

EXHIBIT

Exhibit No.: 306 NP
 Issue(s): IATAN Unit 1 &
 IATAN Common Regulatory Asset/
 IATAN Unit 2 Regulatory Asset/
 Customer Deposits/
 Interest on Customer Deposits/
 Customer Advances/
 Annualized Vegetation Management Cost/
 IATAN 2 & IATAN Common
 Operations & Maintenance Tracker/
 Excess Margin Regulatory Liability/
 Missouri Corporate Franchise Tax/
 Rate Case Expense/
 Miscellaneous Operations
 & Maintenance Expense
 Witness/Type of Exhibit: Addo/Direct
 Sponsoring Party: Public Counsel
 Case No.: ER-2014-0370

DIRECT TESTIMONY
OF
WILLIAM ADDO

Filed
 June 30, 2015
 Data Center
 Missouri Public
 Service Commission

Submitted on Behalf of the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

**

**

Denotes Highly Confidential Information that has been Redacted

April 2, 2015

OPC Exhibit No. 306 - NP
 Date 6-15-15 Reporter AT
 File No. ER-2014-0370

NP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power &)
Light Company's Request for Authority) Case No. ER-2014-0370
to Implement a General Rate Increase)
for Electric Service.)

AFFIDAVIT OF WILLIAM ADDO

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

William Addo, of lawful age and being first duly sworn, deposes and states:

1. My name is William Addo. I am a Public Utility Accountant I for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.




William Addo
Public Utility Accountant II

Subscribed and sworn to me this 2nd day of April 2015.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037



Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

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**DIRECT TESTIMONY
OF
WILLIAM ADDO**

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

1 **I. INTRODUCTION.**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. William Addo, P.O. Box 2230, Jefferson City, Missouri 65102-2230.

4

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am employed by the Missouri Office of the Public Counsel ("OPC" or "Public
7 Counsel") as a Public Utility Accountant II.

8

9 Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

10 A. My duties include performing audits and examinations of the books and records of public
11 utility companies operating within the State of Missouri under the supervision of the
12 Chief Public Utility Accountant, Mr. Ted Robertson.

13

14 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER
15 QUALIFICATIONS.

16 A. I graduated in May, 2004, from the University of Ghana with a Diploma in Accounting.

17 In May 2007, I received a Bachelor of Science Degree in Business Administration

18 (Accounting Major) from the same institution. In May 2010, I received a Masters Degree

1 in Business Administration (Accounting Major) from Lincoln University in Jefferson
2 City, Missouri.

3
4 Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC
5 UTILITY ACCOUNTING?

6 A. Yes. I have attended the National Association of Regulatory Utility Commissioners
7 (“NARUC”) Annual Regulatory Studies Program.

8
9 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC
10 SERVICE COMMISSION (“COMMISSION” OR “MPSC”)?

11 A. Yes. Please refer to Schedule WA-1, which is attached to this Testimony, for a list of
12 cases in which I have previously filed testimony.

13
14 **II. PURPOSE OF TESTIMONY.**

15 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

16 A. The purpose of my Direct Testimony is to sponsor Public Counsel’s position regarding
17 Iatan Unit 1 and Iatan Common regulatory asset; Iatan Unit 2 regulatory asset; customer
18 deposits; interest on customer deposits; customer advances; annualized vegetation
19 management costs; Iatan Unit 2 and Iatan Common operations and maintenance

1 (“O&M”) tracker; excess margin regulatory liability; Missouri corporate franchise tax;
2 and rate case expense.
3

4 **III. IATAN UNIT 1 AND IATAN COMMON REGULATORY ASSET**

5 Q. WHAT IS THE ISSUE?

6 A. This issue concerns the appropriate unamortized balance for Iatan 1 and Iatan Common
7 Regulatory Asset that should be reflected in KCP&L’s Missouri jurisdictional rate base at
8 the end of the update period authorized in this case, December 31, 2014. This issue also
9 concerns the determination of the proper annualized amortization amount that should be
10 included in the Company’s cost of service going-forward.
11

12 Q. WHAT IS IATAN UNIT 1 AND IATAN COMMON REGULATORY ASSET?

13 A. Iatan Unit 1 and Iatan Common Regulatory Asset is a rate-adjustment mechanism that
14 resulted from a range of agreements authorized by the Commission dating back to
15 KCP&L’s Experimental Regulatory Plan in Case No. EO-2005-0329. On June 10, 2009,
16 in Case No. ER-2009-0089, KCP&L was authorized by the Commission to create a
17 regulatory asset account and record in that account the depreciation and carrying costs for
18 the Iatan Unit 1 Air Quality Control System (“AQCS”) and Iatan Common plants that
19 were not included in the Company’s rate base in Case No ER-2009-0089.

1 The *Non-Unanimous Stipulation and Agreement*¹ approved by the Commission on June
2 10, 2009, respecting this issue states:

3 **6. Allocations of Common Plant for Iatan 1 and 2**

4 (a) The Non-Utility Signatories agree that the Company can record as a
5 regulatory asset the depreciation and carrying costs associated with the
6 Iatan 1 AQCS plant and identified Iatan common facilities costs
7 appropriately recorded to Electric Plant in Service that are not included in
8 rate base in the current rate case. Depreciation and carrying costs will
9 continue to be deferred to the regulatory asset until the date new rates
10 become effective resulting from the Company's next general rate case.
11 Amortization of the accumulated deferred costs will begin at that time
12 based on the depreciable life of the Iatan 1 AQCS plant.

13
14 (b) The determination of the value of the owners of Iatan 1 due from other
15 owners of Iatan 2 joining as additional owners of common plant already
16 paid for by the Iatan 1 owners has not been calculated.

17
18 (c) If Staff's in-service criteria are met by May 30, 2009, the Signatory
19 Parties agree to "construction accounting" for remaining Iatan 1 prudent
20 costs incurred post true-up cut-off as "construction accounting" is defined
21 in the 2005 Stipulation at page 43, Section III.3.d.vii., subject to the
22 agreement of the Signatory Parties of the amount to include in rates in this
23 case and the agreement of the Signatory Parties of the date by which
24 invoices are timely booked or approved for payment. Any deferred
25 depreciation expense and carrying costs will be offset by accumulated
26 deferred income taxes on this plant. The deferred depreciation expense
27 will be charged to the depreciation reserve as required by normal
28 accounting. The deferred expenses will receive rate base treatment, and
29 consistent with the Commission treatment of these types of deferrals, the

¹ The *Non-Unanimous Stipulation and Agreement* approved by the Commission on June 10, 2009 was erroneously captioned as Case No. ER-2008-0089 instead of ER-2009-0089.

1 deferred income taxes will be included in rate base. KCP&L agrees to
2 calculate the amount due from the other Iatan 2 owners and reflect that
3 amount as an offset to the common plant costs. The carrying costs will be
4 calculated at the rate used for Iatan 2.
5
6

7 Q. HOW IS THE IATAN UNIT 1 AND IATAN COMMON REGULATORY ASSET
8 DEFERRAL ORGANIZED?

9 A. The Iatan Unit 1 and Iatan Common Regulatory Asset capturing construction accounting
10 from May 1, 2009 through December 31, 2010, the true-up cutoff date in Case No. ER-
11 2010-0355, is referred to as "Vintage 1." The Iatan Unit 1 and Common Regulatory
12 Asset capturing construction accounting from January 1, 2011 through May 4, 2011, the
13 effective date of rates in Case No. ER-2010-0355, is referred to as "Vintage 2."
14

15 Q. WHAT IS THE COMMISSION-AUTHORIZED AMORTIZATION PERIOD FOR THE
16 VINTAGES?

17 A. As stipulated in Case No. ER-2009-0089, "Vintage 1" is currently being amortized over
18 26 years whereas "Vintage 2" is being amortized over 24.25 years (26 years minus 1.75
19 years -- the number of years that have elapsed between May 4, 2011, the effective date of
20 rates in Case No. ER-2010-0355, and January 26, 2013, the effective date of rates in Case
21 No. ER-2012-0174).
22

1 Q. WHAT IS THE UNAMORTIZED BALANCE FOR THE IATAN UNIT 1 AND IATAN
2 COMMON REGULATORY ASSET IN THIS CASE?

3 A. Public Counsel's analysis shows that as of December 31, 2014, the update period in this
4 case, KCP&L's unamortized balance for the Iatan Unit 1 and Iatan Common Regulatory
5 Asset would amount to \$11,522,861 (\$9,915,198 for "Vintage 1" plus \$1,607,663 for
6 "Vintage 2"). Public Counsel will update this amount in subsequent testimony to reflect
7 the unamortized balance as of the end of the true-up date authorized by the Commission
8 in this case.

9
10 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDED ANNUALIZED
11 AMORTIZATION AMOUNT FOR IATAN UNIT 1 AND IATAN COMMON
12 REGULATORY ASSET THAT SHOULD BE INCLUDED IN KCP&L'S COST OF
13 SERVICE GOING-FORWARD?

14 A. By my calculations, KCP&L should be authorized by the Commission to recover in rates
15 an amount of \$515,949 (\$443,964 for "Vintage 1" plus \$71,985 for "Vintage 2")
16 annually.

1 Q. HOW DID YOU CALCULATE THE UNAMORTIZED AND ANNUALIZED
2 AMORTIZATION AMOUNTS FOR THE IATAN UNIT 1 AND IATAN COMMON
3 REGULATORY ASSET AMOUNTS?

4 A. My workpaper, Iatan 1 and Iatan Common Regulatory Asset-WP, shows a detailed
5 calculation of these amounts. This workpaper will be provided to all the parties in this
6 case.

7
8 **IV. IATAN UNIT 2 REGULATORY ASSET**

9 Q. WHAT IS THE ISSUE?

10 A. Similar to Iatan Unit 1 and Iatan Common Regulatory Asset, the Iatan Unit 2 Regulatory
11 Asset is also the result of various agreements approved by the Commission during the
12 course of KCP&L's Experimental Regulatory Plan. On July 28, 2005, pursuant to the
13 terms of the Stipulation and Agreement in Case No. EO-2005-0329 (2005 Stipulation and
14 Agreement), the Commission authorized KCP&L to create a regulatory asset and to
15 record in that account the depreciation, carrying costs, and other operating expenses and
16 credits for Iatan Unit 2 subsequent to its commercial in-service date. Public Counsel's
17 testimony regarding this issue concerns the appropriate unamortized balance of the Iatan
18 Unit 2 Regulatory Asset that should be reflected in KCP&L's Missouri rate base as of the
19 end of the update period authorized in this case; including the proper annualized

1 amortization amount that should be included in the Company's cost of service going-
2 forward.
3

4 The applicable section of the 2005 Stipulation and Agreement² regarding this issue states:

5 (vii) Construction Accounting. The Signatory Parties agree that KCPL
6 should be allowed to treat the Iatan 2 project under "Construction
7 Accounting" to the effective date of new rates in the 2009 Rate Case.
8 Construction Accounting will be the same treatment for expenditures and
9 credits consistent with the treatment for Iatan 2 prior to Iatan 2's
10 commercial in service operation date. Construction Accounting will
11 include treatment for test power and its valuation consistent with the
12 treatment of such power prior to Iatan 2's commercial in service operation
13 date with the exception that such power valuation will include off-system
14 sales. The AFUDC rate that will be used during this period will be
15 consistent with the AFUDC rate calculation in Paragraph III.B.1.g. The
16 amortization of the amounts deferred under this Construction Accounting
17 method will be determined by the Commission in the 2009 Rate Case.
18 The non-KCPL Signatory Parties reserve the right to challenge amounts
19 deferred under this Paragraph in the event that they contend that the Iatan
20 2 commercial in service operation date was delayed due to imprudence
21 relating to its construction.

² Pages 43 and 44

1 Q. IS THE IATAN UNIT 2 REGULATORY ASSET DEFERRAL ALSO CATEGORIZED
2 INTO "VINTAGE 1" AND "VINTAGE 2"?

3 A. Yes. "Vintage 1" consists of regulatory asset capturing construction accounting from
4 August 26, 2010 through December 31, 2010, the true-up cutoff in Case No. ER-2010-
5 0355, whereas regulatory asset capturing construction accounting from January 1, 2011
6 through May 4, 2011, the effective date of rates in Case No. ER-2010-0355, constitutes
7 "Vintage 2."

8
9 Q. WHAT IS THE COMMISSION-AUTHORIZED AMORTIZATION PERIOD FOR THE
10 IATAN UNIT 2 VINTAGES?

11 A. "Vintage 1" is currently being amortized over 47.7 years, and "Vintage 2" is currently
12 being amortized over 45.95 years (47.7 years minus 1.75 years -- the number of years that
13 have elapsed between May 4, 2011, the effective date of rates in Case No. ER-2010-
14 0355, and January 26, 2013, the effective date of rates in Case No. ER-2012-0174).

15
16 Q. WHAT IS THE UNAMORTIZED BALANCE FOR THE IATAN UNIT 2
17 REGULATORY ASSET IN THIS CASE?

18 A. Public Counsel's analysis shows that as of December 31, 2014, the update period in this
19 case, KCP&L's unamortized balance for the Iatan Unit 2 Regulatory Asset would amount
20 to \$26,867,003 (\$15,732,539 for "Vintage 1" plus \$11,134,464 for "Vintage 2"). Public

1 Counsel will update this amount in subsequent testimony to reflect the unamortized
2 balance as of the end of the true-up date authorized by the Commission in this case.
3

4 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDED ANNUALIZED
5 AMORTIZATION AMOUNT FOR THE IATAN UNIT 2 REGULATORY ASSET
6 THAT KCP&L'S SHOULD BE AUTHORIZED TO INCLUDE IN COST OF SERVICE
7 GOING-FORWARD?

8 A. By my calculations, KCP&L should be authorized by the Commission to recover in rates
9 an amount of \$610,151 (\$357,287 for "Vintage 1" plus \$252,864 for "Vintage 2")
10 annually.
11

12 Q. HOW DID YOU CALCULATE THE UNAMORTIZED AND ANNUALIZED
13 AMORTIZATION AMOUNTS FOR THE IATAN UNIT 2 REGULATORY ASSET?

14 A. My workpaper, Iatan Unit 2 Regulatory Asset-WP, shows the calculation of these amounts.
15
16
17
18
19
20

1 **V. CUSTOMER DEPOSITS**

2 Q. WHAT IS THE ISSUE?

3 A. This issue concerns the customer deposits amount that the Commission should authorize
4 KCP&L to include as a reduction to the Company's Missouri rate base.

5
6 Q. WHAT ARE CUSTOMER DEPOSITS?

7 A. Customer deposits are funds required to be provided by certain customers of a utility
8 company as a security deposit against potential non-payment for utility service.

9
10 Q. WHAT IS THE RATEMAKING TREATMENT THAT IS AFFORDED TO CUSTOMER
11 DEPOSITS?

12 A. Traditionally, until refunded, customer deposits represent a source of cost-free funds
13 available to a utility company, and are therefore included as a reduction to a utility
14 company's rate base investment. The dollar amount of customer deposits to be included
15 as a reduction to a company's rate base investment is based on the trend exhibited by the
16 monthly customer deposit account balances for a specified period of time, usually a 13-
17 month period ending in the update period authorized by the Commission in a rate case
18 proceeding. If the monthly customer deposit account balances exhibit a consistent trend
19 — increasing or decreasing — the ending balance as of the update period is applied as the
20 offset amount. However, if the monthly customer deposit account balances exhibit an

1 inconsistent trend, a 13-month average is applied as the offset amount. Generally,
2 interest is calculated on customer deposits and paid to customers for the use of their
3 money. The interest component is addressed separately in a different segment of this
4 testimony.

5
6 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION REGARDING THE
7 CUSTOMER DEPOSITS AMOUNT THAT SHOULD BE INCLUDED AS A
8 REDUCTION TO KCP&L'S RATE BASE?

9 A. Public Counsel recommends that the Commission should authorize KCP&L to reduce its
10 Missouri jurisdictional rate base investment by an amount of \$3,730,309. This amount
11 was calculated based on a 13-month average of customer deposit account balances from
12 December 2013 through December 2014.

13
14 **VI. INTEREST ON CUSTOMER DEPOSITS**

15 Q. WHAT IS THE ISSUE?

16 A. As stated earlier in this testimony, interest is usually calculated on customer deposits and
17 paid to customers for the use of their money. This issue concerns the interest on
18 customer deposits amount that KCP&L should be authorized to include in the Company's
19 cost of service going-forward.

1 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION FOR INTEREST ON
2 CUSTOMER DEPOSITS AMOUNT THAT SHOULD BE INCLUDED IN KCP&L'S
3 COST OF SERVICE?

4 A. Public Counsel recommends that the Commission should authorize KCP&L to include an
5 annual amount of \$158,538 (Missouri jurisdictional) in the Company's cost of service. This
6 amount was calculated based on Public Counsel's recommended customer deposits offset
7 amount, multiplied by 4.25% -- the prime interest rate published in the Wall Street Journal
8 (3.25%) as of December 31, 2014, plus 1%. My workpaper, Customer Deposits-WP,
9 shows the calculation of both the customer deposits offset amount and the interest on
10 customer deposits amount.

11
12 **VII. CUSTOMER ADVANCES**

13 Q. WHAT IS THE ISSUE?

14 A. This issue concerns the customer advances amount that KCP&L should be authorized to
15 include as a reduction to the Company's rate base.

16
17 Q. WHAT ARE CUSTOMER ADVANCES?

18 A. Customer advances are funds provided by customers, typically by developers, to a utility
19 company for the purpose of building infrastructure in the company's jurisdictional areas
20 that have the potential for future development. As a result, customer advances enable a

1 utility company to establish utility service for potential future customers without
2 investing a substantial amount of shareholder money. Like any other customer
3 contributed fund, customer advances are cost-free funds provided to a utility company,
4 thus, are included as a reduction to a utility company's rate base investment.
5

6 Q. PLEASE CONTINUE.

7 A. The dollar amount of customer advances to be included as a reduction to a company's
8 rate base investment is based on the trend exhibited by the monthly customer advances
9 account balances for a specified period of time, usually a 13-month period ending in the
10 update period authorized by the Commission in a rate case proceeding. If the monthly
11 account balances exhibit a consistent trend — increasing or decreasing — the ending
12 balance as of the update period is applied as the offset amount. However, if the monthly
13 account balances exhibit an inconsistent trend, a 13-month average is applied as the offset
14 amount. Unlike customer deposits, no interest is paid to customers for the use of this
15 money.
16
17
18

1 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION REGARDING THE
2 CUSTOMER ADVANCES AMOUNT THAT SHOULD BE INCLUDED AS A
3 REDUCTION TO KCP&L'S RATE BASE?

4 A. Public Counsel recommends that the Commission should authorize KCP&L to reduce its
5 Missouri jurisdictional rate base by an amount of \$1,667,781. This amount was calculated
6 based on the ending customer advances account balance as of December 31, 2014
7 because the monthly account balances from December 31, 2013 through December 31,
8 2014 exhibit a consistent trend -- increasing. My workpaper, Customer Advances-WP,
9 shows the calculation of this amount.

10
11 **VIII. ANNUALIZED VEGETATION MANAGEMENT COST**

12 Q. WHAT IS THE ISSUE?

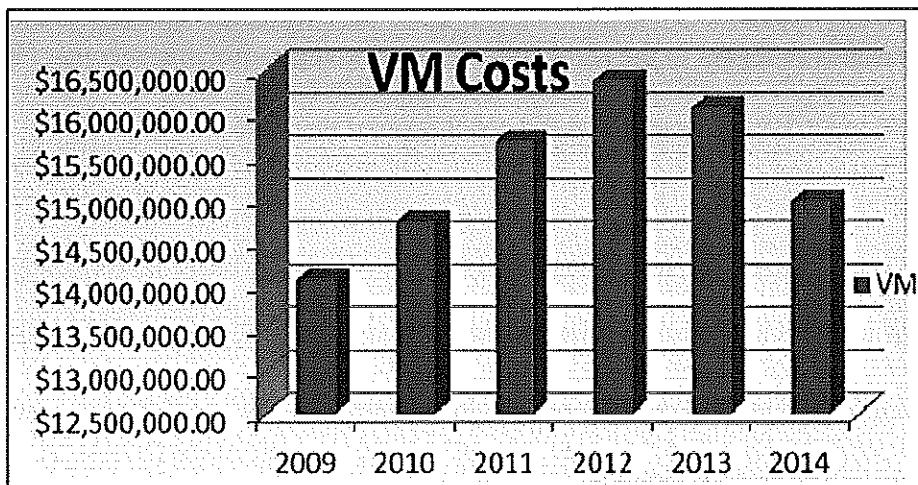
13 A. This issue is in regard to the annualized amount of vegetation management (VM) cost to
14 include in KCP&L's base rate at the conclusion of this case.

15
16 Q. WHAT IS THE ANNUALIZED AMOUNT OF VEGETATION MANAGEMENT
17 COST THAT YOU RECOMMEND BE INCLUDED IN KCP&L'S RATES?

18 A. I recommend that the Commission should authorize KCP&L to include an annualized
19 amount of \$14,966,267 in rates.

1 Q. HOW DID YOU DETERMINE YOUR RECOMMENDED ANNUALIZED AMOUNT
2 FOR VEGETATION MANAGEMENT COST?

3 A. I utilized the Company's response to Public Counsel's Data Request No.1204 to perform
4 a trend analysis of vegetation management costs booked by KCP&L from January 2009
5 through December 2014. The trend shows that KCP&L's booked vegetation
6 management costs peaked in year 2012 and has since assumed a declining trend. I,
7 therefore, utilized the December 31, 2014 booked vegetation management costs. The
8 graph below (*Figure 1*) shows the trend exhibited by the Company's vegetation
9 management costs from January 2009 through December 2014. My workpaper,
10 Vegetation Management-WP, shows how this amount was determined.



13 *Figure 1*

1 Q. IS KCP&L ASKING FOR THE COMMISSION'S AUTHORITY TO IMPLEMENT A
2 VEGETATION MANAGEMENT TRACKER IN THIS CASE?

3 A. Yes.

4
5 Q. DOES PUBLIC COUNSEL BELIEVE THAT KCP&L REQUIRES A VEGETATION
6 MANAGEMENT TRACKER?

7 A. No. Public Counsel believes that a level of historical cost has occurred for KCP&L's
8 vegetation management program; as such, a tracking mechanism is not needed to
9 determine an ongoing level of cost. Ratemaking adjustments such as normalization and
10 annualization would suffice for determining the appropriate level of ongoing cost to
11 include in KCP&L's rates.

12
13 **IX. IATAN 2 AND IATAN COMMON OPERATIONS AND MAINTENANCE**
14 **TRACKER**

15 Q. WHAT IS THE ISSUE?

16 A. This issue concerns KCP&L's proposed ratemaking treatment regarding the recovery of
17 Iatan 2 and Iatan Common operations and maintenance expenses that were in excess of
18 the base amount established in Case No. ER-2010-0355.

19

1 Q. WHAT COMMISSION ORDER ESTABLISHED THE IATAN 2 AND IATAN
2 OPERATIONS AND MAINTENANCE COMMON TRACKER?

3 A. On April 12, 2011, in Case No. ER-2010-0355, the Commission issued a Report and
4 Order, to be effective April 22, 2011, that approved seven Non-Unanimous Stipulations
5 and Agreements. Included in the seven Non-Unanimous Stipulations and Agreements is
6 a Non-Unanimous Stipulation and Agreement As To Miscellaneous Issues agreed to by
7 KCP&L and other signatory parties to allow KCP&L to use a tracking mechanism for
8 Iatan 2 and Iatan Common operations and maintenance expenses. On page 7 of the Non-
9 Unanimous Stipulation and Agreement As To Miscellaneous Issues, it states "The
10 signatories do not oppose the use of a tracker for the Iatan 2 and Iatan Common
11 operations and maintenance expenses in the accounts shown on Attachment A."
12 Attachment A is attached to this testimony as Schedule WA-2.

13
14 Q. HAS KCP&L BEEN TRACKING THE IATAN 2 AND IATAN COMMON
15 OPERATIONS AND MAINTENANCE EXPENSES?

16 A. Yes. KCP&L started tracking the Iatan 2 and Iatan Common operations and maintenance
17 expenses on May 4, 2011, the effective date of rates in Case No. ER-2010-0355. Since that
18 time there have been three completed vintages of operations and maintenance expenses that
19 have been tracked. It is my understanding that vintage 4 period of operations and
20 maintenance expense is being tracked through January of 2015; and vintage 5 period of

1 operations and maintenance will be tracked from February to May 2015. It must be noted
2 that the deferred amount for "Vintage 1" of Iatan 2 and Iatan Common operations and
3 maintenance expenses is included in KCP&L's current rates as a result of Case No. ER-
4 2012-0174, and is being amortized over a 3-year period.

5
6 Q. WHAT IS THE DEFERRED AMOUNT FOR "VINTAGE 1" IATAN 2 AND IATAN
7 COMMON OPERATIONS AND MAINTENANCE EXPENSES THAT WAS
8 ESTABLISHED IN CASE NO. ER-2012-0174?

9 A. KCP&L's response to the MPSC Staff's Data Request No. 0108 quantified the deferred
10 amount as \$1,085,916. Amortization of this amount started on January 26, 2013, the
11 effective date of rates in Case No. ER-2012-0174.

12
13 Q. WHAT ARE THE DEFERRED AMOUNTS FOR THE TWO ADDITIONAL IATAN 2
14 AND IATAN COMMON OPERATIONS AND MAINTENANCE EXPENSES
15 VINTAGES THAT ARE NOT YET INCORPORATED IN RATES?

16 A. Company's response to MPSC Staff's Data request No. 0108 quantified the deferred
17 amounts as \$1,054,983 and \$(241,898) for "Vintage 2" and "Vintage 3," respectively.
18
19
20

1 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION REGARDING THIS ISSUE?

2 A. Public Counsel's recommends that the Commission should authorize KCP&L to aggregate
3 any and/or all unamortized balance for Iatan 2 and Iatan Common operations and
4 maintenance expenses so as to maintain only one tracker balance going-forward. Public
5 Counsel, therefore, recommends that the Commission authorize KCP&L to include an
6 amount of \$401,740 in the Company's cost of service.

7
8 Q. HOW WAS THIS AMOUNT DETERMINED?

9 A. I aggregated all the unamortized balances for Vintages 1, 2, and 3 as of the update period in
10 this case, and divided by a 3-year amortization period ($\$392,136.33 + \$1,054,983 +$
11 $\$(241,898)/3$). The 3-year amortization period I utilized is consistent with the period of
12 amortization authorized by the Commission for this tracker in Case No. ER-2012-0174. My
13 workpaper, Iatan 2 and Iatan Common Tracker-WP, shows a detailed calculation of this
14 amount.

15
16 Q. IS THIS AMOUNT SUBJECT TO CHANGE?

17 A. Yes. It is my understanding that the Company is currently accumulating "Vintage 4" and
18 "Vintage 5" Iatan 2 and Iatan Common operations and maintenance expenses. Public
19 Counsel will provide updates in subsequent testimony, as appropriate. Furthermore, Public
20 Counsel's analysis of the Company's financial records, specifically Uniform System of

1 Account (USOA) account 182.512, shows that for the test year ending March 31, 2014, the
2 Company amortized an amount of \$603,870 instead \$361,972. Public Counsel continues to
3 investigate this issue, and may address this issue in subsequent testimony.
4

5 Q. IS KCP&L REQUESTING THE CONTINUATION OF THIS TRACKER?

6 A. No. Company witness, Mr. Ronald A. Klote, states on page 43, lines 13 through 17, of his
7 Direct Testimony that “The Company is requesting that this tracker be discontinued since
8 a level of historical operation and maintenance expenses has occurred for the Iatan 2 and
9 Iatan common operations. As such, at the true-up date in this case the Company is
10 requesting that the tracker mechanism be discontinued and a base level of operation and
11 maintenance expenses be included in cost of service.”
12

13 Q. DOES PUBLIC COUNSEL HAVE ANY CONCERNS REGARDING THE
14 COMPANY’S REQUEST TO DISCONTINUE THIS TRACKER?

15 A. No. Public Counsel concurs with the Company that a historical level of operation and
16 maintenance expenses for the Iatan Unit 2 and Common has occurred; thus, it is just and
17 reasonable to discontinue the tracking mechanism.
18
19
20

1 | **X. EXCESS MARGIN REGULATORY LIABILITY**

2 | Q. WHAT IS THE ISSUE?

3 | A. This issue relates to the amortization of KCP&L's excess margins realized on off-system
4 | energy and capacity sales revenues, and related costs resulting from the Company's 2006,
5 | 2007, and 2009 rate cases.

6 |
7 | Q. PLEASE PROVIDE A BRIEF BACKGROUND TO THIS ISSUE.

8 | A. Pursuant to KCPL's Experimental Regulatory Plan, KCP&L agreed that off-system
9 | energy and capacity sales revenues, and related costs, will continue to be treated "above
10 | the line" for ratemaking purposes. The Report and Order issued by the Commission on
11 | July 28, 2005, in Case No. EO-2005-0329, states:

12 |
13 | OFF-SYSTEM SALES

14 | Under the terms of the Stipulation, KCPL agrees that off-system energy
15 | and capacity sales revenues and related costs will continue to be treated
16 | "above the line" for ratemaking purposes. KCPL will not propose any
17 | adjustment that would remove any portion of its off-system sales from its
18 | revenue requirement determination in any rate case. KCPL agrees that it
19 | will not argue that these revenues and associated expenses should be
20 | excluded from the ratemaking process. During the hearing, KCPL also
21 | stipulated that it would agree to this ratemaking treatment for off system
22 | sales as long as the Iatan 2 costs were included in KCPL's rate base.³

³ Page 18, and continuing on page 19 of the Report and Order

1 The terms of the July 28, 2005 Report and Order contemplated four rate case filings
2 during the course of KCP&L's Experimental Regulatory Plan. The first, described as the
3 2006 Rate Case, and the last, to be filed on October 1, 2009, ("2009 Rate Case"), were
4 mandatory. The other two rate cases were optional. In KCP&L's 2006 rate case, Case
5 No. ER-2006-0314, the Commission ruled that KCP&L should book all non-firm off-
6 system sales margin amounts above the 25th percentile as a regulatory liability, but no
7 corresponding regulatory asset would be booked should sales fall short of the 25th
8 percentile.

9
10 In Case No. ER-2009-0089, the parties agreed, and the Commission approved, the Non-
11 Unanimous Stipulation and Agreement ("2009 Stipulation") that established off-system
12 energy and capacity sales revenues excess margins for years 2006 and 2007. The Non-
13 Unanimous Stipulation and Agreement, page 8, item No. 13 states:

14
15 **Off-System Sales ("OSS") Margins—Excess Over 25th Percentile for**
16 **2007 and 2008.**

17 The Signatory Parties agree that the \$1,082,974 (Missouri jurisdictional)
18 excess of 2007 OSS margins over the amount included in rates in Case
19 No. ER-2006-0314 and the \$2,947,332 (Missouri jurisdictional) excess of
20 2008 OSS margins over the amount included in rates in Case No. ER-
21 2007-0291, together with interest (Missouri jurisdictional), will be
22 deferred in regulatory liability account and amortized over ten years
23 beginning with the date new rates become effective in this rate case, with

1 one year's amortization included in cost of service in this case. The
2 unamortized balance will not be included in rate base.
3

4 Q. PLEASE CONTINUE.

5 A. The 2009 Stipulation also states that "KCP&L's OSS margins at the 25th percentile shall
6 be set at \$30 million, and shall be used for tracking purposes. Such tracker will reflect a
7 pro-ration, on a monthly basis, of this amount for any partial years consistent with the
8 percent of actual OSS realized in each month of 2008. All OSS margins will be tracked
9 against the \$30 million baseline. The Signatory Parties reserve the right to assert a
10 position regarding the appropriate definition of OSS in the Company's next general rate
11 case."

12
13 Q. HAS KCP&L REALIZED ADDITIONAL OFF-SYSTEM ENERGY AND CAPACITY
14 SALES REVENUES, AND RELATED COSTS AS A RESULT OF THE TRACKING
15 MECHANISM CONTEMPLATED BY THE 2009 STIPULATION?

16 A. Yes. KCP&L realized an additional amount of \$3,684,939. It is also worth mentioning
17 that in Case No. ER-2010-0355, the Commission ruled on page 141 of its Report and
18 Order that "The Commission finds this issue partially in favor of KCP&L and partially in
19 favor of the Industrials and Staff. KCP&L's rates shall be set at the 40th percentile of
20 non-firm off-system sales margin as projected by KCP&L, as listed in KCP&L witness
21 Schnitzer's Direct Testimony. Margins above the 40th percentile shall be returned to

1 ratepayers in a subsequent rate case or cases. The adjustments to the projection as
2 recommended by KCP&L witness Crawford shall be included as components of the off
3 system sales margins.” However, KCP&L did not realize any excess margins on off-
4 system energy and capacity sales revenues in line with this provision.

5
6 Q. HAVE YOU CALCULATED THE ANNUALIZED AMORTIZATION AMOUNT FOR
7 EXCESS MARGINS OFF-SYSTEM ENERGY AND CAPACITY SALES
8 REVENUES?

9 A. Yes. By my calculations, the annual amortization amount for excess margins off-system
10 energy and capacity sales revenues as of December 31, 2014, the update period
11 authorized in this case, amounts to \$757,964. Public Counsel recommends that the
12 Commission authorize KCP&L to reduce it retail revenues by an amount of \$757,964.
13 My workpaper, Excess Margins Off-system Sales WP, shows a detailed calculation of
14 this amount.

15
16 **XI. MISSOURI CORPORATE FRANCHISE TAX**

17 Q. WHAT IS THE ISSUE?

18 A. This issue concerns the annualized Missouri corporate franchise tax expense amount that
19 KCP&L should be authorized by the Commission to include in rates.

20

1 Q. WHAT IS CORPORATE FRANCHISE TAX?

2 A. Corporate franchise tax is a tax that is paid by corporations for doing business within the
3 State of Missouri. The Missouri Revised Statutes (RSMO), Chapter 147, states “For the
4 transitional year defined in subsection 4 of this section and each taxable year beginning
5 on or after January 1, 1980, but before January 1, 2000, every corporation organized
6 pursuant to or subject to chapter 351 or pursuant to any other law of this state shall, in
7 addition to all other fees and taxes now required or paid, pay an annual franchise tax to
8 the State of Missouri...”

9
10 For the purpose of administering the Missouri corporate franchise tax, the Missouri
11 Department of Revenue states:

12 Chapter 147, RSMO: Corporations pay Franchise tax for doing business
13 within the state. It is not a tax on franchisees. Franchise tax is based on
14 the “par value of the corporation’s outstanding shares and surplus”. This
15 is defined as the “total assets or the par value of issued and outstanding
16 capital stock, whichever is greater”. For capital stock with no par value,
17 the value is \$5.00 per share or actual value, whichever is higher. The
18 franchise tax basis (Schedule MO-FT, Line 6) is the basis of the assets as
19 of the first day of the taxable year. For taxable years beginning on or after
20 January 1, 2000, all domestic and foreign corporations under Chapter 351
21 or engaged in business must file the franchise tax return. However, only
22 those corporations whose assets in or apportioned to Missouri that exceed
23 one million dollars for taxable years 2000 through 2009 or \$10 million for
24 taxable years 2010 through 2015, are liable to pay the tax. The due date of
25 the franchise tax return is the 15th day of the fourth month from the
26 **beginning** of the taxable period. The franchise tax rate is 1/30 of 1%

1 (.000333) for tax years 2011 and prior; 1/37 of 1% (.000270) for tax year
2 2012; 1/50 of 1% (.000200) for tax year 2013; 1/75 of 1% (.000133) for
3 tax year 2014; 1/150 of 1% (.000067) for tax year 2015; and 0% for tax
4 year 2016 and thereafter.⁴
5

6 Q. THE MISSOURI CORPORATE FRANCHISE TAX RATE HAS DECLINED FROM
7 1/30 OF 1% IN TAX YEAR 2011 TO 1/150 OF 1% IN TAX YEAR 2015, AND WILL
8 DECLINE FURTHER TO 0% IN TAX YEAR 2016; WHAT HAS ACCOUNTED FOR
9 THE DECLINE?

10 A. On April 26, 2011, Governor Jay Nixon signed Senate Bill 19, which requires a gradual
11 phase out of Missouri's corporate franchise tax over five years. Prior to signing Senate
12 Bill 19, Governor Jay Nixon signed House Bill 191 in year 2009, which eliminated the
13 corporate franchise tax for approximately 16,000 small businesses across Missouri. The
14 newer legislation, Senate Bill 19, gradually phases out the corporate franchise tax for the
15 remaining Missouri businesses; that is, those businesses with assets of more than \$10
16 million located in the State. Under Senate Bill 19, the corporate franchise tax liability for
17 companies is capped at the level they paid in Tax Year 2010, and gradually reduced each
18 year until Tax Year 2016, when the Missouri corporate franchise tax rate is reduced to
19 zero and eliminated.
20

⁴ <http://dor.mo.gov/business/franchise/>

1 Q. WILL THE COMPANY'S TAX YEAR 2015 TAX LIABILITY BE BASED ON A
2 DIFFERENT RATE?

3 A. Yes. As I described above, the Company's tax year 2015 tax liability will be based on a
4 tax rate of 1/150 of 1% which is approximately 50% less than the tax year 2014 tax rate.
5 Furthermore, the Company's Missouri corporate franchise tax liability in tax year 2016
6 will be zero because in 2016 the corporate franchise tax will be completely phased out.
7 The Company's response to Public Counsel's Data Request No. 1209 to provide copies
8 of Missouri Corporate Franchise Tax Schedule MO-FT for tax year 2015 was that "the
9 2015 Missouri Franchise Tax Return has not been filed yet and is therefore not
10 available." Public Counsel believes that the Missouri corporate franchise tax liability is
11 based upon financial data as of the end of calendar year 2014 which is available to the
12 Company. The Company should, therefore, be able to provide OPC with the expected
13 2015 Missouri corporate franchise liability amount.

14
15 Q. WHAT IS PUBLIC COUNSEL'S POSITION ON THIS ISSUE?

16 A. Public Counsel continues to analyze the Company's Missouri corporate franchise tax
17 liability and will further address this issue in subsequent testimony. It is clear that the
18 Company's going-forward Missouri tax liability for tax year 2015 corporate franchise tax
19 will drop by approximately 50%, and for tax year 2016 the corporate franchise tax
20 liability will be eliminated completely; however, there are a number of variables (e.g., par

1 value of stock, assets as of the end of the true-up period, credits, etc.) that will determine
2 what the exact Missouri corporate franchise tax liability will be for tax year 2015.

3
4 The Missouri franchise tax amount booked by the Company as of December 31, 2014
5 was ** **, but the actual Missouri corporate franchise tax liability per the
6 Company's 2014 Corporate Franchise Tax Schedule MO-FT was ** **. If all
7 other factors are held constant, KCP&L's Missouri corporate franchise tax liability in tax
8 year 2015 would amount to approximately ** **.

9
10 Q. HOW DID YOU DETERMINE THIS AMOUNT?

11 A. I utilized the Company's actual Missouri corporate franchise tax liability amount for tax
12 year 2014 (** **) and allocated 54.2867% (Company's PTD allocation factor)
13 of that amount to Missouri jurisdictional area. I then multiplied the Missouri
14 jurisdictional amount totaling ** ** by 50% to derive ** **. This
15 adjustment reflects the reduction in Missouri corporate franchise tax rate for tax year
16 2015 as described above. I further normalized the ** ** amount over 2 years to
17 derive ** **. Since Senate Bill 19 eliminated any future corporate franchise tax
18 subsequent to tax year 2015, there is absolutely no reason to include the entire
19 ** ** amount as the expected level of annual ongoing expense. My workpaper,
20 MO franchise Tax-WP, shows a detailed calculation of this amount.

XII. RATE CASE EXPENSE.

Q. WHAT IS THE ISSUE?

A. This issue concerns the normalized amount of rate case expense to include in KCP&L's cost of service.

Q. WHAT IS THE PUBLIC COUNSEL'S POSITION?

A. Invoices made available to Public Counsel by the Company show that as of October 20, 2014, the Company has expended an amount of ** ** for rate case expense. The breakdown of this amount is as follows:

Vendor	Description of Service	Amount
Siemens Industry, Inc.	Loss Study for KCP&L	** \$ **
Gannett Fleming Valuation and Rate Case Consultants, LLC	Missouri Depreciation Study	** \$ **
Management Application Consulting, LLC	Cost of service study	** \$ **
Sussex Economic Advisors, LLC	Missouri ROE	** \$ **
Denton US LLP, Kansas City	Attorney- rate case	** \$ **
Fischer & DORITY, PC	Attorney-rate case	** \$ **
		** \$ **

Public Counsel's position is that prudently incurred rate case expenses in this case should be shared equally between the Company's shareholders and ratepayers; and that the ratepayers' portion be normalized over 2 years. Public Counsel continues to evaluate the prudence of these costs since costs utilized in the

1 development of a normalized rate case expense would continue to be updated as
2 this case progress. Public Counsel will update its position in subsequent
3 testimony.
4

5 Q. WHY IS PUBLIC COUNSEL ADVOCATING THAT RATE CASE EXPENSE BE
6 SHARED EQUALLY BETWEEN THE COMPANY'S SHAREHOLDERS AND
7 RATEPAYERS?

8 A. Public Counsel believes that it is just and reasonable to share rate case expense
9 equally between shareholders and ratepayers because the outcome of a rate case
10 proceeding benefits both shareholders and ratepayers—shareholders in the form of
11 allowed return on equity, and ratepayers in the form of safe, adequate, and reliable
12 service.
13

14 From the perspective of who initiates a rate case proceeding, it is evidently clear that
15 shareholders initiate the process. It is therefore unfair, unjust, and unreasonable for
16 ratepayers to solely bear all the costs that result from shareholders' decision seeking
17 to raise ratepayers' rates. Another factual issue is that shareholders benefit
18 immensely from hiring the very best attorneys, advocates, consultants, etc., to
19 present their case before the Commission so that they can argue for a higher return
20 on equity as well as the recovery of a greater percentage of costs. Although no

1 Commission rule bars ratepayers from hiring the very best of these same experts,
2 the undisputable fact is that ratepayers solely pay for the services of these experts
3 without shareholders being asked to bear a portion of the costs; yet, ratepayers
4 bear the entire costs that shareholders expend on hiring experts to present their
5 case before the Commission. This is not reasonable.

6
7 Q. PLEASE CONTINUE.

8 A. Public Counsel believes that "shifting" the entire rate case expense incurred by utility
9 companies to ratepayers will not incentivize utility companies to control cost. For
10 example, although a utility company may have a pool of qualified personnel that can
11 equally and successfully execute a rate case proceeding before the Commission, the
12 utility company may choose to employ the services of outside personnel because the
13 utility company is oblivious of the exorbitant fees that outside personnel charge. This
14 particular issue was a source of concern to the Commission in Case No. GR-2009-0355.

15
16 The Commission's Report and Order in Case No. GR-2009-0355, page 79, states: "In
17 conclusion, this Commission wants to make clear to MGE and other utilities that rate
18 case expense is not simply a blank check and if certain rate case duties can be performed
19 "in-house" by existing personnel more cheaply, we expect the utility to do so. On the
20 issue of rate case expense, we urge MGE and other utilities to recognize that rate case

1 expense may not be reflexively and automatically passed on to the ratepayers in the
2 future. This Commission disallowed certain rate case expenses (attorney fees) in the
3 2006 MGE rate case and the Commission will not hesitate to do so again should the
4 evidence support such a decision.”

5
6 Q. IS THERE A RULEMAKING DOCKET OPEN CONCERNING RATE CASE
7 EXPENSES?

8 A. Yes. The Commission’s concern with rate case expense is also the subject of Case No.
9 AW-2011-0330, *In the Matter of a Working File to Consider Changes to Commission*
10 *Rules and Practices Regarding Rate Case Expense*. The MPSC Staff issued its report
11 regarding this issue on September 4, 2013.

12
13 Q. HAS THE MISSOURI PUBLIC SERVICE COMMISSION AUTHORIZED A RATE
14 CASE SHARING MECHANISM BETWEEN SHAREHOLDERS AND RATEPAYERS
15 IN THE PAST?

16 A. Yes. In Case No. ER-85-265, Arkansas Power & Light Company, the MPSC Staff and
17 the company agreed that an amount of \$99,495 was the proper amount of rate case
18 expense to include as operating expense in that case. Public Counsel recommended that
19 rate case expense be shared between shareholders and ratepayers equally. The Mining
20 Intervenors argued that no rate case expense should be allowed. In its Report and Order,

1 page 14, the Commission stated that “The Commission considers the sharing of rate case
2 expense appropriate in this case since Company has increased its rate case activity to
3 protect the shareholders. It should be noted that the only shareholder of Company is
4 Middle South Utilities. The regulatory procedure was established to balance shareholder
5 and ratepayer interests.”
6

7 Q. HAVE OTHER STATE COMMISSIONS UTILIZED A RATE CASE SHARING
8 MECHANISM IN THEIR JURISDICTIONS?

9 A. Yes. The State of New Jersey Board of Public Utilities has utilized rate case sharing
10 mechanism as evident in Schedules WA-3 and WA-4, attached to this testimony. In BPU
11 Docket No. WR11080472, *In the Matter of the Petition of Aqua New Jersey, Inc., Maxim*
12 *Wastewater Division, for Approval of a 2010 Purchased Wastewater Treatment*
13 *Adjustment Clause True-Up and Other Required Approvals*, the Parties in a Stipulation
14 agreed to a 50/50 sharing mechanism. Also, in BPU Docket No. WR11074060, *In the*
15 *Matter of the Petition of New Jersey American Water Company, Inc. for Approval of*
16 *Increased Tariff Rates and Changes for Water and Sewer Service; Change in*
17 *Depreciation Rates and Other Tariff Modifications*, the Parties stipulated that:

18
19 8. Normalization of Regulatory Commission Expense. The parties
20 stipulate that the Company incurred rate case expenses for this proceeding.
21 Said rate case expense will be shared 50/50 between the Company and
22 ratepayers, and normalized over two years.

1 Public Counsel believes that the Missouri Public Service Commission, by virtue of the
2 authority vested in it to set just and reasonable rates, can also institute such a sharing
3 mechanism in the State of Missouri.
4

5 **XIII. MISCELLANEOUS OPERATIONS AND MAINTENANCE EXPENSE**

6 Q. WHAT IS THE ISSUE?

7 A. This issue concerns KCP&L's proposed adjustment to include in cost of service
8 an amount of \$385,947 (total Company) that the Company only identified as
9 miscellaneous expenses in its October 30, 2014 filing.
10

11 Q. DID THE COMPANY LATER IDENTIFY THIS COST PROPERLY?

12 A. Yes. The Company, in its Supplemental Direct Testimony filed on February 6, 2015,
13 identified the cost as costs related to its Clean Charge Network initiative (electric vehicle
14 charging stations). The Company states in response to MPSC Staff's Data Request No.
15 0358 that "KCP&L included a budgeted amount for all capital additions in its RB-20
16 Plant-in-Service adjustment. Per MO Supplemental Direct testimony of Darrin R. Ives,
17 approximately \$7 to \$9 million is expected to be in-service at the end of the true-up
18 period May 31, 2015. KCP&L included in Cost of Service \$385,947 total company
19 KCP&L or \$213,079 MO jurisdictional for O&M costs in account 588.000."
20

1 Q. WHAT IS PUBLIC COUNSEL'S POSITION REGARDING THIS ISSUE?

2 A. Public Counsel is opposed to KCP&L's adjustment because the cost is based on a
3 projection that is not supported by any justification. The Company literally "concealed"
4 this cost in its Direct filing. Even though KCP&L provided description of the cost in its
5 Supplemental Direct Testimony, the Company still did justify the cost, but referred to the
6 cost as a "placeholder." Public Counsel continues to investigate this issue and will
7 provide the Commission with its recommendation in subsequent testimony.

8
9 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

10 A. Yes, it does.
11
12

WILLIAM ADDO

COMPANY	CASE NO.
Empire District Electric Company.	ER-2012-0345
Lincoln County Sewer and Water Company, LLC.	SR-2013-0321 WR-2013-0322
Kansas City Power & Light Company and Kansas City Power & Light Greater Missouri Operations Company.	EU-2014-0077
Lake Region Water and Sewer Company.	WR-2013-0461
Liberty Utilities (Midstates Natural Gas) Corporation d/b/a Liberty Utilities.	GR-2014-0152
Central Rivers Wastewater Utility, Inc.	SR-2014-0247

KANSAS CITY POWER & LIGHT COMPANY and KCP&L GREATER MISSOURI OPERATIONS COMPANY
 File Nos. ER-2010-0355 and ER-2010-0356

Settlement - Iatan 2 and Iatan Common Non-Payroll and Non-Fuel Operation and Maintenance Expense Tracker

IATAN 2	Summary by Acct	Total Plant	KCPL (Total Company)	GMO
		100% Share	KCPL 54.71% Ownership Share	18.00% Share
	500000	\$ 38,300	\$ 20,954	\$ 6,894
	502000	2,052,000	1,122,649	369,360
	505000	649,600	355,396	116,928
	506000	665,400	364,040	119,772
	510000	314,000	171,789	56,520
	511000	744,000	407,042	133,920
	512000	3,529,750	1,931,126	635,355
	513000	415,000	227,047	74,700
	514000	42,000	22,978	7,560
	921000	150,000	82,065	27,000
TOTAL IATAN 2 COSTS		\$ 8,600,050	\$ 4,705,087	\$ 1,548,008

COMMON	Summary by Acct	Total Plant	KCPL (Total Company)	GMO
		100% Share	KCPL 61.44% Ownership Share	18.00% Share
	500000	-	-	-
	502000	\$ 3,032,444	\$ 1,863,134	\$ 545,840
	505000	300,000	184,320	54,000
	506000	(619,528)	(380,637)	(111,515)
	510000	-	-	-
	511000	250,000	153,600	45,000
	512000	1,709,930	1,050,581	307,787
	513000	-	-	-
	514000	-	-	-
	921000	-	-	-
TOTAL IATAN COMMON COSTS		\$ 4,672,848	\$ 2,870,998	\$ 841,113

TOTAL IATAN 2 & COMMON	Summary by Acct	Total Plant	KCPL (Total Company)	GMO
		100% Share	KCPL Ownership Share	18.00% Share
	500000	\$ 38,300	\$ 20,954	\$ 6,894
	502000	5,084,444	2,985,783	915,200
	505000	949,600	539,716	170,928
	506000	45,874	(16,596)	8,257
	510000	314,000	171,789	56,520
	511000	994,000	560,642	178,920
	512000	5,239,680	2,981,707	943,142
	513000	415,000	227,047	74,700
	514000	42,000	22,978	7,560
	921000	150,000	82,065	27,000
TOTAL IATAN 2 & COMMON COSTS		\$ 13,272,898	\$ 7,676,085	\$ 2,389,122

The above amounts exclude Operation and Maintenance Cost categories for Fuel, KCPL Labor, property insurance, property taxes, depreciation and amortization. Thus, the above costs are referred to as non-wage, non-fuel O&M costs.

Attachment A



STATE OF NEW JERSEY
Board of Public Utilities
44 S. Clinton Avenue, P.O. Box 350
Trenton, NJ 08625-0350
www.nj.gov/bpu/

IN THE MATTER OF THE PETITION OF AQUA) WATER
NEW JERSEY, INC., MAXIM WASTEWATER DIVISION,)
FOR APPROVAL OF A 2010 PURCHASED) ORDER ADOPTING
WASTEWATER TREATMENT ADJUSTMENT CLAUSE) INITIAL DECISION/STIPULATION
TRUE-UP AND OTHER REQUIRED APPROVALS)

BPU DOCKET NO. WR11080472
OAL DOCKET NO. PUC 10624-2011N

Colleen A. Foley, Esq., Saul Ewing, LLP, on behalf of the Petitioner, Aqua New Jersey, Inc., Maxim Wastewater Division

Stefanie Brand, Esq., Director on behalf of the Division of Rate Counsel

BY THE BOARD:

On August 8, 2011, Aqua New Jersey Inc., Maxim Wastewater Division ("Maxim" or "Petitioner"), a public utility of the State of New Jersey, pursuant to N.J.A.C. 14:9-7.1 et seq., filed a petition with the Board of Public Utilities ("Board") seeking approval of a Purchased Sewerage Treatment Adjustment Clause ("PSTAC") true-up for calendar year 2010, and to set prospective rates for calendar year 2012 (as required by N.J.A.C. 14:9-7.7).

By this Order, the Board considers the Initial Decision recommending adoption of the Stipulation of Settlement ("Stipulation") executed by the Petitioner, the Division of Rate Counsel ("Rate Counsel") and Board Staff ("Staff") (collectively, the "Parties"), agreeing to an overall increase in Maxim's PSTAC revenues totaling \$63,414.

BACKGROUND/PROCEDURAL HISTORY

Maxim is a wastewater utility engaged in the collection and transmission of sewage. Maxim serves approximately 2,571 customers within a portion of Howell Township, Monmouth County, New Jersey. The Ocean County Utilities Authority ("OCUA") receives and treats all of the sewage transmitted by Maxim.

On August 18, 2011, this matter was transmitted to the Office of Administrative Law ("OAL") and assigned to Administrative Law Judge ("ALJ") Mumtaz Bari-Brown. On September 29, 2011, a telephone pre-hearing conference was conducted by ALJ Bari-Brown and a pre-hearing Order was subsequently issued by ALJ Bari-Brown on October 4, 2011. On November 1, 2011, a public hearing was held at the Howell Township Public Library. No members of the public were in attendance to provide comments on the proposed PSTAC proceeding. There were no Interveners in this matter.

In this proceeding, the Parties, examined the Petitioner's revenues and OCUA expenses for calendar year 2010, Maxim's projected 2012 OCUA expenses, as well as a review of the costs associated with the filing of this proceeding. Based on that review, and subsequent settlement negotiations, the Parties reached a settlement on all issues and entered into a Stipulation that, among other things, provides for an overall increase in Maxim's PSTAC revenues totaling \$63,414, and is calculated based on the following components:

- a. An under-recovery of actual PSTAC charges of approximately \$78,553 for the calendar year ending December 31, 2010 (Exhibit A, pages 1 to 3);
- b. An estimated PSTAC revenue shortfall for 2012 of \$13,788 as a result of increased OCUA rates effective January 1, 2012 (Exhibit A, page 5); and
- c. Total rate case costs for this proceeding of \$18,947 (Exhibit A, page 4). These costs will be shared 50/50 between ratepayers and shareholders, resulting in a cost to customers of \$9,474 (Exhibit A, page 6).

As required in N.J.A.C. 14:9-7.7 and the Board's Order in Docket No. WR10070464, the Petitioner has included in its filing an estimate of OCUA costs for calendar year 2012, which estimate has been used to determine the applicable PSTAC rate for 2012.

Based on the estimated rates for 2012, the under-recovery for 2010, and the rate case costs of this proceeding, the Parties have agreed that Petitioner's current PSTAC rates on file with the Board should be revised pursuant to the rates indicated on Exhibit A, attached hereto. For the average residential customer, the annual flat PSTAC rate will increase from \$364.10 to \$388.06, an annual increase of \$23.96 or approximately 6.58%. With respect to the total annual rate for wastewater services, the total annual rate for the average residential customer will increase from \$668.10 to \$692.06, an increase of \$23.96 or approximately 3.59% annually.

On December 5, 2011, ALJ Bari-Brown issued her Initial Decision recommending adoption of the Stipulation executed by the Parties, finding that the Parties had voluntarily agreed to the Stipulation and that the Stipulation fully disposes of all issues and was consistent with the law.

DISCUSSIONS AND FINDINGS

Having reviewed the record in this matter, including ALJ Bari-Brown's Initial Decision, as well as the Stipulation among the Parties to this proceeding, the Board HEREBY FINDS that the Stipulation is reasonable, in the public interest and is in accordance with the law.

Therefore, the Board HEREBY ADOPTS ALJ Bari-Brown's Initial Decision adopting the Stipulation of the Parties attached hereto, including all attachments and schedules, as its own, incorporating the terms and conditions as if fully set forth at length herein subject to the following:

- a. In accordance with the provisions of N.J.A.C. 14:9-7.1 and 14:9-7.7, the Petitioner shall file with the Board, no later than 45 days after the adjustment clause has been in effect for one year, or by February 28, 2012, whichever is earlier, a PSTAC true-up filing in connection with this proceeding. This filing shall include an estimate of the OCUA costs for calendar year 2013. Copies of the true-up filing shall be served upon all parties to the present proceeding.
- b. Petitioner shall increase its PSTAC rates at the stipulated level as shown on Exhibit A (Rate Design), attached to the Stipulation.

The Board HEREBY DIRECTS the Company to file tariff pages conforming to the terms and conditions of the Stipulation and this Order within ten (10) days from the effective date of this Order.

This Order shall be effective on December 24, 2011

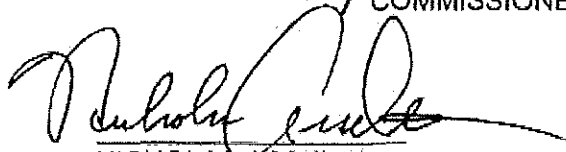
DATED: 12/15/11

BOARD OF PUBLIC UTILITIES
BY:


LEE A. SOLOMON
PRESIDENT


JEANNE M. FOX
COMMISSIONER

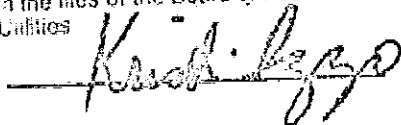

JOSEPH L. FIORDALISO
COMMISSIONER


NICHOLAS ASSELTA
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

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



IN THE MATTER OF THE PETITION OF THE AQUA
NEW JERSEY, INC., MAXIM WASTEWATER DIVISION,
FOR APPROVAL OF A 2010 PURCHASED WASTEWATER
TREATMENT ADJUSTMENT CLAUSE TRUE-UP AND
OTHER REQUIRED APPROVALS

BPU DOCKET NO. WR11080472
OAL DOCKET NO. PUC 10624-2011N

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State of New Jersey
OFFICE OF ADMINISTRATIVE LAW

INITIAL DECISION

SETTLEMENT

OAL DKT. NO. PUC 10624-1

AGENCY DKT. NO. WR110080472

**I/M/O THE PETITION OF AQUA NEW
JERSEY INC., MAXIM WASTEWATER
DIVISION, FOR APPROVAL OF A 2010
PURCHASED WATSEWATER ADJUSTMENT
CLAUSE TRUE-UP AND OTHER REQUIRED
APPROVALS.**

Colleen A. Foley, Esq., for petitioner (Saul Ewing, LLP, attorneys)

Susan E. McClure, Esq., for the Division of Rate Counsel (Stefanie A. Brand,
Director)

Alex Moreau, Deputy Attorney General, for the staff of the New Jersey Board of
Public Utilities (Paula T. Dow, Attorney General of the State of New
Jersey, attorney)

Record Closed: November 30, 2011

Decided: December 5, 2011

BEFORE MUMTAZ BARI-BROWN, ALJ

This matter was filed by the Petitioner, Aqua New Jersey, Inc. (and its Maxim Wastewater Division), on August 8, 2011. On August 26, 2011, the matter was transmitted to the Office of Administrative Law as a contested case. A prehearing conference (via telephone) was convened by the undersigned on September 29, 2011. After proper notice, a public hearing in the service territory was held in Howell, New Jersey on the evening of November 1, 2011. No members of the public appeared or sought to be heard on the Company's request.

The Company provided responses to discovery requests and updates to its original filing. Thereafter, settlement discussions were held among the parties, and the parties reached an agreement on the issues in this matter. On November 30, 2011, the OAL received the fully executed Stipulation indicating the terms of the settlement. A copy of the Stipulation of Settlement is attached and is made a part hereof.

After reviewing the record and the Stipulation of Settlement, I **FIND**:

- 1 The parties have voluntarily agreed to the settlement as evidenced by the signatures of the parties or the signatures of their representatives.
2. The settlement fully disposes of the issues in controversy and is consistent with the law and is in the public interest.
3. The Stipulation of Settlement has been signed by all parties.

Therefore, I **CONCLUDE** that this agreement meets the requirements of N.J.A.C. 17:27-19.1 and should be approved. It is further **ORDERED** that the parties comply with the settlement terms and the proceedings be **CONCLUDED**.

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



STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

WATER

IN THE MATTER OF THE PETITION OF)
NEW JERSEY AMERICAN WATER COMPANY,)
INC. FOR APPROVAL OF INCREASED TARIFF)
RATES AND CHANGES FOR WATER AND)
SEWER SERVICE; CHANGE IN DEPRECIATION)
RATES AND OTHER TARIFF MODIFICATIONS)

ORDER ADOPTING INITIAL
DECISION/STIPULATION

BPU DOCKET NO. WR11070460
OAL DOCKET NO. PUC 09799-2011N

Parties of Record:

- Ira G. Megdal, Esq.**, Counsel on behalf of New Jersey American Water Company, Inc.,
Petitioner
- Stefanie A. Brand, Esq.**, Director, on behalf of the Division of Rate Counsel
- Kenneth J. Quinn, Esq.**, Intervenor, on behalf of Middlesex Water Company
- Steven B. Genzer, Esq.**, Intervenor, on behalf of Aqua New Jersey, Inc. and the Lawrenceville
Water Company
- Bradford M. Stern, Esq.**, Intervenor, on behalf of ConocoPhillips Company, Cogen
Technologies Linden Venture L.P., Johanna Foods, Inc., Princeton University and Rutgers, The
State University of New Jersey
- Anthony R. Francioso, Esq.**, Intervenor, on behalf of the Mount Laurel Township Municipal
Utilities Authority (MLTMUA)
- Walter G. Reinhard, Esq.**, Intervenor, on behalf of the Manasquan Customer Group
- Richard A. Gantner, Esq.**, Participatory Party, on behalf of Local 423 of the Utility Workers
Union of America, AFL-CIO

BY THE BOARD:

On July 29, 2011, New Jersey American Water Company ("Company" or "Petitioner"), a public utility of the State of New Jersey filed with the Board of Public Utilities ("Board") pursuant to N.J.S.A. 48:2-18, N.J.S.A. 48:2-21, N.J.S.A. 48:2-21.1¹, N.J.A.C. 14:1-5.7 and N.J.A.C. 14:1-5.12, a petition ("Petition") seeking to increase rates for water and wastewater service. The combined proposed rates would increase the Company's annual revenues by \$95.5 million or approximately 15.5% over pro-forma present rate revenues of \$565 million. The Company also

¹The Board notes that although the petition cites N.J.S.A. 48:2-21.1, the petition does not include a request for an adjustment of rates during the pendency of the hearing.

proposed to implement a multi-faceted Conservation Program; Water Efficiency and Conservation Plan (Decoupling Mechanism) Trackers; Water Stewardship and Green Energy Initiatives; a Water Storage Tank Reinvestment Program; Deferred Accounting of costs associated with One Call Customer Side Markouts; and to update a component of its Depreciation Rates (Net Salvage Value).

The following parties were granted intervention status - Middlesex Water Company ("Middlesex") (by Order dated September 6, 2011); Aqua New Jersey and Lawrenceville Water Company ("Aqua") (by Order dated November 16, 2011); ConocoPhillips Company, Cogen Technologies Linden Venture L.P., Johanna Foods, Inc., Princeton University and Rutgers, The State University of New Jersey (collectively "the OIW Group") (by Order dated November 16, 2011); Manasquan Customer Group ("MCG") (by Order dated November 21, 2011); and the Mount Laurel Township Municipal Utilities Authority ("MLTMUA") (by Order dated December 28, 2011). The Utility Workers of America, Local 423 ("Local 423") filed a Motion to Intervene which was opposed by the Company. By letter dated December 7, 2011, Local 423 requested that its Motion be modified to request permission for participant status only, which request was granted by Order dated December 17, 2011.

By this Order, the Board considers the Initial Decision recommending adoption of the Stipulation of Settlement ("Stipulation") executed by the Company, the Division of Rate Counsel, the OIW Group, MCG and Board Staff (collectively the "Signatory Parties"), agreeing to an overall increase in revenues in the amount of \$30,009,522 representing a 5.23% increase² over Company revenues totaling \$573,969,770. The Parties propose that these rates will be effective on May 1, 2012. The remaining parties, namely Middlesex, Aqua and the MLTMUA all submitted letters not objecting to the Settlement.

BACKGROUND/PROCEDURAL HISTORY

Petitioner serves approximately 649,122 water and wastewater customers in all or part of 189 municipalities in 18 of the State's 21 counties. The increase in rates was proposed to become effective on August 29, 2011³. By Order dated September 22, 2011, with an effective date of October 1, 2011, the Board suspended the Company's proposed rate increase until December 29, 2011, and by Order dated November 30, 2011, with an effective date of December 10, 2011, the Board further suspended the Company's proposed rate increase until April 29, 2012⁴. The Petitioner did not seek interim rate relief pending final determination on the petition.

According to the petition, the rate increase is required to enable the Petitioner to establish an income level that will permit the Company to finance essential and continuing plant investment; to permit the Company to earn a fair and adequate rate of return on its net investment in used and useful property; to establish rates which will be sufficient to enable the Company to

²The overall percentage increase of 5.23% excludes the impact of the PWAC/PSTAC. As set forth in the stipulation, the percentage increase including the PWAC/PSATC would be 4.82%.

³On August 25, 2011, the Company filed a letter with the Board revising the effective date from August 29, 2011 to October 1, 2011. The Company further stated that although it revised its initial effective date from August 29, 2011 to October 1, 2011, the four (4) month suspension period will still run from August 29, 2011 through December 29, 2011.

⁴By letter dated April 25, 2012, the Company stated that it would not seek to implement rates prior to May 1, 2012.

maintain and support its financial integrity; to offset increases in operating expenses; to provide earnings sufficient to attract investors and provide sufficient cash flow to fund the Company's operations; and to enable the Company to provide safe, adequate and proper service to its customers.

This matter was transmitted to the Office of Administrative Law ("OAL") on August 1, 2011, and was assigned to Administrative Law Judge ("ALJ") Leland S. McGee. ALJ McGee conducted a pre-hearing conference on September 4, 2011, and on October 26, 2011, ALJ McGee issued a pre-hearing Order establishing procedures, as well as evidentiary and public hearing dates for the conduct of this case.

Four public hearings were held in this matter. Two public hearings were held on December 6, 2011, one at 2:00 pm in Ocean City, NJ, and one at 7:00 pm in Westampton, NJ. Two public hearings were held on December 14, 2011, one at 2:00 pm in Howell Township, NJ and one at 7:00 pm in Westfield, NJ. No members of the public appeared at the Ocean City public hearing. Several members of the public appeared and spoke at the remaining three (3) public hearings - Westampton, Howell Township and Westfield, NJ. The comments focused mainly on the adverse economic impact and financial hardships that any increase would have on the average New Jersey American Water Company ratepayer, particularly those on a fixed income.

Subsequent to the public hearings, the Parties to the proceeding engaged in settlement negotiations. As a result of these discussions and extensive discovery, the Signatory Parties reached a Stipulation on all issues. On April 2, 2012, Aqua, Middlesex and the MLTMUA all submitted letters neither opposing nor adopting the Stipulation among the Signatory Parties.

On April 3, 2012, ALJ McGee issued his Initial Decision in this matter recommending adoption of the Stipulation executed by the Parties, finding that the Parties had voluntarily agreed to the Stipulation and that the Stipulation fully disposes of all issues and is consistent with the law. Following the issuance of the Initial Decision, Board Staff has received over one hundred phone calls and/or emails highlighting previous NJAW rate increases and objecting to the economic impact any rate increase will have. They further assert that NJAW does not need a rate increase. None of the parties who provided these additional comments were intervenors in the proceeding. Notwithstanding these comments, no party to the case filed any exceptions to the Initial Decision.

DISCUSSION AND FINDINGS

Among the provisions of the Stipulation⁵, the Signatory Parties recommend that the Company's base rates should be increased by \$30,009,522 representing a 5.23% increase over Company revenues totaling \$573,969,770. The Signatory Parties further recommend a rate base of \$1.92 billion, with a test year ending January 31, 2012, adjusted for known and measurable changes, and that the Company be authorized a return on equity of 10.15%, a preferred stock cost rate of 4.7365% and a cost of debt rate of 5.7543%, for an overall rate of return of 8.0398%. The overall rate of return is calculated by using the Company's current capital structure consisting of 52.00% common equity, 0.03% preferred stock and 47.97% long-termed debt ratios.

⁵Although described in the Order at some length, should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusions in this Order.

The Signatory Parties also further recommend the following:

- o The expenses associated with incremental One Call markouts arising from the modifications to N.J.A.C. 14:2-1.1 et. seq. effective October 15, 2007, be deferred by the Company if such expenses arise;
- o The Company continues offering the Low Income Conservation Program that was approved under BPU Docket No. WR10040260;
- o The Company uses its best efforts to increase the rate of direct billing of American Water Service Company ("Service Company") expenses and submit to the Board, for approval, the agreement between the Company and the Service Company dated January 1, 1989, on or before May 1, 2013;
- o The rate increase set forth in this Stipulation reflects the updating of the Company's previously approved depreciation rates to adjust the 3-year average net salvage allowance component as stipulated to in Docket No. WR08010020. The updated depreciation rates for water property only, reflect the average of the actually experienced net salvage for the three year period ending December 31, 2010, the most recent calendar years (2008-2010) available at the time of filing.
- o Once the rates emanating from this proceeding have been made effective, the Company may not increase its base rates for two years from the effective date. Specifically excluded from this Stipulation provision are the Company's Purchased Wastewater Treatment Adjustment Clause ("PSTAC") and Purchased Water Adjustment Clause ("PWAC") rates, and Distribution System Improvement Charge ("DSIC") rates, should a DSIC be adopted by the Board.

Pursuant to the Stipulation, the water service customer revenue rate impacts are as follows:

Class Revenue Increases:

The parties stipulate that General Metered Service ("GMS") rates for a typical residential customer using 6,500 gallons per month for Service Area-1 ("SA-1") shall increase by \$2.15 per month; for SA-2, SA-3 Main, SA-1A Harrison, and Jensen's Deep Run by \$3.46 per month; for SA-2 Manville by \$3.67 per month; for SA-3 Southampton by \$3.44; for SA-3 Homestead by \$2.15; for SA-1B Pennsgrove by \$3.30; and for SA-1D by \$3.93. Rates of commodity-demand and off peak service customers shall increase 0.54% overall and by 0.59% overall, respectively. Rates for the OIW customers will increase 5.90% overall. Rates for the Manasquan customers shall increase approximately 3.6% overall. Rates for the Sales to Other Systems ("SOS") customers will increase 6.91% overall.

Private Fire Protection Service:

The overall revenue increase for Private Fire Protection Service is 2.64%. The rate increases will vary within the rate classification depending upon the rate schedules and the type of service contracted for.

Public Fire Protection Service:

The overall revenue increase for Public Fire Protection Service is 0.56%. The rate increases will vary within the rate classification depending upon the rate schedules and the type of service contracted for.

Customer Charges (Fixed Service Charges):

The monthly customer charges for all service areas except SA-1B and SA-1D will be set at \$10.60 per month (non-exempt) for a 5/8 inch meter. The customer charge for SA-1B and SA-1D will be set at \$9.00 per month (non-exempt) for a 5/8 inch meter. Meter capacity ratios are utilized to establish rates for larger size meters.

Pursuant to the Stipulation, the wastewater service customer revenue rate impacts are as follows:

Sewer Service Revenue Increases:

The Parties stipulate that sewer service revenues will increase for the Company's Ocean City Service Area on an across-the-board basis by 3.05%. The Parties stipulate that Pottersville rates for a typical residential customer using 6,000 gallons per month will increase \$26.03 per month or 16.38%, while a Pottersville-Flat Rate, residential customer will increase \$26.43 per month or 16.48%. Jensen's Deep Run wastewater service customers will be converted from a flat rate to a volumetric rate, with the average residential customer using 5,000 gallons per month to see an increase of \$2.36 per month or 4.50%.

Applied Community On-Site Wastewater Systems:

The average overall increase for Applied Community On-Site Wastewater Systems is 4.51%. The rate increases may and/or will vary within the rate classification depending upon the rate schedules, class and size of dwelling.

The parties stipulate that sewer service revenues will increase for the Company's Non-Residential General Metered Wastewater Service Customers applicable to the Applied System by 5.74% and for the Other Contract Wastewater Service Customers in the Applied System by 2.95%.

The Board is mindful of the impact any rate increase has on its customers. However, having reviewed the record in this matter, including ALJ McGee's Initial Decision and the Stipulation, and letters from the Non-Signatory Parties indicating that they do not oppose the Stipulation, the Board **FINDS** that the Signatory Parties have voluntarily agreed to the Stipulation, and that the Stipulation fully disposes of all issues in this proceeding and is consistent with the law. In reaching this decision, the Board must balance the needs of the ratepayer to receive safe, adequate and proper service at reasonable rates, while allowing the utility the opportunity to earn a fair rate of return. See FPC v. Hope Natural Gas, 320 U.S. 591 (1944); N.J.S.A. 48:2-21 and N.J.S.A. 48:3-1. Therefore, the Board **FINDS** the Initial Decision, which adopts the Stipulation to be reasonable, in the public interest, and in accordance with the law. Therefore, the Board **HEREBY ADOPTS** the Initial Decision and the Stipulation, attached hereto, including all attachments and schedules, as its own, incorporating by reference the terms and conditions of the Stipulation, as if they were fully set forth at length herein, subject to the following:

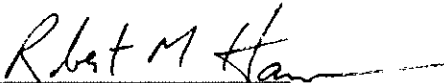
- a. On April 6, 2012, the Board Secretary received a letter from the Petitioner containing the proposed "Tariff for Water and Wastewater Service" consistent with the terms of the Stipulation. The Board HEREBY ACCEPTS the tariff as filed and makes it effective with this Order.
- b. The stipulated increase and the tariff design allocations for each customer classification are HEREBY ACCEPTED.


Based upon the forgoing, the Board HEREBY APPROVES an overall increase in revenues in the amount of \$30,009,522 representing a 5.23% increase over Company revenues totaling \$573,969,770.

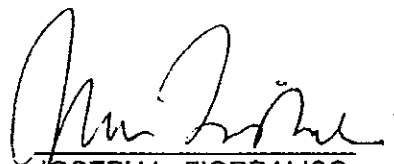
This Order shall be effective on May 1, 2012.


DATED: 5/1/12

BOARD OF PUBLIC UTILITIES
BY:

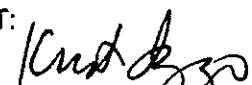

ROBERT M. HANNA
PRESIDENT

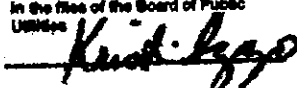

JEANNE M. FOX
COMMISSIONER


JOSEPH L. FIORDALISO
COMMISSIONER


NICHOLAS ASSELTA
COMMISSIONER


MARY-ANNA HOLDEN
COMMISSIONER

ATTEST:

KRISTI IZZO
SECRETARY

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


In the Matter of the Petition of New Jersey American Water Company, Inc. For Approval of
Increased Tariff Rates and Charges for Water and Wastewater Service, Change in Depreciation
Rates and Other Tariff Modifications
BPU Docket No. WR11070460
OAL Docket No. PUC 09799-2011N

SERVICE LIST

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CMS
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2012 APR -5 PM 3:58
BOARD OF PUBLIC UTILITIES
TREASURY



State of New Jersey
OFFICE OF ADMINISTRATIVE LAW

Rec'd 4/13/12

BPU MAILROOM
APR 5 2012
RECEIVING

INITIAL DECISION

SETTLEMENT

OAL DOCKET NO. PUC 09799-11N

BPU DOCKET NO. WR11070460

IN THE MATTER OF THE PETITION OF
NEW JERSEY AMERICAN WATER
COMPANY, INC. FOR APPROVAL OF
INCREASED TARIFF RATES AND
CHARGES FOR WATER AND
WASTEWATER SERVICE, CHANGE IN
DEPRECIATION RATES AND OTHER
TARIFF MODIFICATIONS

Ira G. Magdal, Esq., Cozen O'Connor, and Suzana Duby, Esq., Corporate
Counsel, Counsel for Petitioner, New Jersey American Water Company,
Inc.

Debra F. Robinson, Esq., Deputy Rate Counsel, Susan E. McClure, Esq.,
Assistant Deputy Rate Counsel, and **Christine Juarez, Esq.,** Assistant
Deputy Rate Counsel, for the New Jersey Division of Rate Counsel
(**Stefanie A. Brand, Esq.,** Director)

Alex Moreau, Deputy Attorney General, Jennifer Hsia, Deputy Attorney General
and **Carolyn McIntosh, Deputy Attorney General,** for the Staff of the
New Jersey Board of Public Utilities (**Jeffrey S. Chiesa, Attorney General**
of New Jersey)

OAL DKT. NO. PUC 03268-10

Stephen B. Genzer, Esq., Saul Ewing, LLP, Counsel for Intervenors, Aqua New Jersey, Inc. and Lawrenceville Water Company

Bradford M. Stern, Esq., Law Offices of Bradford M. Stern LLC, Counsel for Intervenors Cogen Technologies Linden Venture, L.P., ConocoPhillips Company, Johanna Foods, Inc., Princeton University, and Rutgers, the State University of New Jersey

Anthony R. Francioso, Esq., Fornaro Francioso, Counsel for Intervenor the Mount Laurel Township Municipal Utilities Authority **Walter G. Reinhard, Esq.,** Norris McLaughlin & Marcus, P.A., Counsel for Intervenor Manasquan Customer Group

Kenneth J. Quinn, Esq., Middlesex Water Company, Counsel for Intervenor Middlesex Water Company

OAL DKT. NO. PUC 03268-10

Record Closed: April 2, 2012

Decided: April 3, 2012

BEFORE LELAND S. McGEE, ALJ

On July 29, 2011, New Jersey American Water Company, ("Petitioner" or "Company") filed with the New Jersey Board of Public Utilities ("Board") a Petition requesting an increase in operating revenues of approximately \$95.5 million or a 15.5% increase in its rates.

On August 1, 2011, the Board transmitted the matter to the Office of Administrative Law ("OAL") for hearing as a contested case pursuant to N.J.S.A. 52:14B-1 through 15 and N.J.S.A. 52:14F-1 through 13. On September 4, 2011, a prehearing conference was held and a prehearing order was issued on October 26, 2011.

The parties to this matter are the Petitioner, the Division of Rate Counsel ("Rate Counsel"), and the Staff of the Board ("Staff"). Motions to Intervene were filed and granted to: the Mount Laurel Township Municipal Utilities Authority, the Manasquan Customer Group; Rutgers, the State University of New Jersey; Princeton University; ConocoPhillips Company; Johanna Foods, Inc.; Cogen Technologies Linden Venture, L.P.; Middlesex Water Company; Aqua New Jersey, Inc.; and Lawrenceville Water Company by Orders dated September 6, 2011, November 16, 2011 and December 28, 2011.

Additionally, the Utility Workers Union of America ("UWUA"), Local 42 (the "Local") filed a Motion to Intervene in this proceeding. The Motion was opposed by NJAWC. By letter dated December 7, 2011, the Local requested that its Motion be modified to request permission for participant status only, which request was granted by Order dated December 16, 2011.

OAL DKT. NO. PUC 03268-10

Pursuant to statute, Petitioner published in newspapers of general circulation within its service territory a notice of the public hearings which were held in Ocean City, Westampton, Howell Township, and Westfield on December 6, 2011 and December 14, 2011.

As part of the case, the parties exchanged discovery consisting of over 1,000 discovery requests, attended numerous meetings and settlement conferences.

Evidentiary hearings were scheduled for April 2012. Prior to the commencement of such hearings, the parties entered into a Stipulation of Settlement which is appended to this Initial Decision.

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

1. The parties to the Stipulation have voluntarily agreed to a settlement evidenced by their signatures.
2. The Stipulation of Settlement has been executed by all parties of record, excluding some Interveners and Participants. The Interveners to this case that have not signed the Stipulation have submitted letters stating they do not object to the Stipulation.

ORDER

It is therefore, **ORDERED** that the parties comply with the terms of the settlement and this proceeding is now concluded.

I hereby **FILE** my Initial Decision with the **BOARD OF PUBLIC UTILITIES** for consideration.

The recommended decision may be adopted, modified or rejected by the **BOARD OF PUBLIC UTILITIES**, which by law is authorized to make a final decision in this matter. If the

OAL DKT. NO. PUC 03268-10

Board of Public Utilities does not adopt, modify or reject this decision within forty-five days and unless such time limit is otherwise extended, this recommended decision shall become a final decision in accordance with N.J.S.A. 52:14B-10.

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

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

April 3, 2012
DATE


LELAND S. MCGEE, ALJ

Date Received at Agency: _____

Date Mailed to Parties: _____

LSM/sej

Attachment

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

IN THE MATTER OF THE PETITION OF : BPU DOCKET NO. WR11070460
NEW JERSEY AMERICAN WATER : OAL DOCKET NO. PUC09799-11N
COMPANY, INC. FOR APPROVAL OF :
INCREASED TARIFF RATES AND : STIPULATION OF SETTLEMENT
CHARGES FOR WATER AND :
WASTEWATER SERVICE, CHANGE IN :
DEPRECIATION RATES AND OTHER :
TARIFF MODIFICATIONS :

APPEARANCES:

Ira G. Megdal, Esq., Cozen O'Connor, and Suzana Duby, Esq., Corporate Counsel, Counsel for Petitioner, New Jersey American Water Company, Inc.;

Debra F. Robinson, Esq., Deputy Rate Counsel, Susan E. McClure, Esq., Assistant Deputy Rate Counsel, and Christine Juarez, Esq., Assistant Deputy Rate Counsel, for the New Jersey Division of Rate Counsel (**Stefanie A. Brand, Esq., Director**);

Alex Moreau, Deputy Attorney General, Jennifer Hsia, Deputy Attorney General and Carolyn McIntosh, Deputy Attorney General, for the Staff of the New Jersey Board of Public Utilities (**Jeffrey S. Chiesa, Attorney General of New Jersey**);

Stephen B. Genzer, Esq., Saul Ewing, LLP, Counsel for Intervenors, Aqua New Jersey, Inc. and Lawrenceville Water Company;

Bradford M. Stern, Esq., Law Offices of Bradford M. Stern LLC, Counsel for Intervenors Cogen Technologies Linden Venture, L.P., ConocoPhillips Company, Johanna Foods, Inc., Princeton University, and Rutgers, the State University of New Jersey;

Anthony R. Francioso, Esq., Fornaro Francioso, Counsel for Intervenor the Mount Laurel Township Municipal Utilities Authority

Walter G. Reinhard, Esq., Norris McLaughlin & Marcus, P.A., Counsel for Intervenor Manasquan Customer Group; and

Kenneth J. Quinn, Esq., Middlesex Water Company, Counsel for Intervenor Middlesex Water Company

TO: THE HONORABLE LELAND S. McGEE, ALJ

BACKGROUND

On July 29, 2011, New Jersey American Water Company ("NJAWC", "Petitioner", or "Company") filed with the New Jersey Board of Public Utilities ("Board") a Petition, Testimony and Exhibits (the "Petition") requesting an increase in operating revenues of approximately \$95.5 million or approximately 15.5% over projected test year operating revenues.

In the Petition, NJAWC proposed a test-year ending January 31, 2012. The Petition as originally filed was based upon five (5) months of actual and seven (7) months of estimated data. As the case progressed, the estimated data were replaced by actual data, and on November 11, 2011, the Company filed its update consisting of nine months of actual data. The Company filed an additional update consisting of twelve months of actual data on February 15, 2012.

On August 1, 2011, this proceeding was transmitted by the Board to the Office of Administrative Law ("OAL") as a contested case. The matter was assigned to Administrative Law Judge Leland S. McGee. On September 4, 2011, a prehearing conference was conducted by Judge McGee and on October 26, 2011, Judge McGee issued a prehearing order establishing procedures and hearing dates for the conduct of this case.

The signatory parties to this case include Petitioner, the Division of Rate Counsel ("Rate Counsel"), and the Staff of the Board ("Staff"). Motions to intervene filed by the following parties were unopposed: the Mount Laurel Township Municipal Utilities Authority ("MTLMUA") (filed September 19, 2011); the Manasquan Customer Group ("MCG") (filed September 30, 2011); Rutgers, the State University of New Jersey (filed October 3, 2011), Princeton University (filed September 28, 2011), ConocoPhillips Company (filed September 16, 2011); Johanna Foods, Inc. (filed September 23, 2011), and Cogen Technologies Linden Venture, L.P. (filed September 16, 2011) (collectively, the Optional Industrial Wholesale Customer Coalition or "OIW"); Middlesex Water Company ("Middlesex") (filed August 5,

2011); Aqua New Jersey, Inc. ("Aqua") and Lawrenceville Water Company ("Lawrenceville") (filed September 1, 2011). These motions were granted by orders dated September 6, 2011 (as to Middlesex), November 16, 2011 (as to OIW, Aqua and Lawrenceville), November 21, 2011 (as to MCG) and December 28, 2011 (as to MTLMUA). On November 18, 2011, the Utility Workers Union of America ("UWUA"), Local 423 (the "Local") filed a Motion to Intervene in this proceeding. The motion was opposed by NJAWC. By letter dated December 7, 2011, the Local requested that its Motion be modified to request permission for participant status only, which request was granted by Order dated December 16, 2011.

Pursuant to appropriate notice in newspapers of general circulation within the Company's service territory, and the serving of notice upon affected municipalities and counties within the Company's service area, four public hearings were held. Two public hearings were held on Tuesday, December 6, 2011 at 2:00 PM in Ocean City, New Jersey and at 7:00 PM in Westampton, New Jersey; and two public hearings were held on Wednesday December 14, 2011 at 2:00 PM in Howell Township, New Jersey and at 7:00 PM in Westfield, New Jersey. Members of the public spoke at the public hearings, and the comments generally involved opposition to rate increases.

Discovery involving over 1,000 requests, many with multiple parts, was answered by the Company.

The Company filed initial direct and supplemental direct testimony on July 29, 2011, and November 11, 2011, respectively. Rate Counsel, Middlesex Water Company and OIW filed direct testimony on January 13, 2012. The Company filed its rebuttal testimony on February 23, 2012.

Evidentiary hearings were scheduled for March and April 2012. Prior to the commencement of such hearings, the parties conducted meetings to discuss settlement, and as a

result, this Stipulation of Settlement was agreed upon by the parties. As a result of those settlement conferences, the undersigned parties **AGREE AND STIPULATE AS FOLLOWS:**

REVENUE REQUIREMENTS

1. The parties agree to recommend to the Board that Petitioner's revenues from base rates should be increased by \$30.010 million, effective for service rendered on and after May 1, 2012, or as soon thereafter as the Board deems appropriate.

2. The parties stipulate that the 12-month period ending January 31, 2012, as adjusted for known and measurable changes, shall be the test year in this case.

3. The parties stipulate that pro forma present rate revenues are \$573.970 million. As a result, rates emanating from this proceeding will be designed to yield total base rate revenues of \$603.980 million. Present rate revenues including PWAC/PSTAC are \$621.979 million.¹ The rate increase is 4.82% based upon total present rate revenues (including PWAC/PSTAC). See Schedule A.

4. The parties stipulate that the Company's rate base for use in this proceeding is set at \$1.92 billion.

5. The parties to this Stipulation agree that the revenue increase set forth earlier in this Stipulation of Settlement reflects an adjustment to rate base due to the filing of a consolidated federal income tax return.

¹ Total PWAC/PSTAC revenues are \$48.009 million per BPU Order in Docket No. WR11030131.

6. Rate of Return. The parties agree to the following rate of return for use in this case:

	<u>Ratios</u>	<u>Cost Rates</u>	<u>Weighted Cost Rates</u>
1. Long-Term Debt	47.97%	5.7543%	2.7603%
2. Preferred Stock	0.03%	4.7365%	0.0014%
3. Common Equity	52.00%	10.1500%	5.2780%
4. Total	<u>100.00%</u>		<u>8.0398%</u>

7. Amortizations. The parties agree that the rate increase set forth earlier in this Stipulation reflects an amortization of unamortized balance sheet accounts, in accordance with the following schedule:

<u>Account</u>	<u>Balance at 1/31/2012</u>	<u>Monthly Amortization</u>	<u>Amortization Start/ Revised Date</u>	<u>Amortization Ending Date</u>
Deferred Pension Expense	\$5,711,570.30	\$39,390.14	3/1/2004	2/28/2024
FAS 106 (SA-1) (Revised Amount)	\$618,170.40	19,317.83	5/1/2012	4/30/2014
FAS 106 (SA-2/SA-3) (Revised Amount)	\$228,479.35	6,923.62	5/1/2012	4/30/2014
FAS 109 (SA-1)	\$11,241,931.00	\$48,878.00	Various	3/31/2031
FAS 109 (SA-2)	\$7,278,034.96	\$38,105.00	Various	12/31/2027
FAS 109 (SA-3)	\$45,409.00	\$346.00	Various	12/31/2022
FAS 112	\$170,907.30	\$2,084.25	12/1/2008	11/30/2018
Gain on Land Sales (Revised Amount)	(194,459.69)	(\$7,255.60)	5/1/2012	4/30/2014
Acquisition Adjustments	\$4,453,473.21	20,893.68	Various	Various
South Jersey Services	\$4,352,661.30	\$9,847.65	12/1/2008	11/30/2048
Mt Ephraim	\$54,357.16	\$122.98	12/1/2008	11/30/2048
Pelican Island	\$6,846.58	\$15.49	12/1/2008	11/30/2048
Sick Bank Amortization - 2008	\$1,518,643.28	\$18,520.04	12/1/2008	11/30/2018
Sick Bank Amortization - 2010	\$203,864.96	\$1,905.28	1/1/2011	12/31/2020
BPU Management Audit (Revised Amount)	\$926,719.21	\$18,074.31	5/1/2012	4/30/2016
Concentric Study - 2010 Rate Case (Revised Amount)	\$179,718.60	\$3,823.80	1/1/2011	12/31/2015
Concentric Study - 2011 Rate Case	\$108,000.00	\$2,230.00	5/1/2012	4/30/2016
Pre 1971 Investment Credit	(\$493,626.33)	(\$2,987.52)	Various	Various
Regulatory Liability/Asset for Excess/Deficit Deferred Income Taxes	(\$3,466,090.00)	(\$13,321.00)	Various	Various
MTBB	(\$6,859,658.49)	(\$14,688.78)	1/1/2011	12/31/2050
Pottersville Operating Deferral	\$147,850.25	3,145.75	1/1/2011	12/31/2015
Residuals Amortization	1,733,021.29	43,504.37	5/1/2012	6/30/2015
Refund of COR	(\$44,200,000.00)	(\$100,000.00)	12/1/2008	11/30/2048

Notes:

(a) Monthly amortization derived from Apr, 2012 balance divided into 24 months/2 years

(b) Monthly amortization derived from Apr, 2012 balance divided into 48 months/4 years

(c) Monthly amortization derived from Apr, 2012 balance divided into 38 months

8. Normalization of Regulatory Commission Expense. The parties stipulate that the Company incurred rate case expenses for this proceeding. Said rate case expense will be shared 50/50 between the Company and ratepayers, and normalized over two years.

9. One Call Markout Expenses. It is agreed that the expenses associated with the incremental One Call markouts arising from the modifications to *N.J.A.C. 14:2-1.1 et seq.* effective October 15, 2007 may be deferred by NJAWC if such expenses arise. The Company may recover same with interest at the rate shown in the Federal Reserve statistical release closest to January 1 of each year for seven (7) year constant maturity treasuries plus sixty (60) basis points. The interest rate shall remain in effect for a one-year period. At such time as the Company seeks recovery of these expenses, any party may challenge the prudence of the level of such costs.

10. Low Income Conservation Program. The Company agrees to continue offering the Low Income Conservation Program that was approved under BPU Docket No. WR10040260. The Company will not at this time implement any other aspect of the conservation program proposed in its Petition, nor at this time will the Company implement the associated Conservation Plan Tracker or Water Efficiency Tracker. The Company will also continue to offer its other existing H2O Help To Others Programs, the LIPP Assistance and LIPP Discount programs.

11. Service Company. The Company will use best efforts to increase the rate of direct billing of American Water Service Company ("Service Company") expenses. The Company agrees to submit to the BPU for approval the Agreement between the Company and Service Company dated January 1, 1989 on or before May 1, 2013.

12. Depreciation Expense. The parties agree that the rate increase set forth in this Stipulation reflects the updating of the Company's previously approved depreciation rates to adjust the 3-year average net salvage allowance component as stipulated to in Docket No. WR08010020. The updated depreciation rates for water property only, reflect the average of the actually experienced net salvage for the three year period ending December 31, 2010, the most recent calendar years (2008 - 2010) available at the time of filing. The newly adjusted depreciation rates for water, and the previously approved and unadjusted sewer depreciation rates are attached as Schedule B to this Stipulation.

13. Next Rates Effective Date . Once the rates emanating from this proceeding have been made effective, Petitioner may not increase its base rates for two years from the effective date. Specifically excluded from this Stipulation provision are Petitioner's Purchased Wastewater Treatment Adjustment Clause ("PSTAC") and Purchased Water Adjustment Clause ("PWAC") rates, and Distribution System Improvement Charge ("DSIC") rates, should a DSIC be adopted by the Board.

TARIFF AND RATE DESIGN

14. Class Revenue Increases. The parties stipulate that GMS rates for a typical residential customer using 6,500 gallons per month for Service Area-1 ("SA-1") shall increase by \$2.15 per month; for SA-2, SA-3 Main, SA-1A Harrison, and Jensen's Deep Run by \$3.46 per month; for SA-2 Manville by \$3.67 per month; for SA-3 Southampton by \$3.44; for SA-3 Homestead by \$2.15; for SA-1B Pennsgrove by \$3.30; and for SA-1D by \$3.93. Rates of commodity-demand and off peak service customers shall increase 0.54% overall and by 0.59% overall, respectively. Rates of the OIW customers will increase 5.90% overall. Rates of the

Manasquan customers shall increase approximately 3.6% overall. Rates of the SOS customers will increase 6.91% overall. For private fire protection service, rates will increase for each group overall as follows: for SA-1, 4.5%; for SA-1B, 2.98%; for SA-1 Rate Schedule L-2, 4.05%; for SA-2, 0.7%; for SA-3, 4.8%; and for SA-1D Hydrants 15.0%, while the connection charges have been established equivalent to SA-1 (Rate Schedule L-1) rates. For SA-1A, private fire protection service rates will decrease 8.95%. For public fire protection service, rates will increase overall as follows: for SA-1, 1.0%; for SA-1A, 1.0%; for SA-1B, 1.0%; for SA-2, 0.09%; for SA-3, 1.0%; and for SA-1D 0.98%.

15. Customer Charges (Fixed Service Charges). The monthly customer charges for all service areas except SA-1B and SA-1D will increase from \$10.00 to \$10.60 per month (non-exempt) for a 3/4 inch meter. The customer charge for SA-1B will increase from \$7.75 to \$9.00 per month (non-exempt) and SA-1D will remain at \$9.00 for a 3/4 inch meter. Meter capacity ratios are utilized to establish rates for larger size meters.

16. Sewer Service Revenue Increases. The Parties stipulate that sewer service revenues will increase for the Company's Ocean City Service Area on an across-the-board basis by 3.05%. The parties stipulate that Pottersville rates for a typical residential customer using 6,000 gallons of water per month will increase \$26.03 per month or 16.38%, while a Pottersville-Flat Rate, residential customer will increase \$26.43 per month or 16.48%, Jensen's Deep Run wastewater service customers will be converted from a flat rate to a volumetric rate, with the average residential customer using 5,000 gallons per month to see an increase of \$2.36 per month or 4.50%.

17. Applied Community On-Site Wastewater Systems. Sewer service customers in the APPLIED COMMUNITY ON-SITE WASTEWATER SYSTEMS ("Applied COWS"), formerly

served by Applied Wastewater Management, Inc. ("Applied System") for residential customers, are either: 1) customers who are currently water service customers of NJAWC and will be converted to a combination of usage (volumetric rate) and Fixed Service Charges; or 2) customers who are not water service customers of NJAWC will continue to be billed under the current flat rate system. Residential wastewater service customers being billed under the flat rate system will see the following monthly increases:

		CURRENT FLAT RATE PER MONTH	PROPOSED FLAT RATE PER MONTH	PERCENTAGE CHANGE
CLASS A	4 BEDROOM AGE RESTRICTED 3 BEDROOM AGE RESTRICTED 2 BEDROOM TOWNHOUSE 3 BEDROOM TOWNHOUSE AGE RESTRICTED	\$94.80	\$97.00	2.32%
	2 BEDROOM AGE RESTRICTED	92.04	94.18	2.33%
	1 BEDROOM TOWNHOUSE	90.38	92.48	2.32%
CLASS B	DETACHED SINGLE FAMILY 3 BEDROOM TOWNHOUSE	119.88	122.66	2.32%

Residential wastewater service customers converting to a combination of the Fixed Service Charge and a Sewer Usage Charge shall pay the following monthly Fixed Service Charge:

		CURRENT FLAT RATE PER MONTH	PROPOSED FIXED SERVICE CHARGE PER MONTH
CLASS A	4 BEDROOM AGE RESTRICTED 3 BEDROOM AGE RESTRICTED 2 BEDROOM TOWNHOUSE 3 BEDROOM TOWNHOUSE AGE RESTRICTED	\$94.80	\$60.44
	2 BEDROOM AGE RESTRICTED	92.04	
	1 BEDROOM TOWNHOUSE	90.38	

CLASS B	DETACHED SINGLE FAMILY 3 BEDROOM TOWNHOUSE	119.88	77.96
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In addition to the above Fixed Service Charge, the Sewer Usage Charge for these General Metered Residential Wastewater Service Customers is at the non-exempt rate of \$9.3000 per thousand gallons and the volume of wastewater use is assumed to equal water meter registration. The average Applied COWS metered residential Class-A Customer Consuming 4,000 gallons of water per month would pay \$97.64 per month under proposed rates with increases ranging from \$2.84 to \$7.26. The average APPLIED COWS residential metered Class-B Customer consuming 6,000 gallons of water per month would pay \$133.76 per month under proposed rates, an increase of \$13.88.

The parties stipulate that the sewer service revenues in the Applied HOMESTEAD wastewater system, formerly served by Applied Wastewater Management, Inc. ("Applied System") are as follows for residential customers: the customers who are currently water service customers of NJAWC will be converted to a combination of usage (volumetric rate) and Fixed Service Charges. These general metered residential wastewater service customers shall pay the following Fixed Service Charge and Sewer Usage Charge which will replace the current flat rate charge per month as follows:

	CURRENT FLAT RATE PER MONTH	PROPOSED FIXED SERVICE CHARGE PER MONTH
2 BEDROOM AGE RESTRICTED DETACHED SINGLE FAMILY	\$79.17	\$48.35

In addition to the above Fixed Service Charge the parties stipulate that the Sewer Usage Charge for these General Metered Residential Wastewater Service Customers is at the non-exempt rate of \$9.3000 per thousand gallons and that the volume of wastewater use is assumed to equal water meter registration. The average APPLIED HOMESTEAD residential metered customer consuming 4,000 Gallons of water per month would pay \$85.55 per month under proposed rates.

The parties stipulate that sewer service revenues will increase for the Company's Non-Residential General Metered Wastewater Service Customers applicable to the Applied System by 5.74% and for the Other Contract Wastewater Service Customers in the Applied System by 2.95%.

18. Trend in SA-1/SA-2 Residential and Commercial Consumption Decline. The parties acknowledge that the rate relief set out in this stipulation recognizes the near-term change in the Petitioner's revenue caused by a continuing, declining trend in base consumption per customer.

19. Service of Board Order. The Parties agree to accept as service delivery by courier ("hand delivery") of the BPU Order approving this Stipulation, in whole or in part (the "Order"). The Parties agree that such method of hand delivery shall be sufficient service of the Order. The Signatory Parties further acknowledge that any increase or resolution of any issue agreed to in this Stipulation shall become effective upon service of the Board Order on all parties of record unless a later date is indicated in the Order.

20. The undersigned parties hereby agree that this Settlement has been made exclusively for the purpose of this proceeding and that this Settlement, in total or by specific item, is in no way binding upon them in any other proceeding, except to enforce the terms of the Settlement.

21. The undersigned parties agree that this Settlement contains a mutual balancing of interests, contains interdependent provisions and, therefore, is intended to be accepted and

approved in its entirety. In any event any particular aspect of this Settlement is not accepted and approved in its entirety by the Board, or modified by the Board, each party that is adversely affected by the modification can either accept the modification or declare this Settlement to be null and void, and the parties shall be placed in the same position that they were in immediately prior to its execution.

22. It is the intent of the undersigned parties that the provisions hereof be approved by the Board as being in the public interest. The undersigned parties further agree that they consider the Settlement to be binding on them for all purposes herein.

23. It is specifically understood and agreed that this Settlement represents a negotiated agreement and has been made exclusively for the purpose of this proceeding. Except as expressly provided herein, the undersigned parties shall not be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein and, in total or by specific item. The undersigned parties further agree that this Settlement is in no way binding upon them in any other proceeding, except to enforce the terms of this Settlement.

24. This Stipulation may be executed in as many counterparts as there are Signatory Parties of this Stipulation, and each such counterpart shall be considered an original; however all such counterparts will constitute one and the same instrument.

25. **WHEREFORE**, the undersigned parties respectfully submit this Settlement to the Presiding Administrative Law Judge and Board of Public Utilities and request (1) the Presiding Administrative Law Judge issue an Initial Decision approving this Stipulation of Settlement in its entirety in accordance with the terms contained herein, and (2) the Board approve this Stipulation of Settlement in its entirety in accordance with the terms contained herein.

**NEW JERSEY AMERICAN WATER
COMPANY, INC.**

By: _____
Ira G. Megdal, Esq.

**STEFANIE A. BRAND, ESQ., DIRECTOR,
DIVISION OF RATE COUNSEL**

By: _____
Stefanie A. Brand, Esq.
Director, Division of Rate Counsel

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GENERAL OF NEW JERSEY
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Jennifer Hsia, DAG

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State University of New Jersey**

By: _____
Bradford M. Stern, Esq.

Manasquan Customer Group

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Walter G. Reinhard, Esq.

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By: Ira G. Megdal
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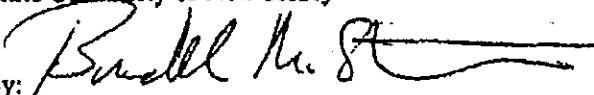
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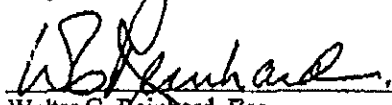
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By: 
Walter G. Reinhard, Esq.

Schedule A
Page 1 of 1New Jersey American Water Company
Calculation of Revenue Deficiency

	<u>Per Stipulation</u>
Rate Base	\$1,920,300,000
Rate of Return	<u>8.0398%</u>
Operating Income Requirement	154,388,279
Pro Forma Operating Income	<u>137,684,121</u>
Income Deficiency	16,704,159
Revenue Conversion Factor	<u>1.796530</u>
Revenue Deficiency	<u><u>\$30,009,522</u></u>

New Jersey-American Water Company
 Depreciation Rates - All Water Service Areas

SCHEDULE B
 Page 1 of 2

NARUC Account No.	Description	Total Deprec Rates
Source of Supply		
311.00	SG Structures & Improvements	3.14%
312.00	Collecting & Impounding Res.	0.91%
313.00	Lakes, River & Other Intakes	2.30%
314.00	Wells & Springs	3.00%
315.00	Infiltration Galleries and Tunnels	2.73%
316.00	Supply Mains	1.80%
317.00	Other Water Source Plant	2.82%
Pumping Plant		
321.00	Pumping Structures & Improvements	3.12%
323.00	Power Generation Equipment	2.60%
322.00	Boiler Plant Equipment	0.69%
323.00	Other Power Production Equip	74.27%
325.00	Electric Pumping Eq.	2.65%
326.00	Diesel Pumping Eq.	2.81%
327.00	Hydraulic Pumping Equipment	0.82%
328.00	Other Pumping Eq.	5.75%
Water Treatment Plant		
331.00	WT Structures & Improvements	2.69%
332.10	Treatment Plant Equipment	3.82%
332.20	Chemical Equipment	0.24%
Transmission & Distribution Plant		
341.00	TD Structures & Improvements	4.47%
342.00	Dist. Reservoirs & Sandpipes	2.14%
343.00	Mains	0.92%
343.10	Mains-All Material Types - 4 in & Under	2.25%
343.20	Mains-All Material Types - 6 in - 8 in	1.36%
343.30	Mains-All Material Types - 10 in - 18 in	0.95%
343.40	Mains - All Material Types 18" & Over	0.69%

NARUC Account No.	Description	Total Deprec Rates
Transmission & Distribution Plant		
344.00	Fire Mains	1.69%
345.00	Services	2.10%
346.00	Meters	12.34%
347.00	Meter Installations	2.27%
348.00	Hydrants	2.89%
348.00	Other Trans. & Dist. Equip.	30.31%
389.00	Other PVE - CPS	20.00%
General Plant		
390.00	Adm & Gen Structures & Improvements	3.52%
390.10	Office Structures & Improvements	4.14%
390.20	Stores, Shop & Garage Structures	1.00%
390.30	Misc. Structures & Improvements	3.20%
391.00	Office Furniture & Equipment	2.75%
391.20	Personal Computer Eq.	7.87%
391.21	Maintenance Computer Equipment	-1.13%
391.30	Computer Software	8.26%
391.40	Data Handling Equipment	7.89%
391.50	Other Office Equipment	7.41%
392.00	Transportation Equipment	0.00%
392.10	Trans. Equip. - Light Trucks	13.29%
392.20	Trans. Equip. - Heavy Trucks	4.12%
392.30	Trans. Equip. - Cars	7.18%
392.40	Trans. Equip. - Other	8.01%
393.00	Store Equipment	4.01%
394.00	Tools, Shop & Garage Equipment	3.21%
395.00	Laboratory Equipment	4.41%
396.00	Power Operated Equipment	4.82%
397.00	Communication Equipment	11.76%
398.00	Miscellaneous Equipment	4.05%
399.00	Other Tangible Plant	6.88%

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New Jersey-American Water Company
 Depreciation Rates - All Sewer Service Areas

SCHEDULE B
 Page 2 of 2

NARUC Account No.	Description	Total Deprec Rates
320.00	Service Sewer	2.80%
321.00	Collecting Mains	2.01%
322.00	Collecting Mains - Other	1.86%
323.00	Collection Sewers Forced	2.28%
324.00	Collection Structures & Improvements	3.36%
325.00	Receiving Wells	5.42%
330.00	Structures & Improvements - SFP	3.26%
331.00	Pump Equipment Electric	6.61%
332.00	Other Pumping Equipment	5.90%
340.00	Structures & Improvements	3.26%
349.00	Ortial Sewer Lines	5.42%
361.00	Plant Sewers	5.42%
369.00	Other Plant Equipment	5.42%
361.00	Office Furniture & Equipment	8.97%
362.00	Transportation Equipment	18.12%
364.00	Tools, Shop & Garage Equipment	11.12%
368.00	Power Operated Equipment	5.85%
398.00	Other Depreciable Property	8.27%
399.10	Other P/E - CPS	20.00%



Via Facsimile & Regular Mail
(973) 648-2358

April 2, 2012

Honorable Leland S. McGee, A.L.J.
State of New Jersey
Office of Administrative Law
33 Washington Street
Newark, New Jersey 07102

**RE: I/M/O the Petition of New Jersey American Water Company, Inc. for Approval of Increased Tariff Rates and Charges for Water and Wastewater Service; Change in Depreciation Rates and Other Tariffs Modifications
BPU Docket No. WR11070460
OAL Docket No. PUC09799-11N**

Dear Judge McGee:

Please be advised that Intervenor, Middlesex Water Company, has reviewed the terms of the proposed final Stipulation of Settlement in the above case provided to us today. Although Middlesex Water Company will not be a signatory to the Stipulation of Settlement, it has no objection to the same.

Respectfully,

A handwritten signature in black ink, appearing to read 'Kenneth J. Quinn'.

Kenneth J. Quinn
Vice President, General Counsel,
Secretary & Treasurer

KJQ:rk

cc: Service List Attached (via email)

"A Provider of Water, Wastewater & Related Products and Services"
Middlesex Water Company. NASDAQ: MSEX 1600 Ronson Road, Iselin, NJ 08830-3020 www.middlesexwater.com
(732) 634-1600 Tel. (732) 636-7515 Fax



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RICHARD D. FORNARO*
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Of Counsel
KATHLEEN A. FRANCIOSO*

*MEMBERS OF THE NEW JERSEY & PENNSYLVANIA BAR

April 2, 2012

The Honorable Leland S. McGee
Administrative Law Judge
Office of the Administrative Law
33 Washington Street
Newark, New Jersey 07102

RE: I/M/O The Petition of New Jersey American Water Company, Inc., for Approval of Increased
Tariff Rates and Charges for Water and Wastewater Service, Change in Depreciation Rates and
Other Tariff Provisions
BPU Docket No. WR11070460
OAL Docket No. 09799-11

Dear Judge McGee:

FORNARO FRANCIOSO LLC represents the Mount Laurel Township Municipal Utility Authority in
the above captioned matter. With respect to the settlement being submitted to Your Honor for approval,
may this letter serve as notice that the Mount Laurel Township Municipal Utility Authority will not be a
signatory to the Stipulation, however does not oppose same.

Thank you for Your Honor's acceptance of the foregoing.

Very truly yours,
FORNARO FRANCIOSO LLC
Anthony R. Francioso, Esq.

ARF/id

c: Service List (Via Electronic Mail)
Pam Carolan, Executive Director, MTLMUA



Stephen B. Genzer
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sgenzer@saul.com
www.saul.com

April 2, 2012

The Honorable Leland S. McGee
Administrative Law Judge
Office of the Administrative Law
33 Washington Street
Newark, NJ 07102

Re: In the Matter of the Petition of New Jersey American Water Company, Inc.
for Approval of Increased Tariff Rates and Charges For Water And Wastewater
Service; Change in Depreciation Rates and Other Tariff Modifications
BPU Docket No. WR11070460
OAL Docket No. PUC 9799-11

Dear Judge McGee:

Please be advised that this firm represents Aqua New Jersey, Inc. and the Lawrenceville Water Company, intervenors in the above-referenced matter. With respect to the stipulation of several of the parties being submitted to Your Honor for approval, please consider this letter as a formal indication that Aqua New Jersey, Inc. and the Lawrenceville Water Company do not oppose the stipulation.

Thank you for Your Honor's acceptance of the foregoing.

Very truly yours,

Stephen B. Genzer

SBG/gd
cc: Service List (Via Electronic Mail)

One Riverfront Plaza, Suite 1520 • Newark, NJ 07102-5426 • Phone: (973) 286-6700 • Fax: (973) 286-6800
Stephen B. Genzer - Newark Managing Partner

DELAWARE MARYLAND MASSACHUSETTS NEW JERSEY NEW YORK PENNSYLVANIA WASHINGTON, DC

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