?**

13   **A.**    My recommended level of Regulatory Commission Expense is \$5,452, or \$647  
14          lower than the Company’s proposed level. In computing my level of Regulatory  
15          Commission Expense, I used my recommended level of Pro Forma Present Rate  
16          Revenues of \$1,137,324 and the BPU and Rate Counsel assessments as  
17          proposed by the Company. My recommendation is shown on my Schedule DM-  
18          15.

19  
20           **K.     Other Operation and Maintenance Expense (O&M)**

21  
22   **Q.     WHAT DID THE COMPANY PROPOSE REGARDING ITS LEVEL OF OTHER**  
23   **OPERATING AND MAINTENANCE EXPENSE?**

24  
25   **A.**    The Company proposed a total level of Other O&M Expense in the amount of  
26          \$43,817 as shown on Exhibit P-4 Schedule 2-K.

27

1 **Q. WHAT ADJUSTMENTS DID YOU MAKE TO THE COMPANY'S OTHER O&M?**

2 **A.** I made several adjustments to the Company's Other O&M. I reviewed SIR-25  
3 and removed the Bad Debt Expense write-off of \$7,967 that occurred in 2013. It  
4 appears that this expense is not recurring going forward. I then removed the  
5 expenses related to Telephone and Postage and Air Freight as these expenses  
6 did not occur in 2015. I also reviewed the response to RCR-A-22 that provides a  
7 breakdown of Materials, Miscellaneous Expenses, and Other G&A Expenses.  
8 Regarding the Materials categories, I removed the following expenses because  
9 these expenses were last incurred in 2013 and did not reoccur in either 2014 or  
10 2015:

11	• Grainger – Preventer Belt, Valves	\$1,750
12	• Halliday – Screen Basket	\$ 868
13	• Material -	\$ 206
14	• Mtek- 5 gallon pails	\$1,285
15	• Parkhurst Co. – Misc.	\$2,091
16	• RS Phillips – Stainless Steel	<u>\$ 562</u>
17	Total	\$6,761

18  
19 For the year 2014, I removed the expense related to Vulcan Industries of \$1,696  
20 and for the year 2015, I removed the expense related to Rapid Pump and Meter  
21 Service for a transducer of \$877. These two expenses did not appear to be  
22 recurring. Removing all of these expenses adjusts the 2013-2015 Materials  
23 category to the following:

24	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>3 Yr. Avg.</u>	
25	Company Proposed	\$18,184	\$7,074	\$2,488	<b>\$9,249</b>
26	Rate Counsel	\$11,423	\$5,378	\$1,611	<b>\$6,137</b>

27

1 **Q. WHAT OTHER ADJUSTMENTS DID YOU MAKE IN THE O&M EXPENSE**  
2 **CATEGORY?**

3  
4 **A.** In response to RCR-A-22, I removed certain expenses under the Miscellaneous  
5 category related to (1) Grainger – 2014 Open Drum Mixer of \$497; this appeared  
6 to be a onetime expense and not recurring going forward; (2) 2013 Applied  
7 Analytics – Hurricane Sandy Cost of \$1,781; this appeared to be a onetime  
8 expense and not recurring going forward; (3) 2014 Expense Module Cost - \$30;  
9 this appeared to be a onetime expense and not recurring going forward.  
10 Removing these expenses adjusts the 2013-2015 Miscellaneous category to the  
11 following:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>3 Yr. Avg.</u>
12 Company Proposal	\$6,026	\$10,649	\$8,589	<b>\$8,421</b>
13 Rate Counsel	\$4,245	\$10,122	\$8,589	<b>\$7,652</b>

14  
15  
16 Finally, regarding the category of Miscellaneous G&A Expenses, I removed the  
17 cost related to Expense Module Costs - \$1,670 that occurred in 2014 as this  
18 expense appears to be a onetime expense and not recurring going forward.

19  
20 **Q. WHAT ARE YOUR RECOMMENDATIONS WITH RESPECT TO THE**  
21 **REMOVAL OF THESE EXPENSES?**

22  
23 **A.** Based upon the above, I am recommending removal of \$7,713 of costs related to  
24 expenses as I noted above that appear to be one-time costs in the year occurred  
25 and not expected to be recurring going forward when new rates are to be placed  
26 in service. My total adjustment for the Company's Other O&M reduces the  
27 expense from \$43,817 to \$36,104, or a reduction of \$7,713 and is shown on my  
28 Schedule DM-16.

1           **L.       Depreciation and Amortization Expense**

2   **Q.       WHAT DID THE COMPANY PROPOSED WITH RESPECT TO ITS**  
3   **DEPRECIATION EXPENSE?**

4  
5   **A.**     The Company proposed Depreciation Expense in the amount of \$378,295 as  
6           shown on Company Exhibit P-4 Schedule 3. The Company computed its  
7           Depreciation Expense to reflect its proposed Total Plant in Service as of October  
8           31, 2016, included those post-test year plant adjustments that are not major in  
9           nature and consequence.

10  
11   **Q.       WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S**  
12   **PROPOSED DEPRECIATION EXPENSE?**

13  
14   **A.**     My recommendation reflects the recommendation of Howard Woods who has  
15           included only 2 projects post-test year that he deems to be major in nature in  
16           consequence and has removed those projects that are not deemed major in  
17           nature in consequence. (HJW-5). Mr. Woods has recommended \$205,858 of  
18           plant additions to be removed from the Company's proposed plant additions as  
19           these projects did not appear to be major in nature in consequence. Mr. Woods  
20           allowed the first project, the construction of the new wastewater treatment plant  
21           facility in the amount of \$12,857,170, and the second project, the additional main  
22           extensions project in the amount of \$505,296 to be included in post-test year  
23           plant additions. I accepted the Company's Depreciation Rates for its plant  
24           classifications of 2.65%. My recommended Depreciation Expense is computed  
25           in the amount of \$370,752, which is \$7,544 less than the Company's  
26           Depreciation proposal of \$378,296, and is shown on my Schedule DM-17.

1           **M.     Property Taxes**

2   **Q.     WHAT DID THE COMPANY PROPOSE WITH RESPECT TO ITS PROPERTY**  
3   **TAX EXPENSE?**

4  
5   **A.**    The Company proposed Pro-forma Property Tax Expense in the amount of  
6           \$10,977 as shown on Company Exhibit P-4 Schedule 4.

7  
8   **Q.     WHAT ADJUSTMENTS DID YOU MAKE REGARDING THE COMPANY'S**  
9   **PROPERTY TAX EXPENSE?**

10  
11 **A.**    I reviewed the Company's Exhibit P-4 Schedule 4 and I adjusted the Company's  
12           proposed expense to the actual Property Tax Expense incurred at the end of  
13           December 31, 2015 in the amount of \$10,823. I did not include the Company's  
14           proposed 1.43% 3-year average increase because this appears to be an  
15           inflation adjustment, and such adjustments are against Board policy. Since  
16           Property Taxes are set during a fiscal year period (July 1 through June 30), I  
17           believe that the use of a year end 2015 balance is reasonable. My  
18           recommendation is shown on my Schedule DM-18.

19  
20           **N.     Taxes Other Than Income Taxes**

21 **Q.     WHAT DID THE COMPANY PROPOSE REGARDING ITS TAXES OTHER**  
22 **THAN INCOME TAXES?**

23  
24 **A.**    The Company proposed Taxes Other Than Income Taxes of \$290,951 as shown  
25           on Company Exhibit P-4 Schedule D-5.

26

1 **Q. *WHAT ARE YOUR RECOMMENDATIONS REGARDING THE COMPANY'S***  
2 ***TAXES OTHER THAN INCOME TAXES?***

3  
4 **A.** My recommendations reflect my changes to the Company's Pro-forma  
5 Revenues. I used the Gross Receipts and Excise Tax Rate of 8.4375% and the  
6 Franchise and Excise Tax Rate of 5.6260% to compute my recommended Gross  
7 Receipts and Franchise Tax Expense of \$255,588. This is \$35,362 lower than  
8 the Company's proposed expense of \$290,951. My recommendation is shown  
9 on my Schedule DM-19.

10

11 **O. Federal Income Taxes**

12 **Q. *WHAT DID THE COMPANY PROPOSED REGARDING ITS FEDERAL***  
13 ***INCOME TAX EXPENSE?***

14  
15 **A.** The Company proposed a Federal Income Tax Expense (FIT) of \$378,165 as  
16 shown on Company Exhibit P-4 Schedule 6.

17

18 **Q. *WHAT ARE YOUR CHANGES TO THE COMPANY'S FIT EXPENSE?***

19  
20 **A.** I updated the Company's Federal Income Tax calculation to reflect my  
21 recommended adjustments to Operating Revenue, Operating Expenses and  
22 Operating Income before Income Taxes. I used the same methodology and  
23 components used by the Company to compute my recommended Federal  
24 Income Tax Expense. I also updated the interest expense to reflect my  
25 recommended Rate Base level and Dr. Marlon Griffing's recommended Weighted  
26 Cost of Debt of 2.44%.

27

1 **Q. WHAT IS YOUR RECOMMENDED FEDERAL INCOME TAX EXPENSE?**

2 **A.** My recommended Federal Income Tax Expense is \$322,280 which is \$55,885  
3 lower than the Company's level of \$378,165, and is shown on my Schedule DM-  
4 20.

5  
6 **VI. CONCLUSION**

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY IN THIS MATTER?**

8 **A.** Yes, it does. However, I reserve the right to supplement my testimony if  
9 necessary.

## **APPENDIX A - QUALIFICATIONS**

.

# PCMG and Associates LLC

## DANTE MUGRACE

### *Education*

Master Business Administration, MBA Strategic Management, Pace University, Lubin School of Business, New York, NY, 2010

Master Public Administration, MPA, Kean University, Union, NJ, 2001

Bachelor of Science, BS. Accounting, St. Peter's University, Jersey City, NJ, 1983

### *Position*

Senior Consultant – PCMG and Associates	2014 – present
Senior Consultant – Snavelly King Majoros and Associates	2013 – 2014
Independent Consultant	2012 – 2013
Bureau Chief/Utility Rate Manager – New Jersey Board of Public Utilities	1983 – 2012

### *Professional Experience*

Mr. Mugrace has 32 years' experience in all aspects of regulatory accounting and policy including processing, analyzing and evaluating utility rate case petitions before Public Service Commissions. Mr. Mugrace examines and evaluates rate filings, contracts, agreements and rate matters regarding utility operations and provides recommendations as to best course of action. Additionally, Mr. Mugrace analyzes and reviews utility regulatory matters and sets forth recommendations for resolution of issues, calculates total revenue requirement needed to cover operating expenses and rate of return, and researches, and evaluates regulatory utility matters to assess impact on various classes of customers, regarding rates, service, compliance and cost of service provisions, as well as annual true-up and tracking mechanisms.

Prior to undertaking consulting assignments, Mr. Mugrace was the Bureau Chief Utility Rate Manager for the New Jersey Board of Public Utilities, in which role he managed and assigned tasks to a staff of 12 professionals and supervisory personal in the daily administrative, financial and managerial functions of the Division. Mr. Mugrace's primary duties were to determine whether the utility had sufficient revenues to cover its operating expenses and earn a return on its plant investment and to ensure that the utility provided safe, reliable and continuing utility service to its customers. Mr. Mugrace set rates and charges for utility companies, which had revenues of up to \$500 million, and ensured that the revenue requirement provided for recovery of all operating expenses, return on investment and depreciation. Mr. Mugrace was also responsible for reviewing and verifying that the companies' property, plant and equipment (up to \$2.5 billion) were used and useful in providing service to its customers. Mr. Mugrace coordinated and met with the New Jersey State Department of Environmental Protection to

## PCMG and Associates LLC

determine whether water and wastewater utilities were complying with state regulations and were adhering to any regulatory agency directives or orders. Mr. Mugrace developed ways to minimize the rising costs of water utility services by investigating alternative rate structures, analyzing engineering mechanisms and techniques, looking into the feasibility of mergers and acquisitions within the water industry and reviewing financing, and rate alternatives to minimize the impact on ratepayers. Mr. Mugrace was responsible for ensuring that the rate-case process adhered the statutory timeframe for preparing, reviewing and recommending findings to the Board Commissioners on financial operations, costs, revenues and operating expenses, prior to the litigation proceedings. Mr. Mugrace also examined alternative rate recovery mechanisms and clauses, phase-ins of revenue requirements, deferral mechanisms and pass-through of rate charges. Mr. Mugrace assumed the role of Director during transition periods and Administrative changes. Finally, Mr. Mugrace conducted the recruitment and hiring of employees for placement within the Division and the Board.

### *Professional and Business Affiliations*

- Institute of Public Utilities (IPU) Michigan State University (MSU), National Association of Regulatory Utility Commissioners (NARUC)

### *Regulatory Projects and Appearances*

1. In re: Petition of PJM Interconnection, LLC. – Mid-Atlantic Interstate Transmission, LLC. Formula Rate Filing. (Appearance on behalf of the Pennsylvania Office of Consumer Advocate).  
FERC Docket No. ER17-211-000
2. In re: Petition of Pivotal Utility Holdings, Inc. d/b/a Elizabethtown Gas Company for approval of Increased Base Tariff Rates and Charges for Gas Service and Other Tariff Revisions (Appearance: revenue requirement on behalf of the New Jersey Division of Rate Counsel)  
New Jersey Board of Public Utilities Docket No. GR16090826
3. In re: Petition of SUEZ Water New Jersey, et al – Approval of a Management and Services Agreement pursuant to N.J.S.A 48: 3-7.1 (Appearance on the reasonableness of contract agreements on behalf of the New Jersey Division of Rate Counsel)  
New Jersey Board of Public Utilities Docket No. WO16080806
4. In re: Petition of SUEZ Water Arlington Hills Inc. – Approval of an Increase in Rates for Wastewater Services and other Tariff Changes (Appearance: revenue requirement on behalf of the New Jersey Division of Rate Counsel)  
New Jersey Board of Public Utilities Docket No. WR16050510

## PCMG and Associates LLC

5. In re: Petition of Public Service Electric and Gas Company – 2016 Marginal Adjustment Clause (MAC) (Appearance; reconciliation and rate setting on behalf of the New Jersey Division of Rate Counsel)  
New Jersey Board of Public Utilities Docket No. GR16060484
6. In re: Petition of the Mount Olive Village Sewer Company, Inc., for Approval of an Increase in Rates for Service (Appearance: revenue requirement on behalf of the New Jersey Division of Rate Counsel)  
New Jersey Board of Public Utilities Docket No. WR16050391
7. In re: Petition of the Mount Olive Village Water Company, Inc. for Approval of an Increase in Rates for Service (Appearance; revenue requirement on behalf of the New Jersey Division of Rate Counsel)  
New Jersey Board of Public Utilities Docket No. WR16050390
8. In re: Petition of Fitchburg Gas and Electric Light Company d/b/a Unutil for Approval of its 2015 Gas System Enhancement Plan Reconciliation Filing (2016) - (Analysis and Advice to Counsel: computation of the revenue requirement and rate impact on behalf of the Massachusetts Attorney General Office of Ratepayer Advocacy)  
MA Department of Public Utilities Docket No. D.P.U. 16-GREC-01
9. In re: Petition of Bay State Gas Company d/b/a Columbia Gas of Massachusetts for Approval of its 2015 Gas System Enhancement Plan Reconciliation Filing (2016) - (Appearance: computation of the revenue requirement and rate impact on behalf of the Massachusetts Attorney General Office of Ratepayer Advocacy)  
MA Department of Public Utilities Docket No. D.P.U. 16-GREC-05
10. In re: Petition for Approval of Gas Infrastructure Contract Between Public Service Company of New Hampshire d/b/a Eversource Energy and Algonquin Gas Transmission, LLC (2016) - (Analysis and Advice to Counsel: compliance with statutes and regulations, review of contract, and ratemaking on behalf of the New Hampshire Office of Consumer Advocate)  
NH Public Utilities Commission Docket No. DE 16-241
11. In re: Central Maine Power Company, Annual Compliance Filing and Price Change (2016) - (Analysis and Advice to Counsel; tax normalization regulatory asset on behalf of the Maine Office of the Public Advocate)  
ME Public Service Commission Docket No. 2016-00035
12. In re: Bulletin 2015-10 Generic Proceeding to Establish Parameters for the Next Generation PBR Plans (Appearance: productivity adjustments/performance based ratemaking on behalf of the Alberta Utilities Consumer Advocate)  
Alberta Utilities Commission Proceeding 20414
13. In the Matter of Request by Emera Maine for Approval of a Rate Change (2016) - (Appearance: revenue requirement on behalf of the Maine Office of the Public Advocate)

## PCMG and Associates LLC

Maine Public Utilities Commission Docket No. 15-00360)

14. In the Matter of the Joint Application of the Southern Company, AGL Resources Inc., and Pivotal Holdings, Inc. d/b/a Elkton Gas (2015-2016) - (Analysis and advice to counsel: customer service impacts, employee impacts, supplier diversity on behalf of the Maryland Office of People's Counsel)  
MD PSC Case No. 9404
15. In the Matter of the Merger of Southern Company and AGL Inc. (2015-2016) - (Appearance: customer service impacts and employee impacts on behalf of the NJ Division of Rate Counsel)  
BPU Docket No. GM15101196
16. In the Matter of the United Water New Jersey, Inc., for Approval of an Increase in Rates for Water Service and Other Tariff Changes (2015-2016) - (Appearance: revenue requirements, rate base issues and operating income on behalf of the NJ Division of Rate Counsel)  
BPU Docket No. WR15101177
17. In re: Petition of Boston Gas Company and Colonial Gas Company d/b/a National Grid for Approval of Precedent Agreements with Millennium Pipeline Company, LLC (2015) - (Analysis: review of contract and compliance of the Gas Supply Plan on behalf of the Massachusetts Attorney General Office of Ratepayer Advocacy)  
MA D.P.U. 15-130
18. In re: Petition of Boston Gas Company and Colonial Gas Company d/b/a National Grid for Approval of Agreements for LNG or Liquefaction Services with GDF Suez Gas NA, LLC; Northeast Energy Center, LLC; Metro LNG, L.P.; and National Grid LNG (2015) - (Analysis: review of contract and compliance of the Gas Supply Plan on behalf of the Massachusetts Attorney General Office of Ratepayer Advocacy)  
MA D.P.U. 15-129
19. In re: Columbia Gas of Massachusetts CY2014 Targeted Infrastructure Reinvestment Factor (TIRF) Compliance Filing (2015) - (Appearance: computation of the revenue requirement impact on the TIRF on behalf of the Massachusetts Attorney General Office of Ratepayer Advocacy)  
MA D.P.U. 15-55
20. In the Matter of the Bay State Gas Company d/b/a Columbia Gas of Massachusetts for Approval of its Targeted Infrastructure Reinvestment Factor (TIRF) for CY 2013 (2014) - (Appearance: computation of the revenue requirement impact on the TIRF)  
MA D.P.U. 14-83
21. In the Matter of the Merger of Exelon Corporation and Pepco Holdings, Inc. (Atlantic City Electric Company) (2014-2015) - (Appearance: customer service impacts)  
BPU Docket No. EM14060581

## PCMG and Associates LLC

22. Public Utilities Commission of Ohio, in the Matter of the Application of Aqua Ohio, Inc. to Increase its Rates and Charges for its Waterworks Service. – Revenue and Rates (2014) - (Appearance: operating income, certain rate base issues and income taxes on behalf of the Ohio Office of Consumer Counsel)  
PUCO Case No. 13-2124-WW-AIR
23. New York Public Service commission, as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. Revenue Requirement (2013-2014) – (Appearance: revenue requirement, rate base issues and operating income on behalf of the Intervenor, the County of Westchester)  
NYPSC Case Nos. 13-E-0030, 13-G-0031 and 13-S-0032, et al
24. North Dakota Public Service commission, - Application of Northern States Power Company for Authority to Increase Rates for Electric Service in North Dakota, On-Going Revenue Requirement (2013) - (Appearance: revenue requirement and rate base, operating income, operating and maintenance expenses on behalf of the North Dakota Public Service Commission Staff)  
BPU Case No. PU-12-813
25. In the Matter of the Petition of New Jersey American Water Company for Authorization to Implement a Distribution System Improvement Charge (DSIC) Order Denying Petition and Instituting Stakeholder Process (2008) - (Case manager on policy decision and revenue requirement impact on behalf of the Staff of the NJ Board of Public Utilities)  
BPU Docket No. WO08050358
26. In the Matter of the Joint Petition of the City of Trenton, New Jersey and New Jersey-American Water Company, Inc. for Authorization of the Purchase and Sale of the Assets of the Outside Water Utility System ("OWUS") of the City of Trenton, New Jersey and for Other Relief Order Adopting Initial Decision, (2008) - (Case manager on the revenue requirement impact on behalf of the Staff of the NJ Board of Public Utilities)  
BPU Docket No. WM08010063
27. In the Matter of the Petition of United Water New Jersey, United Water Toms River, United Water Lambertville, United Water Mid-Atlantic and Gaz de France for Approval as Need for a Change in Ownership and Control (2007) - (Case manager on customer impact, employee impact and impact on rates on behalf of the Staff of the NJ Board of Public Utilities)  
BPU Docket No. WM06110767
28. In the Matter of the Petition of United Water Arlington Hills Sewerage, Inc. for an Increase in Rates for Waste Water Service and Other Tariff Changes (2009) - (Case manager on revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)

## PCMG and Associates LLC

BPU Docket No. WR08100929

29. In the Matter of the Petition of United Water New Jersey Inc. for Approval of an Increase in Rates for Water Service and Other Tariff Changes, (2009) - (Case manager on revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)  
BPU Docket No. WR08090710
30. In the Matter of the Petition of United Water Toms River, Inc. for Approval of an Increase in Rates for Water Service and Other Tariff Changes (2008) - (Case manager on the revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)  
BPU Docket No. WR08030139
31. In the Matter of the Joint Petitioners of New Jersey-American Water Company, Inc., S.J. Services, Inc., South Jersey Water Company, Inc. and Pennsgrove Water Supply Company, Inc. for Among Other Things Approval of a Change in Control of South Jersey Water Supply Company, Inc. and Pennsgrove Water Supply Company, Inc. (2007) - (Case manager on the overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)  
BPU Docket No. WM07020076
32. In the Matter of the Petition of Aqua, New Jersey, Inc. for Approval of an Increase in Rates for Water Service and Other Tariff Changes (2008) - (Case manager on revenue requirement and the overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)  
BPU Docket No. WR0712095
33. I/m/o the Joint Petition of Thames Water, Aqua Holdings GMBH, on Behalf of Itself and Its Parent Holdings Company, RWE Aktiengesellschaft, Thames Water Aqua US Holdings, Inc., American Water works Company Inc., Thames Water Holdings Incorporated, E'town Corporation, New Jersey-American Water Company, Inc., Elizabethtown Water Company, the Mount Holly Water Company and Applied WasteWater Management, Inc. for Confirmation that the Board of Public Utilities Does Not Have Jurisdiction Over, or, Alternatively, for Approval of a Proposed Transaction Involving, Among Other Things, the Sale by Thames Water Aqua Holdings GMBH of Up to 100% of the Shares of the Common Stock of American Waterworks Company, Inc. in One or More Public Offerings (2007) - (Case manager on revenue requirement impacts, affect on rates and affect on service on behalf of the Staff of the NJ Board of Public Utilities)  
BPU Docket No. WM06050388
34. In the Matter of the Petition of Elizabethtown Water Company for Approval of an Increase in Rates for Water Service (2007) - (Case manager on revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)  
BPU Docket No. WR03070510

## PCMG and Associates LLC

35. In the Matter of the Petition of New Jersey American Water Company, Inc. for Approval of Increased Tariff Rates and Charges for Water and Sewer Service; Increased Depreciation Rates and Other Tariff Revisions (2008) - (Case manager on revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)  
BPU Docket No. WR08010020
36. In the Matter of Middlesex Water Company for Approval of an Increase in its Rates for Water Service and Other Tariff Changes (2007) - (Case manager on overall revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)  
BPU Docket No. WR07040275
37. In the Matter of the Joint Petition of United Water New Jersey, Inc., United Water Arlington Hills, Inc., United Water Hampton, Inc., United Water Vernon Water Hills, Inc., and United Water Lambertville, Inc. for an Increase in Rates and Charges for Water Service and Other Tariff Changes and for Approval to Merge the Operations of the Joint Petitioners into and with United Water New Jersey, Inc. (2007) - (Case manager on revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)  
BPU Docket No. WR07020135

## **APPENDIX B - SCHEDULES**

SUEZ Water Arlington Hills  
Operating Income Summary  
Test Year Ending October 31, 2016  
BPU Docket No. WR16060510

	(1)			
	Company Proposed	Adjustments	Rate Counsel	Reference
Operating Revenue	\$ 2,591,100	\$ (314,924)	\$ 2,276,175	
	118.34%		100.13%	
Current Revenues	\$ 1,186,704	\$ (49,380)	\$ 1,137,324	
<b>Operating Expenses</b>				
O & M Expenses	\$ 498,949	\$ (102,167)	\$ 396,782	Schedule DM-5
Depreciation and Amortization	\$ 378,296	\$ (7,544)	\$ 370,752	Schedule DM-5
Taxes Other Than Income	\$ 301,928	\$ (35,516)	\$ 266,411	Schedule DM-5
Total Expenses Before Income Taxes	\$ 1,179,173	\$ (145,228)	\$ 1,033,946	
Operating Income Before Taxes	\$ 1,411,926	\$ (169,697)	\$ 1,242,230	
Federal Income Taxes	\$ 287,280	\$ (57,205)	\$ 230,075	Schedule DM-20
Deferred Income Taxes	\$ 90,884	\$ 1,320	\$ 92,204	Schedule DM-20
Operating Income	\$ 1,033,762	\$ (113,812)	\$ 919,950	
Rate Base	\$ 13,584,277	\$ (407,127)	\$ 13,177,151	Schedule DM-21
Rate of Return	7.61%		6.98%	Schedule DM-2
Net Operating Income	\$ 1,033,763	\$ (113,813)	\$ 919,950	
Deficiency	\$ 808,143	\$ (152,804)	\$ 655,339	
Revenue Factor	1.737806		1.737806	
Revenue Requirement	\$ 1,404,396	\$ (265,544)	\$ 1,138,852	

(1) Company Petition Exhibit P-4

SUEZ Water Arlington Hills  
 Rate of Return  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

Company Proposal	Ratio	Cost Rate	WACC	
Long Term Debt	47.00%	5.19%	2.44%	
Common Equity	53.00%	9.75%	5.17%	
Total Capital	100.00%		<b>7.61%</b>	(1)
 <b>Rate Counsel</b>				
Long Term Debt	47.00%	5.19%	2.44%	(2)
Common Equity	53.00%	8.57%	4.54%	(2)
Total Capital	100.00%		<b>6.98%</b>	

(1) Company Petition Exhibit P-4 Schedule 9

(2) Testimony of Dr. Marlon Griffing  
 Exhibit MFG-8, Schedule 2

SUEZ Water Arlington Hills  
 Carrying Charges  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

Company Proposed (1)	Year 1	Year 2	Year 3	Year 4	Total
Actual Revenue Deficiency	\$ 1,404,396				\$ 1,404,396
Deferred Revenue Increase		\$ 1,104,396	\$ 754,396	\$ 328,636	
Total Revenue Deficiency		\$ 1,104,396	\$ 754,396	\$ 328,636	
Proposed Revenue Increase	<u>\$ 300,000</u>	<u>\$ 350,000</u>	<u>\$ 425,000</u>	<u>\$ 328,636</u>	\$ 1,403,636
Deferred Revenue Increase	<u>\$ 1,104,396</u>	<u>\$ 754,396</u>	<u>\$ 329,396</u>	<u>\$ -</u>	
Present Rate Revenue	\$ 1,186,705	\$ 1,486,705	\$ 1,836,705	\$ 2,261,705	
Total Revenue Increase	25.28%	23.54%	23.14%	14.53%	

"1) Company Petition Exhibit P-4 Schedule 1C

Rate Counsel

Actual Revenue Deficiency	\$ 1,138,852				
Deferred Revenue Increase		\$ 854,139	\$ 569,426	\$ 284,713	
Total Revenue Deficiency		\$ 854,139	\$ 569,426	\$ 284,713	
Proposed Revenue Increase	<u>\$ 284,713</u>	<u>\$ 284,713</u>	<u>\$ 284,713</u>	<u>\$ 284,713</u>	\$ 1,138,852
Deferred Revenue Increase	<u>\$ 854,139</u>	<u>\$ 569,426</u>	<u>\$ 284,713</u>	<u>\$ -</u>	
Present Rate Revenue	\$ 1,137,324	\$ 1,422,037	\$ 1,706,750	\$ 1,991,463	
Total Revenue Increase	25.03%	20.02%	16.68%	14.30%	

SUEZ Water Arlington Hills  
 Current Revenues  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Current	Company Update	Adjustments	Rate Counsel	References
<b>Residential - Fixed Charges</b>					
5/8" meter - 949 x 12 = 11,388 x \$32.39	\$ 368,857				
5/8" meter - 649 X 12 = 7,788 x \$32.39		\$ 252,253	\$ (116,604)	\$ 252,253	
1 1/2" meter - 1 meter x 12 x \$161.97	\$ 1,944	\$ 1,944		\$ 1,944	
2" meter - 4 x 12 = 48 x \$259.16		\$ 12,440	\$ 12,440	\$ 12,440	
3" meter - 9 x 12 = 108 x \$485.93		\$ 52,480	\$ 52,480	\$ 52,480	
Subtotal	\$ 370,801	\$ 319,117	\$ (51,684)	\$ 319,117	
<b>Consumption Charges</b>					
29,553,000 gallons x \$11.239	\$ 332,146	\$ 332,146		\$ 332,146	
	\$ 702,947	\$ 651,263	\$ (51,684)	\$ 651,263	
<b>Commercial - Fixed Charges</b>					
5/8" meter - 14 x 12 x \$286.98	\$ 48,213	\$ 48,213		\$ 48,213	
3/4" meter - 1 x 12 x \$430.49	\$ 5,166	\$ 5,166		\$ 5,166	
1" meter - 2 x 12 x \$717.47	\$ 17,219	\$ 17,219		\$ 17,219	
1 1/2" meter - 2 x 12 x \$1,434.94	\$ 34,439	\$ 34,439		\$ 34,439	
2" meter - 5 x 12 x \$2,295.89	\$ 137,753	\$ 137,753		\$ 137,753	
3" meter x 1 x 12 x \$4,304.76	\$ 51,657	\$ 51,657		\$ 51,657	
<b>Consumption Charges</b>					
16,844,000 x \$11.239	\$ 189,310	\$ 189,310	\$ 2,304	\$ 191,614	(2) HJW - 2
	\$ 483,757	\$ 483,757		\$ 486,061	
Total Revenue Sales	\$ 1,186,704	\$ 1,135,020	\$ (49,380)	\$ 1,137,324	

(1) Company Petition Exhibit P-4 Schedule 1A

(2) 17,049 tg times \$11.239

SUEZ Water Arlington Hills  
 Operating Expense Summary  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1)			
	Company Proposed	Adjustments	Rate Counsel	References
<b>Operating Expenses</b>				
Labor Expense	\$ 155,992	\$ (6,506)	\$ 149,486	Schedule DM-6
Power	\$ 58,038	\$ (34,851)	\$ 23,187	Schedule DM-7
Chemical Expense	\$ 10,000		\$ 10,000	Schedule DM-8
Waste Disposal	\$ 44,403	\$ (8,517)	\$ 35,886	Schedule DM-9
Insurance Expense	\$ -		\$ -	Schedule DM-10
Fringe Allocation	\$ 60,482	\$ (2,526)	\$ 57,956	Schedule DM-11
Rate Case Expenses	\$ 28,333	\$ (17,708)	\$ 10,625	Schedule DM-12
Management and Services Fees	\$ 42,244	\$ (12,461)	\$ 29,783	Schedule DM-13
Outside Expenses	\$ 49,446	\$ (11,143)	\$ 38,303	Schedule DM-14
Regulatory Commission Expense	\$ 6,194	\$ (742)	\$ 5,452	Schedule DM-15
Other O&M Expenses	\$ 43,817	\$ (7,713)	\$ 36,104	Schedule DM-16
<b>Total Operating &amp; Maintenance Expenses</b>	<b>\$ 498,949</b>	<b>\$ (102,167)</b>	<b>\$ 396,782</b>	
Depreciation & Amortization Expense	\$ 378,296	\$ (7,544)	\$ 370,752	Schedule DM-17
Property Taxes	\$ 10,977	\$ (154)	\$ 10,823	Schedule DM-18
Taxes Other Than Income - GRAFT	\$ 290,951	\$ (35,362)	\$ 255,588	Schedule DM-19
<b>Total Operating Expenses</b>	<b>\$ 1,179,173</b>	<b>\$ (145,228)</b>	<b>\$ 1,033,946</b>	

(1) Company Petition Exhibit P-4 Schedule 2

SUEZ Water Arlington Hills  
 Labor Expense  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Labor Expense	\$ 155,992	\$ (6,506)	\$ 149,486	SIR-20/RCR-A-14

(1) Company Petition Exhibit P-4 Schedule 2A

SIR-20 - NJ 2016 Gross Labor in BPU Docket No. WR15101177 includes Incentive Compensation of \$1,348,154 and the elimination of two new positions of \$185,000. By removing these costs the NJ 2016 Gross Labor is \$35,187,259 x .4248%

SUEZ Water Arlington Hills  
 Power Expense  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Power Expense	\$ 58,038	\$ (34,851)	\$ 23,187	HJW-4

(1) Company Petition Exhibit P-4 Schedule 2B

SUEZ Water Arlington Hills  
 Chemical Expense  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	Rate Counsel
Chemical Expense	\$ 10,000	\$ -	\$ 10,000	HJW recommend

(1) Company Petition Exhibit P-4 Schedule 2C

SUEZ Water Arlington Hills  
 Waste Disposal  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Waste Disposal	\$ 44,403	\$ (8,517)	\$ 35,886	HJW-4

(1) Company Petition Exhibit P-4 Schedule 2D

SUEZ Water Arlington Hills  
 Insurance  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Insurance Expense	\$ -		\$ -	

(1) Company Petition Exhibit P-4 Schedule 2E

SUEZ Water Arlington Hills  
 Fringe Allocation  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Fringe Allocation	\$ 60,482	\$ (2,526)	\$ 57,956	SIR-24

SIR-24 adjusts the Proforma Labor Expense to \$149,486 multiplied by the 2 year ratio of 38.77%

(1) Company Petition Exhibit P-4 Schedule 2F

SUEZ Water Arlington Hills  
 Rate Case Expenses  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Legal Expenses	\$ 75,000		\$ 75,000	Estimate
Miscellaneous	\$ 10,000		\$ 10,000	Estimate
Total	\$ 85,000		\$ 85,000	
3 Year Amortization	\$ 28,333	\$ (17,708)	\$ 10,625	50/50 sharing 4 yr

(1) Company Petition Exhibit P-4 Schedule 2G

SUEZ Water Arlington Hills  
M&S Fees  
Test Year Ending October 31, 2016  
BPU Docket No. WR16060510

	(1)			
	Company			
	Proposed	Adjustments	Rate Counsel	References
M&S Fees	\$ 24,638	\$ (12,461)	\$ 12,177	
Liability Insurance	\$ 3,477		\$ 3,477	
2016 Salary Increases	\$ 2,265		\$ 2,265	
Shared Assets	\$ 11,864	\$ -	\$ 11,864	(2) RCR-A-4 Att B
Total	<u>\$ 42,244</u>	<u>\$ (12,461)</u>	<u>\$ 29,783</u>	

- (1) Company Petition Exhibit P-4 Schedule 2H  
(2) Recommended Net Rate Base times Pre-tax ROR of 10.42%  
Plus recommended Depreciation Expense times .2% allocation factor

SUEZ Water Arlington Hills  
 Outside Services  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company			
	Proposed	Adjustments	Rate Counsel	References
Proforma 3 year average	\$ 49,446	\$ (11,143)	\$ 38,303	RCR-A-21 Att 1
	<hr/>			
	Three Year Average			
	2013	2014	2015	
	<hr/>			
Ending Balance	\$ 48,055	\$ 61,468	\$ 38,814	\$ 49,446
AGRA Environmental Services	\$ (13,554)			
ABB Inc Calibration	\$ (790)			
Airworks Inc.		\$ (3,576)		
Arrow Tree Removal	\$ (1,523)			
Aspen Lawn Service	\$ (1,184)			
Bowman Fence Company	\$ (1,950)			
Hank Sanders Clean and Regrade	\$ (6,850)			
Cablevision		\$ (4,000)		
Adjusted Ending Balance	\$ 22,204	\$ 53,892	\$ 38,814	\$ 38,303

(1) Company Petition Exhibit P-4 Schedule 21

SUEZ Water Arlington Hills  
 Regulatory Commission Expense  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Proforma Present Rate Revenues	\$ 1,186,705		\$ 1,137,324	
BPU Assessment Rate	0.001932471		0.001932471	
Rate Counsel Assessment Rate	0.000489		0.000489	
BPU Assessment	\$ 2,293		\$ 2,198	
Rate Counsel Assessment	\$ 500		\$ 500	
Total Assessment	\$ 2,793		\$ 2,698	
Adjustment	\$ 3,401	\$ (647)	\$ 2,754.00	
Company Proposed	\$ 6,194	\$ (647)	\$ 5,452	

(1) Company Petition Exhibit P-4 Schedule 2J

SUEZ Water Arlington Hills  
Other O&M Expenses  
Test Year Ending October 31, 2016  
BPU Docket No. WR16060510

	(1)			
	Company Proposed	Adjustments	Rate Counsel	References
CC&B Support Costs	\$ 480		\$ 480	
Lab Testing Fees	\$ -		\$ -	
Sales and Use Tax	\$ 1,033		\$ 1,033	
Bad Debt Expense	\$ -		\$ -	
Bad Debt Expense Write Off	\$ 2,656		\$ -	SIR-25
Materials	\$ 9,249	\$ (3,112)	\$ 6,137	RCR-A-22
Rents	\$ -		\$ -	
Transportation Costs - Other	\$ 17,969		\$ 17,969	
Miscellaneous Expenses	\$ 8,421	\$ (769)	\$ 7,652	RCR-A-22
Office Supplies	\$ 478		\$ 478	SIR-25
Telephone	\$ 589	\$ (589)	\$ -	SIR-25
Postage and Air Freight	\$ 30	\$ (30)	\$ -	SIR-25
Staff Meetings and Seminars	\$ -		\$ -	
Safety Equipment	\$ 1,520		\$ 1,520	
Other Misc. G&A Expenses	\$ 1,392	\$ (557)	\$ 835	RCR-A-22
<b>Total</b>	<b>\$ 43,817</b>	<b>\$ (7,713)</b>	<b>\$ 36,104</b>	

- (1) Company Petition Exhibit P-4 Schedule 2K  
SIR-25 and RCR-A-22: removed all non recurring expenses that appear to be one time payments or Costs that do not appear to be continuing in the test year.

SUEZ Water Arlington Hills  
 Depreciation Expense  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Depreciation Rate	Depreciation Expense	Rate Counsel	Depreciation Rate	Depreciation Expense	References
1 Service Connections, traps, accessories	\$ 419,088	2.65%	\$ 11,106	\$ 416,014	2.65%	\$ 11,024	
2 Collecting Mains, accessories	\$ 2,048,872	2.65%	\$ 54,295	\$ 1,917,122	2.65%	\$ 50,804	
3 Interceptor mains, accessories	\$ 49,263	2.65%	\$ 1,305	\$ 49,263	2.65%	\$ 1,305	
4 Force Mains	\$ 89,437	2.65%	\$ 2,370	\$ 89,437	2.65%	\$ 2,370	
5 Electric Pumping Equipment	\$ 726,803	2.65%	\$ 19,260	\$ 713,628	2.65%	\$ 18,911	
6 Other Power Pumping Equipment	\$ -	2.65%		\$ -	2.65%	\$ -	
7 Miscellaneous Pumping Equipment	\$ -	2.65%		\$ -	2.65%	\$ -	
8 Structures and Improvements	\$ 8,214,303	2.65%	\$ 217,679	\$ 8,214,303	2.65%	\$ 217,679	
9 Grit Removal Equipment	\$ 357,144	2.65%	\$ 9,464	\$ 357,144	2.65%	\$ 9,464	
10 Sedimentation Tanks, accessories	\$ 1,428,574	2.65%	\$ 37,857	\$ 1,428,574	2.65%	\$ 37,857	
11 Sludge concentration chambers, acc.	\$ 571,430	2.65%	\$ 15,143	\$ 571,430	2.65%	\$ 15,143	
12 Sludge & effluent removing equip.	\$ -	2.65%		\$ -	2.65%	\$ -	
13 Secondary treatment filters, acc.	\$ 17,417	2.65%	\$ 462	\$ (916)			
14 Auxiliary effluent treatment equipment	\$ 857,145	2.65%	\$ 22,714	\$ 857,145	2.65%	\$ 22,714	
15 Other Sewage removing equipment	\$ -	2.65%		\$ -	2.65%	\$ -	
16 Chemical Treatment plant and equip.	\$ -	2.65%		\$ -	2.65%	\$ -	
17 Outfall pipes and acc.	\$ -	2.65%		\$ -	2.65%	\$ -	
18 Other disposal equipment	\$ 2,178,193	2.65%	\$ 57,722	\$ 2,178,193	2.65%	\$ 57,722	
19 Structures and Improvements	\$ 20,860	2.65%	\$ 553	\$ (1,098)	2.65%	\$ (29)	
20 Office Furniture and Equipment	\$ 55,112	2.65%	\$ 1,460	\$ 37,545	2.65%	\$ 995	
21 Tools and Shop equipment	\$ -	2.65%		\$ -	2.65%	\$ -	
22 Laboratory equipment	\$ 4,984	2.65%	\$ 132	\$ 4,984	2.65%	\$ 132	
23 Communication equipment	\$ -	2.65%		\$ -	2.65%	\$ -	
24 Miscellaneous General Plant	\$ 11,478	2.65%	\$ 304	\$ 11,478	2.65%	\$ 304	
Total Depreciable Plant	\$ 17,050,103	2.65%	\$ 451,828	\$ 16,844,246		\$ 446,397	
Non Depreciable Plant	\$ 71,243		\$ -	\$ 71,243		\$ -	
Total Plant In Service	\$ 17,121,346		\$ 451,828	\$ 16,915,489		\$ 446,397	
CIAC	\$ (2,774,770)	2.65%	\$ (73,531)	\$ (2,854,509)	2.65%	\$ (75,644)	
Depreciation Expense			\$ 378,296			\$ 370,752	

(1) Company Petition Exhibit P-4 Schedule 3

SUEZ Water Arlington Hills  
 Property Taxes  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Proforma Expense	\$ 10,977	\$ (154)	\$ 10,823	Exh. P-4 Sch. 4

Use actual year end balance as of 2015

(1) Company Petition Exhibit P-4 Schedule 4

SUEZ Water Arlington Hills  
Taxes Other Than Income - GRAFT  
Test Year Ending October 31, 2016  
BPU Docket No. WR16060510

	(1)			
	Company Proposed	Adjustments	Rate Counsel	References
Proforma Revenues	\$ 2,591,100	\$ (314,924)	\$ 2,276,175	
Sales to Exempt Utilities	\$ -		\$ -	
Amount Subject to Tax	\$ 2,591,100	\$ (314,924)	\$ 2,276,175	
Gross Receipts & Excise Tax Rate	8.4375%		8.4375%	
<b>Gross Receipts Tax</b>	<b>\$ 218,624</b>	<b>\$ (26,572)</b>	<b>\$ 192,052</b>	
Franchise Tax %	49.6241%		49.6241%	
Franchise Tax Base	\$ 1,285,810	\$ (156,278)	\$ 1,129,532	
Franchise and Excise Tax Rate	5.6250%		5.6250%	
<b>Franchise Tax</b>	<b>\$ 72,327</b>	<b>\$ (8,791)</b>	<b>\$ 63,536</b>	
<b>Total GRAFT</b>	<b>\$ 290,951</b>	<b>\$ (35,362)</b>	<b>\$ 255,588</b>	

(1) Company Petition Exhibit P-4 Schedule 5

SUEZ Water Arlington Hills  
Federal Income and Deferred Taxes  
Test Year Ending October 31, 2016  
BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Operating Revenues	\$ 2,591,100		\$ 2,276,175	
Less:				
Operating Expenses	\$ 498,949	\$ (102,167)	\$ 396,782	DM-5
Depreciation and Amortization	\$ 378,296	\$ (7,544)	\$ 370,752	DM-17
Taxes Other than Income	\$ 301,928	\$ (35,516)	\$ 266,411	DM-18/19
Excess Tax Over Book Depreciation	\$ 259,669	\$ 3,772	\$ 263,441	
(2) Interest Expense	\$ 331,456	\$ (10,026)	\$ 321,430	
Total Deductions	<b>\$ 1,770,298</b>	<b>\$ (151,481)</b>	<b>\$ 1,618,817</b>	
Taxable Income	\$ 820,801	\$ (163,443)	\$ 657,358	
Federal Tax Rate at 35%	\$ 287,280	\$ (57,205)	\$ 230,075	
Deferred Income Taxes:				
Excess Tax over Book Depreciation	\$ 259,669	\$ 3,772	\$ 263,441	
Federal Tax Rate at 35%	\$ 90,884	\$ 1,320	\$ 92,204	
Total Federal Taxes	<b>\$ 378,165</b>	<b>\$ (55,885)</b>	<b>\$ 322,280</b>	

(1) Company Petition Exhibit P-4 Schedule 6

(2) Rate Base times Cost of Debt

SUEZ Water Arlington Hills  
Rate Base Summary  
Test Year Ending October 31, 2016  
BPU Docket No. WR16060510

	(1) Company Proposal	Adjustments	Rate Counsel	References
Utility Plant In Service	\$ 17,121,346	\$ (205,857)	\$ 16,915,489	DM-22
Accumulated Depreciation	\$ -		\$ -	DM-23
Net Plant	\$ 17,121,346	\$ (205,857)	\$ 16,915,489	
CIAC	\$ (2,774,770)	\$ (79,739)	\$ (2,854,509)	DM-24
ADIT	\$ (829,500)	\$ (1,320)	\$ (830,820)	DM-25
Prepaid Expenses	\$ 5,258		\$ 5,258	DM-26
WCA	\$ 61,944	\$ (12,771)	\$ 49,173	DM-27
CIT	\$ -	\$ (107,440)	\$ (107,440)	RCR-A-6 Confidential
Total Rate Base	<u>\$ 13,584,277</u>	<u>\$ (407,127)</u>	<u>\$ 13,177,151</u>	

(1) Company Petition Exhibit P-4 Schedule 7

SUEZ Water Arlington Hills  
Utility Plant In Service  
Test Year Ending October 31, 2016  
BPU Docket No. WR16060510

		(1)			
		Company		Rate Counsel	References
		Proposal	Adjustments		
1	Intangible Plant - Organization	\$ 202		\$ 202	
2	Intangible Plant - Franchise and Consent	\$ 20,841		\$ 20,841	
3	T&D Land Rights	\$ 50,200		\$ 50,200	
4	Service Connections traps and acc.	\$ 419,088	\$ (3,074)	\$ 416,014	Exh P-4 Sch 7A
5	Collecting Mains & accessories	\$ 2,048,872	\$ (131,750)	\$ 1,917,122	Exh P-4 Sch 7A
6	Interceptor Mains & accessories	\$ 49,263		\$ 49,263	
7	Force Mains	\$ 89,437		\$ 89,437	
8	Electric Pumping equipment	\$ 726,803	\$ (13,175)	\$ 713,628	HJW-5
9	Other Power Pumping equipment	\$ -		\$ -	
10	Miscellaneous equipment	\$ -		\$ -	
11	Structures & Improvements	\$ 8,214,303		\$ 8,214,303	HJW-5
12	Grit Removing equipment	\$ 357,144		\$ 357,144	HJW-5
13	Sedimentation tanks and accessories	\$ 1,428,574		\$ 1,428,574	HJW-5
14	Sludge concentration chambers and acc.	\$ 571,430		\$ 571,430	HJW-5
15	Sludge & effluent removing equipment	\$ -		\$ -	HJW-5
16	Secondary treatment filters and acc.	\$ 17,417	\$ (18,333)	\$ (916)	HJW-5
17	Auxiliary effluent treatment equipment	\$ 857,145		\$ 857,145	HJW-5
18	Other Sewage removing equipment	\$ -		\$ -	HJW-5
19	Chemical treatment plant and equipment	\$ -		\$ -	HJW-5
20	Outfall pipes and accessories	\$ -		\$ -	HJW-5
21	Other disposal equipment	\$ 2,178,193		\$ 2,178,193	HJW-5
22	Structures & Improvements	\$ 20,860	\$ (21,958)	\$ (1,098)	HJW-5
23	Office Furniture & equipment	\$ 55,112	\$ (17,567)	\$ 37,545	HJW-5
24	Tools and shop equipment	\$ -		\$ -	HJW-5
25	Laboratory equipment	\$ 4,984		\$ 4,984	HJW-5
26	Communication equipment	\$ -		\$ -	HJW-5
27	Miscellaneous general plant	\$ 11,478		\$ 11,478	HJW-5
	Contingency		\$ -	\$ -	RCR-A-36
	Total	<u>\$ 17,121,346</u>	<u>\$ (205,857)</u>	<u>\$ 16,915,489</u>	

(1) Company Petition Exhibit P-4 Schedule 7A

SUEZ Water Arlington Hills  
 Accumulated Depreciation  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Balance at April 30, 2016	\$ 3,156,644		\$ 3,156,644	
Add: to October 31, 2016	\$ 74,245		\$ 74,245	
Retirements	\$ 3,877,801		\$ 3,877,801	
Cost of Removal	\$ 420,586		\$ 420,586	
Balance	\$ (1,067,498)		\$ (1,067,498)	
Offset Accumulated Depreciation	\$ 1,067,498		\$ 1,067,498	
Proforma Balance as of October 31, 2016	\$ -		\$ -	

(1) Company Petition Exhibit P-4 Schedule 7B

SUEZ Water Arlington Hills  
 CIAC  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
October 31, 2016 Balance	\$ (2,774,770)	\$ (79,739)	\$ (2,854,509)	Exh P-4 Sch 7A RCR-A-37

(1) Company Petition Exhibit P-4 Schedule 7C

SUEZ Water Arlington Hills  
Accumulated DIT  
Test Year Ending October 31, 2016  
BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Balance at April 30, 2016	\$ (738,616)		\$ (738,616)	Exh P-4 Sch 7-D
Incremental ADIT May - October 2016	\$ (90,884)	\$ (1,320)	\$ (92,204)	Exh P-4 Sch 7-D
Proforma at October 31, 2016	\$ (829,500)		\$ (830,820)	

(1) Company Petition Exhibit P-4 Schedule 7D

SUEZ Water Arlington Hills  
 Prepaid Expenses  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Proforma 13- month average	\$ 5,258		\$ 5,258	Exh P-4 Sch 7-E

(1) Company Petition Exhibit P-4 Schedule 7E

SUEZ Water Arlington Hills  
 Working Capital Allowance  
 Test Year Ending October 31, 2016  
 BPU Docket No. WR16060510

	(1) Company Proposed	Adjustments	Rate Counsel	References
Proposed O&M Expenses	\$ 495,549		\$ 393,382	DM-5
1/8th allowance	\$ 61,944	\$ (12,771)	\$ 49,173	

(1) Company Petition Exhibit P-4 Schedule 7F

SUEZ Water Arlington Hills  
Consolidated Income Taxes  
Test Year Ending October 31, 2016  
BPU Docket No. WR16060510

	(1)	Reference
	<u>Rate Counsel</u>	<u>Reference</u>
Arlington Hills Sewer Taxable Income	\$ 257,454	
Cumulative Taxable Income	<u>\$ 1,228,791,310</u>	
% to total of Taxable Income	<u>0.0290%</u>	
Cumulative Taxable Losses	\$ 1,055,246,537	
Federal Income Taxes	<u>35.00%</u>	
Tax on Cumulative Taxable Losses	\$ 369,336,288	
Alterative Minimum Taxes	<u>\$ -</u>	
Net Tax on Cumulative Taxable Losses	\$ 369,336,288	
Arlington Hills % of Cumulative Gains	<u>0.0290%</u>	
CTA Balance	<u>\$ (107,440)</u>	

(1) Response to RCR-A-6 page 4 of Excel Spreadsheet rounded to \$107,440